

29 November 2011

Export Credit Arrangements
Productivity Commission
LB2 Collins Street East
MELBOURNE VIC 8003
By email: exportcredit@pc.gov.au

Productivity Commission inquiry into the Export Finance and Insurance Corporation

To whom it may concern

Screen Australia welcomes the opportunity to contribute to the Productivity Commission's inquiry into Australia's export credit arrangements.

About Screen Australia

Screen Australia (SA) is the primary screen agency providing funding and support to the Australian industry. By partnering with filmmakers SA is helping to create a vibrant Australian industry presenting projects to audiences here in Australia and on the world stage. SA aims to invest in a range of audience-engaging and culturally relevant programs including feature films, documentaries and television drama for adults and for children.

SA also administers the Australian Government's Producer Offset, a refundable tax offset (rebate) for producers of Australian feature films, television and other projects with 'significant Australian content', or official co-productions.

The Offset is accessed via the Australian production company's income tax return once the film is completed. For eligible features, it is worth 40 per cent of 'qualifying Australian production expenditure' (QAPE); for other formats, including eligible TV drama and documentaries, it is worth 20 per cent of QAPE. As the Offset is only accessed on completion of the film, it is necessary for producers to cashflow the portion of the budget that the Offset will eventually contribute.

The Producer Offset has become a vital component of the finance plan for most screen projects, as shown in SA's annual national production statistics (see appendix 1).

Interaction with EFIC

The Export Finance and Insurance Corporation (EFIC) complements the Australian Government's Producer Offset incentive by providing Producer Offset loans to production companies to finance eligible Australian productions with international distribution agreements. The EFIC loan, which has been available since May 2010, is specifically designed to help smaller productions that are eligible for the Producer Offset but may have difficulty in attracting finance in the commercial market.

It is expected that the impact of the EFIC loans will start to be seen in the annual production data next year, when figures for 2010/11 documentaries and 2011/12 drama become available (see appendix 1). Several recent SA funded film and TV productions have received EFIC loans to cashflow the Offset (appendix 2).

Cashflowing the Producer Offset

Looking at the full Australian drama and documentary production slate (ie not just those funded by SA), producers have been utilising various sources to cashflow the Offset (appendix 1). In the first year of its operation (2007/08) SA's predecessor, the Film Finance Corporation, cashflowed the Offset for all its funded titles. Since then, most of the State film agencies have introduced revolving cashflow facilities which are strongly in demand.

Australian-based film financing companies have also been introduced, such as Fulcrum Media Finance and Abacus Film Fund. Some producers have been able to secure cashflow from international sources, such as Ingenious Media in the UK. Some of the bigger and more established production companies, with large and diverse slates, are able to cashflow the Offset for their projects (mainly TV projects) from within their own resources, and some television projects have been cashflowed by the associated Australian broadcaster. Bank loans have been utilised, from both local and foreign banks, generally by higher budget feature films.

While there are several banks and financial institutions providing offset loan facilities to production companies, there is very clearly a gap in the market. Offset loan requirements in the lower range - under one million dollars - are not of particular interest to the banks and larger finance companies. The set up and legal costs are high and the projected returns are less attractive. EFIC has assisted the industry to fill the gap and has been of particular importance to smaller scale documentary productions that have a real value in the international market. Without this support many of these productions would have only been able to proceed if the producer had been able to cashflow the offset utilising their own scarce resources, which often means mortgaging (the producer's own) bricks and mortar.

Conclusion

Australian feature films, television projects and documentaries continue to make their marks in the international marketplace. Use of the Offset is increasingly the norm in the drama and documentary production industry, and cashflowing the Offset is a significant step in the financing process.

Projects in the lower budget range have found great support from EFIC to fill a gap in the finance market and so meet the demands of their international sales agents, as well as enabling their producers to retain equity in projects. This in turn contributes to the building of more sustainable screen production businesses, reflecting the policy intent of the Producer Offset (which received bi-partisan support), as outlined by then Minister for the Arts and Sport, Senator the Hon George Brandis SC at the Producer Offset's announcement in May 2007, *"The Rebate provides a substantial opportunity for producers to retain significant equity in their productions and build sustainable production companies, both important for the long term growth of the film industry"*.

Due to the high level of demand for Offset cashflow in the marketplace, and the targeting of the EFIC loans toward lower-budget productions, they are able to fill a gap in the finance market without affecting incentives to access private sector providers.

Screen Australia hopes that EFIC can continue to provide this vital service to the Australian film and television industry and the international market that it services.

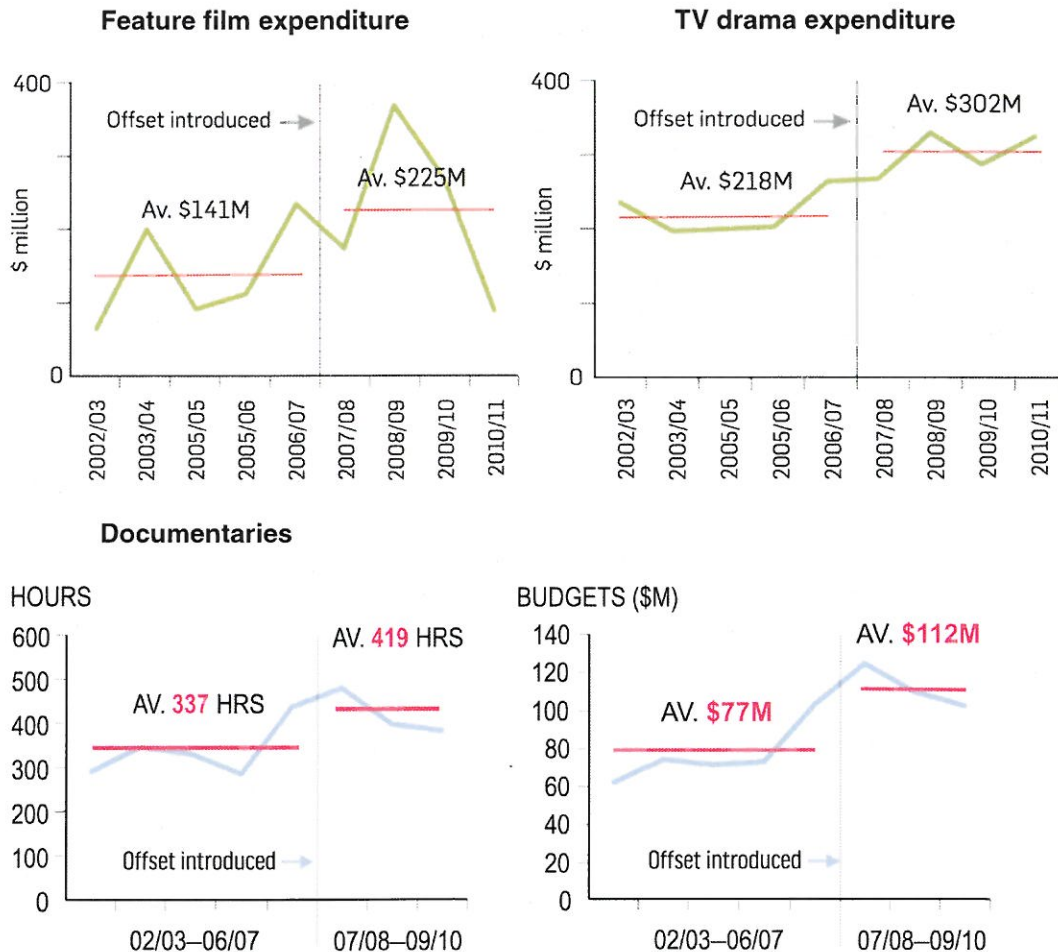
Yours sincerely

Ross Matthews

Head of Production Investment
Screen Australia

Appendix 1 – Impact of Producer Offset on screen production

Since the introduction of the Producer Offset in July 2007, overall Australian drama and documentary production has increased. Expenditure on feature films has increased by 60 per cent, TV drama by 39 per cent and documentary by 45 per cent. Contributions from foreign investors to the Australian drama slate have also increased by 29 per cent for features and 17 per cent for TV drama.¹



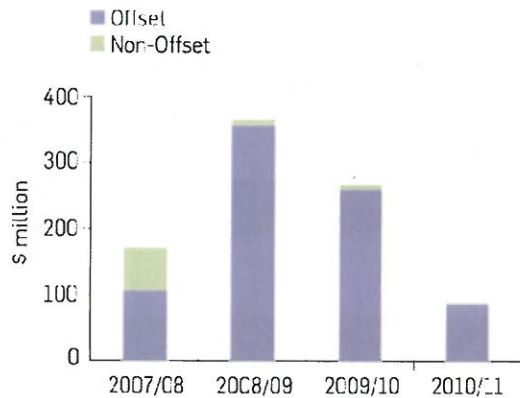
Production of Offset titles

While some drama and documentary projects are ineligible for the Producer Offset, due to reasons such as format or level of production expenditure (TV projects over 65 episodes/hours are ineligible, and expenditure thresholds apply to all formats), Offset projects are becoming increasingly prevalent in the drama and documentary production slates. Offset features accounted for 99 per cent of total feature expenditure in 2010/11, and Offset TV drama accounted for 86 per cent of total TV drama expenditure. While documentary production figures for 2010/11 are not yet available, Offset titles accounted for 56 per cent of total documentary production in 2009/10.

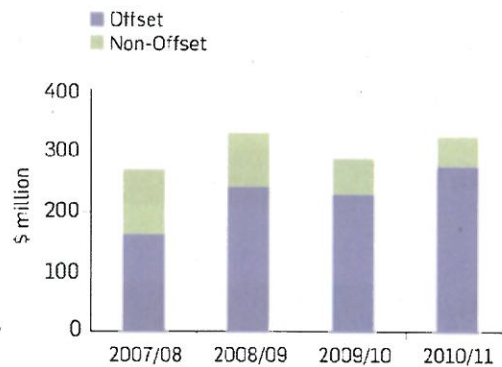
¹ Based on feature films and TV dramas produced in the 4 years since the introduction of the Offset (all projects that started production between 2007/08 to 2010/11) compared to the previous 5-year average (2002/03 to 2006/07). Documentaries based on the 3 years since the introduction of the Offset (2007/08 to 2009/10) compared to the previous 5-year average

Expenditure by Offset productions as a proportion of total expenditure

Features



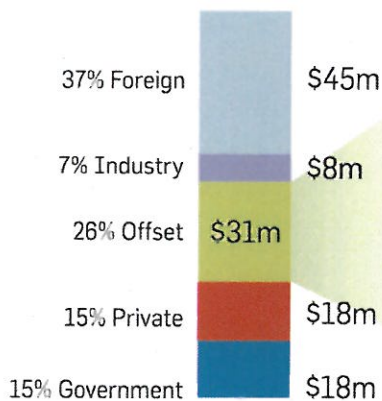
TV drama



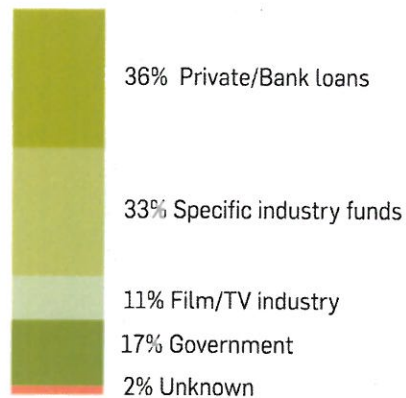
Cashflowing the Producer Offset

Feature films

FINANCE SOURCES

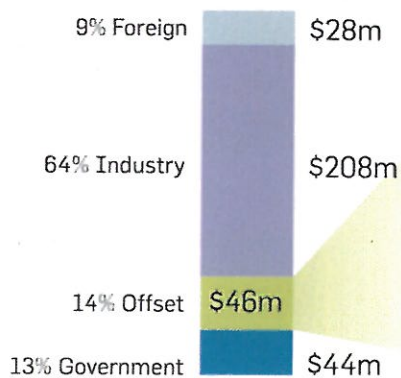


OFFSET CASHFLOW SOURCES

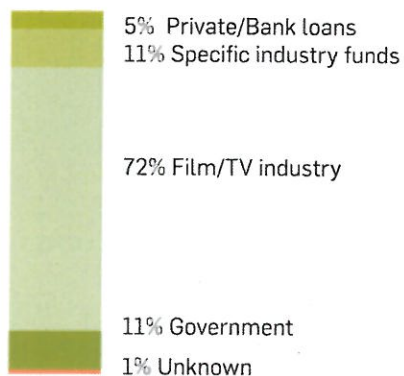


Television drama

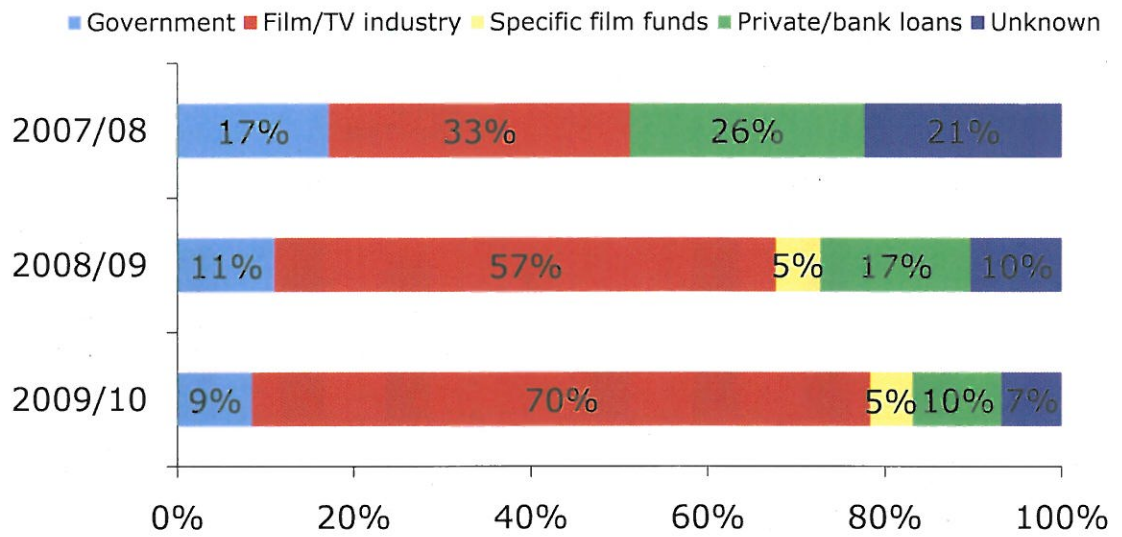
FINANCE SOURCES



OFFSET CASHFLOW SOURCES



Documentary



Appendix 2 – examples of Screen Australia financed productions receiving EFIC Producer Offset loans

To date EFIC has cashflowed five SA funded drama and documentary productions, with a further five currently contracting. Of the five so far funded, the amount invested averages to \$456,000 per title, and includes:

Outback Fight Club

In 2010 Fred Brophy embarked on his final tent boxing tour. Infamous for helping drifters get their lives back on track, we follow Fred to discover what drives rural men and women to fight. Documentary series (2x 60 mins), produced by Mindful Films Pty Ltd

- Quality television exploring the deeper issues facing rural Australia today; produced by an experienced team; designed for domestic and international exploitation.

424,000 viewers January 2011

Panic at Rock Island

An island on spectacular Sydney Harbour. Summer sun. Top international artists. Thousands of music fans from across the world. Idyllic... until unimaginable disaster strikes.

Telemovie (90 min), produced by Rock Island Productions Pty Ltd

- Telemovie event on Nine Network; international sales agent ITV International are selling the title internationally.

942,000 viewers July 2011

Satellite Boy

A 12-year-old Aboriginal boy goes to live with his elderly grandfather, when his mother moves to the city for work.

Feature film (90 min), produced by SB Films Pty Ltd

- Indigenous themes; first time feature director supported by experienced production team; international sales agent Celluloid Dreams are selling the title internationally.

Release date TBA

