



20 March 2012

Export Credit Arrangements
Productivity Commission
LB2 Collins Street East
MELBOURNE VIC 8003

By email: exportcredit@pc.gov.au

Dear Sirs

DRAFT REPORT – AUSTRALIA'S EXPORT CREDIT ARRANGEMENT

We are writing in response to the Productivity Commission's proposed recommendations contained in the draft report on Australia's Export Credit Arrangement dated February 2012.

In our view, the Export Finance and Insurance Corporation offers finance products to the Australian film and television industry which are currently unavailable to producers.

The Australian film financing model is heavily reliant on State and Federal government subsidies. Each State has its own film agency with the Federal screen agency being Screen Australia. While some projects might not access Screen Australia funding, almost every project with a market attachment (eg, a free-to-air rights deal for a documentary or a distribution deal for a feature length film's theatrical release) will receive State agency funding and be eligible for the Producer Offset which is a refundable tax offset or rebate for producers of Australian feature films, television and other projects (together referred to as "films") in force under the Income Tax Assessment Act 1997. These finance elements are critical to cash flowing production of film projects in Australia and without them, the industry would struggle to be competitive in the international film market which demands high production values.

Documentary productions are eligible to receive a Producer Offset of up to 20% of the total budget and feature film productions are eligible to receive a Producer Offset of up to 40% of the total budget. Under the legislation, the Producer Offset cannot be paid to the production company until the end of the financial year following completion of the film. This is problematic for production companies which rely on that 20% or 40% of the budget in cash at the commencement of production.

Screen Australia's Producer Offset division manages the Producer Offset scheme on behalf of the Australian Tax Office and has the authority to issue film production companies with a certificate of compliance with the Act. Production companies must

submit the certificate with loan applications to obtain finance using the right to receive the Producer Offset as security for the loan. This process helps production companies avoid large cash flow gaps in production and gives other investors and the market certainty that the film will be completed.

It is understood that EFIC can provide a loan to cash flow the Producer Offset during production capped at \$500,000. EFIC services documentary productions (up to 20% of the budget) with budgets of up to \$2,500,000 and feature films (up to 40% of the budget) with budgets of up to \$1,250,000. Western Australian projects that have received EFIC finance approval include Drift, Satellite Boy, Who Do You Think You Are Series 4, Who Do You Think You Are Series 5, Gallery of Everyday Things and Yagan.

The Commission's proposal to limit EFIC's ability to provide finance to new SME's and instead work solely to address information-related failures in the film finance market will disadvantage established Australian filmmakers. We do not see how EFIC could provide any further information to potential Producer Offset lenders that is not already publicly available.

In our view EFIC's Producer Offset loans are low risk and short term being on average 6 to 9 months. Where required EFIC will mitigate the risk to its Offset loans by requiring a "Completion Guarantor" on the project who is obligated to monitor the progress of production and ensure that the film is delivered on time and within budget. If the production company cannot complete the film, the Completion Guarantor is required to step in the shoes of the production company and complete the film itself.

The Commission has also suggested that Producer Offset loan recipients can only receive up to 3 loans unless otherwise approved by the EFIC Board. This will add another layer of bureaucracy to an industry that is already stressed by bureaucracy. The average film is currently subject to screen agency Board approval and Screen Australia Board approval. We do not believe that EFIC Board approval is necessary for the low risk finance provided by EFIC to the film industry.

We believe that producers will struggle to secure finance for films if EFIC is removed from the market. Alternatives to EFIC are few and in most cases too commercial and require onerous reporting obligations which are inappropriate for lower budget projects. Given the small market for Producer Offset Finance it is recommended to the PC that EFIC continue to play a required governmental role in the screen industry.

Yours sincerely

Iain Booth
Chief Executive
Screenwest