



20 March 2012

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

Dear Sirs

**Export Finance and Insurance Corporation (EFIC)
Export Credit Arrangement**

Screen NSW is the State Government's screen agency, which fosters the commercial growth and creative excellence of the screen production industry in the NSW.

Screen NSW provides equity investment for projects that complete principal photography or post-production in the state of New South Wales. As a principal development and production partner Screen NSW assists the industry and individual companies to leverage the money required to meet the Budgeted Cost of each project.

Since 2010, the Export Finance and Insurance Corporation has been offering essential finance products to the Australian film and television industry for projects with International market attachment.

Screen NSW has recommended a number of projects to EFIC and EFIC has built a solid and reliable reputation within the NSW screen industry during this period.

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

Background:

The Australian film and television production financing model is heavily reliant on State and Federal government funding subsidies. While some projects may not access federal support, almost every project with a market attachment (eg, a free-to-air broadcast licence or a distribution agreement for a feature length film) will receive State agency funding, generally by way of investment.

A key component of each financing plan is the Producer Offset (in force since 2007), a refundable tax offset or rebate for producers of Australian feature films, television and other projects under the Income Tax Assessment Act 1997. The Producer Offset is a key element of financing of Australian produced projects and is paid to the production company by the Australian

Taxation Office after the production is complete and fully delivered. The Offset is calculated based on the amount of Qualifying Australian Production Expenditure.

Cashflowing the Producer Offset into the production budget is a critical issue for film and television projects in Australia and is generally available from a number of sources based in Australia and offshore.

The value of EFICs involvement:

While the marketplace has moved into some parts of the offset lending business, generally it is not financially viable for commercial lenders to consider lending to low budget productions, especially documentary, due to the low levels of financing required.

The EFIC loan 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 or for those productions where the cost of finance is prohibitive.

In some cases producers with established businesses are able to make loan arrangements through their own banks, but often this is not an option as many have neither the capital nor the relationship with their bank to broker this cashflow facility.

In some states, screen agencies have developed their own lending schemes. Screen NSW does provide loans to cashflow the Producer Offset in certain circumstances, but the dollar value is capped at \$100,000 and conditions apply.

The following table sets out the number and genre of productions supported by EFIC and its impact on NSW since 2010.

Genre	Number of Productions	Total Budget	Screen NSW Equity	NSW Spend
Documentary	6	11,353,632	0	0
TV Series	3	11,225,716	1	\$2,391,344
Telemovies	3	11,665,462	1	\$2,555,579
Feature Films	4	17,702,886	3	\$7,842,294
Total	16	51,947,696	5	\$12,789,217

Of the projects included in the table above, approximately one third received equity investment from Screen NSW. A total of \$12.7 million was expended in NSW supporting small businesses and jobs growth in the state.

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 as well as filmmakers who are building their careers through lower budget productions.

EFIC has worked with the industry to develop standard template agreements to keep the transactional costs down on all sides. Their terms of trade are published and are understood by the screen industry at large. Producers who have worked with them have valued their support and relevant filmmakers now consider them as an appropriate Producer Offset cashflow lender.

We understand the Commission has suggested that Producer Offset loans be limited to three loans per company. Given that successful production companies in NSW work with a slate of projects and aim to continuously develop and produce a number of projects concurrently, this would run counter to the objective of federal and state screen support policy of creating sustainable and competitive businesses.

In summary, EFIC's Producer Offset loans are low risk and short term, being on average six to 12 months. We believe that screen producers will struggle to secure finance for films if EFIC is removed from the market. Alternatives to EFIC are few and in most cases are not commercially viable for SMEs in terms of deal terms and cost. Given the relatively small number of requests for Producer Offset finance at this level, EFIC continues to play a vital role in the screen industry and assists in filling this important gap in the lending market.

Yours sincerely

Maureen Barron
Chief Executive