

Kim Dalton, Chief Executive/Australian Film Commission
OzeCulture Conference - Magic, Money and Myth - Financing Creativity
Financing Broadband Production: Public and Private Partnerships

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This panel session comes at a significant time for the AFC with the launch of the seven projects from our Broadband Production Initiative (BPI) by Minister Coonan next Monday. Hopefully many of you would have seen the BPI trailer at last night's reception and had a chance to log on and enjoy some of the projects. We are proud and emboldened by the results and I encourage you to immerse yourself on-line and explore these innovative works.

The development and production of the BPI projects has been no mean feat. Building on the AFC's highly successful Documentary Online initiative, the BPI was a pilot designed to explore a number of key issues around the creation and availability of Australian content in the emerging digital interactive media space.

In particular we wanted to explore:

- New forms of creative content and programming;
- New partnerships between film and television content producers and those already working in digital interactive media;
- New audiences and markets for Australian interactive media content, in particular in the youth and education sectors; and finally, but of fundamental importance,
- New business models for the creation, delivery and exploitation of content in a multi platform environment.

A key to the success of the Broadband Production Initiative has been the partnering of public and private resources. In the end, the AFC managed to lever \$2.1 million of Federal Government funding into almost \$4 million of Australian interactive broadband content as a result of building partnerships across the public and private sectors. However, before we look closer at this and other aspects of the BPI, it is worth making a few observations

about the context in which it was developed and the context in which digital interactive content more generally is developing.

A snapshot of the Australian digital media sector at this moment in time would capture a flurry of activity. It would be a dynamic image depicting joint ventures between federal funding agencies, public and private broadcasters, state agencies and the private sector. It would show experienced film and television producers developing content specifically for new delivery platforms, as well as working collaboratively with games developers. It would portray an emergent industry with a high level of co-operation between stakeholders.

The ability of the sector to achieve its full potential remains highly contingent on strategic decisions to be made now or in the very near future, and in particular by the Federal Government - about financing, regulation and copyright. While the impetus for growth in locally produced digital media is coming largely from the industry itself, many developer-led initiatives are being facilitated by federal and state government agencies. This facilitation and financing is fundamental to a viable future for the digital content industry.

Audiences and broadcasters are no longer satisfied with traditional content alone. These days, content for television needs to have a digital component – interactivity, web versioning, gaming. Broadcasters expect it. Better to have their own internet content than to lose the TV audience on-line elsewhere. Content for film too is enhanced by an online presence and DVD extras – consumers expect it. Consumers also expect to access stand-alone content via broadband networks. Nowhere is this more true than in the education and youth sectors as any of you who have children would be aware. (The number of broadband subscribers at the end of September 2004 was almost 1.3 million, an increase of 55% over the 834,000 broadband subscribers recorded at the end of March 2004.)

Financing digital content is increasingly complicated. Screen content producers are expected to make more with less. Partnerships are more complex. To stitch together the budget, producers may need to team up not a couple of partners, but sometimes ten or more. Multiple partners often mean multiple versions to satisfy the particular needs of each investor. What will be obvious to this audience - a digital media component requires a separate budget planned from the beginning, rather than the expectation that material can be re-versioned cheaply and at the end of production.

The cultural imperative to ensure the creation and availability of Australian digital content holds true in the same way as it does for traditional forms of screen content. Be it delivered on a cinema, television, computer screen or mobile phone, content that speaks directly to Australians must always be an available choice. However, producing Australian digital content is expensive, with many of the same economic conditions as film and television production applying. As a consequence, the availability of Australian digital content is equally characterised by market failure.

Just as economies of scale and market size favour the US in the television and film industry, so it is also the case with digital content. In the UK, Europe and Canada, the production and availability of local digital content is ensured through a mixture of regulation, investment incentives and subsidy. While Australia has an extremely enthusiastic and large talent pool and audiences which, when given the choice, will consume Australian screen content, we simply do not have the population size to commercially sustain a local digital content industry.

Like the film and television industries, the digital content industry is embedded in a globalised market. In order to sustain businesses, the Australian digital content production sector must sell its services internationally, but in the absence of a market for local content, it risks becoming only a service centre for the rest of the world.

Building and sustaining an industry through export services is a double-edged sword. While export revenues are welcomed along with an industry with international linkages, it is important that Australia is also an intellectual property rights creator and holder, as well as a buyer and seller.

Governments across Australia – at Federal and State level – are taking steps towards building a digital content industry by working in partnership with private enterprise. This is not easy in Australia, where our merchant bankers advise that investors are far more wary of projects based on intellectual property than of tangible products like agriculture, mining and forests. A queue of private investors lining up to invest in digital content is an unlikely prospect, especially in the absence of any regulatory or funding framework - it is a struggle to find convincing business models for production and delivery of digital content.

It is worth remembering that where Australian screen content is created and made available to Australian audiences, it is almost always as a result of public and private partnerships in one form or another. Whether it is through regulation, direct or indirect subsidy, Government always plays a crucial role in determining the conditions for business models to evolve to deliver content. In this regard Australia is no different to every other developed nation which has a public policy framework in place to make available local content to local audiences. Where Australia is different at the moment, is the absence of the creation and availability of local digital content within that policy framework.

Perhaps in this regard the Government's Digital Content Action Agenda is a key step to ensure government and industry work together to identify priority areas for further development and policy consideration across government.

The Broadband Production Initiative

At this point, I should return to the AFC's Broadband Production Initiative, and look at some of its outcomes from a policy perspective. This Australian Government initiative provided \$2.1 million over three years. Working closely with other funding partners, most notably ABC New Media and Digital Services, the AFC almost doubled this allocation to a total of around \$4 million, funding seven projects. Other funding partners on specific projects included the Tasmanian Electronic Commerce Centre (TECC), the Telstra Broadband Fund, South Australian Film Commission, Adelaide Film Festival and the Learning Federation.

The projects span a rich variety: two documentaries, *The Life, Times and Travels of the Extraordinary Vice-Admiral William Bligh* and *Dust on My Shoes*; an interactive drama for young viewers *UsMob.com*; a broadband site supporting the children's animation series *Dog and Cat News*. Three further projects will be released later this year: *Chiko Space Cadet* is an interactive junior adventure game; *A Stowaway's Guide to the Pacific* is a web-based docu-drama about the history of the greatest ocean on earth through the eyes of two children; *The Pure Drop* is an interactive online exploration and celebration of World Music intended primarily for a youth audience.

The objective of the BPI was to finance innovative, high technology broadband content, particularly, interactive applications. The projects exemplify the potential of creative collaborations between traditional film and television producers and new media practitioners. They are producing new forms of educational and entertainment content for the broadband environment. Rather than arising from a traditional media component, these projects began with the interactive content, which in turn drives ancillary rights.

Broadband offers all film, television and new media producers and content creators the opportunity to extend into convergent media and to maximise the cross-platform potential of their content for commercialisation.

The BPI demonstrates that where synergies exist - between the needs of content providers and infrastructure/technology developers - mutually beneficial partnerships can be formed. Partnerships such as those encouraged by the BPI can leverage funding and extend the cross-platform opportunities for digital content.

The BPI also provided professional development opportunities for digital content practitioners as well as research and development opportunities for the digital content industry. Telstra, who invested in *Dog and Cat News*, *Puredrop* and *UsMob* was attracted to the projects' potential to showcase Big Pond's video streaming capability.

The Tasmanian Electronic Commerce Centre's Broadband Laboratory in Launceston, provided infrastructure for a test bed, where the projects could be trialled.

While the conclusion of the BPI means there are no further federal funds specifically allocated to the production of innovative broadband content, some other sources of public sector funding remain.

Limited government funds for new media are available through Film Australia, the Australia Council, SBS-TV and ABC-TV, as well as by State film agencies and other departments involved in regional economic development.

Some examples of projects recently supported include the *Game On* project supported by Film Victoria and the South Australian Film Corporation, also on the ABC. The Tasmanian government has partnered with three cutting edge production companies, *Blue Rocket*,

Roar and *Crank*. Some five years after establishment, these companies are running sustainable interactive businesses, employing up to 15 fulltime staff;

The South Australian Film Corporation is currently in the process of negotiating a joint venture with the Canadian Bell Fund; and in Queensland *Housemates* – (supported by Hoodlum/Virgin-mobile and the Pacific Film & Television Commission) is a project which brings together private and public investors to develop both content and delivery technology by bringing interactive video streaming to mobile phones.

So despite the complexity of new technology and the challenge of establishing new financing models, there is a great deal of innovation occurring around Australia. The risk is that, without strategic and sufficient sources of finance for development and experimentation, the momentum cannot be maintained. Continued public support of the sector is vital.

New models for digital content

Digital content in Australia, as for all locally produced screen content, relies heavily on public policy intervention and funding, as it does in most countries. In this context it is interesting to look at models and interventions employed by other countries. Not because they can necessarily be transferred to the Australian environment, but rather because individually and as a whole, they illustrate the international context in which Australian digital content producers are operating and also because they are indicative of the need firstly to intervene, and secondly to ensure a diversity of funding sources from both the public and private sectors.

Canada

Canada is considered among the world's best new media producers and is close in population size to Australia (20 million here and 32.5 million there).

There are two major funds for new media in Canada: The Bell Fund - a private fund for projects with both new media and broadcasting elements; and the Canada New Media Fund operated by Telefilm Canada, the main national government agency.

In addition, several provinces offer tax incentives to Canadian companies for their labour expenditure. Other forms of assistance indirectly support new media: R&D tax credits, assistance to small businesses and business development assistance.

By themselves, the two national new media funds account for A\$17.2million, *three times* more than the total spent by all government agencies in Australia. Most interesting about the Canadian model is not the bottom-line figures, although these are impressive, but where the money comes from.

The secret behind the Canadian model

The secret of the Canadian model is in fact *regulation*. The Broadcasting Act governing the Canadian industry established that in return for licences to broadcast and distribute programming in the Canadian market, 'each element of the broadcasting system shall contribute to the creation and the presentation of Canadian programming'.

There are two main sources behind Canadian financing:

Firstly, on change of ownership of a television broadcaster, the buyer is required to create a benefit package worth ten per cent of the value of the transaction and propose how the money will be contributed to the industry.

Secondly, to serve the objectives of the Broadcasting Act, all cable and satellite companies must contribute five per cent of their gross revenue to the content industry – known as the Broadcasting Distribution Undertaking or BDU Contributions.

The companies can split the five per cent – generally four per cent goes to the Canadian Television Fund, the largest Canadian Fund, while one per cent is allocated by the companies to a private fund of their choice. This has given birth to 20 different private funds in Canada. Those funds have developed their own mandates and niches (children programming, documentaries, new media) adapted to the parent company's priorities. The funds have to be independently administered and invest in 'priority programming' – which excludes news, sports and current events.

The Bell Fund

The Bell Fund administers the 5% revenue (BDU) contribution of Bell Express Vu. Its mandate is to advance the Canadian broadcasting system by encouraging the creation of Canadian digital media and promote partnerships and sustainable models in the broadcast and new media sectors. It has funded 340 projects over seven years.

The Canada New Media Fund

The Canadian New Media Fund is a public fund operated by Telefilm Canada, a cultural investor in Film, TV and new media. Its mandate is to support the creation of high-quality cultural content for the Canadian public.

Business models have emerged

Some of the business models used by Canadian producers to finance their projects, in order to extend the money from the two funds, include:

- sponsorship – where for example, a travel agency provided 25 per cent of the financing of a travel documentary series;
- exploitation of the rights on other platforms – where website projects are coupled with the sales revenues of a book, magazine or DVD;
- partnerships – where projects were developed in partnership with non-profit organizations, enabling access to other funds;
- equity investment; and
- licence fees from broadcasters.

Economic transfer models

Aside from a strong reliance on regulation, economic transfer mechanisms, in which funds are partly or mainly financed by mandatory or voluntary contributions of industry players, are also used extensively in Europe.

Contributions are provided through levies on cinema tickets, the revenues of video-publishers/retailers, cable operators or broadcasters; or a mandatory investment by broadcasters in production.

Other international models

Europe and particularly Germany has mechanisms based on voluntary agreements – either between broadcasters and a fund – or between the broadcaster and the producer themselves.

In addition to tax credits for innovative companies, France operates a Multimedia Edition Fund funded through levies. It allocates around AUD\$5 million to support high quality content adapted to broadband internet, ADSL, cable, interactive TV, VOD, and mobile telephony.

There is also forthcoming a Production Aid Fund of AUD\$51 million, which will be co-funded by private investors, in order to co-produce six major international productions each year.

Many other countries have set up specific programmes to support new media, which are mostly run by the national film agencies. In Germany regional funds, largely made up of voluntary contributions by the broadcasters, support companies active in production, development and distribution of new media.

In Portugal, the Institute of the Cinema Audiovisual and Multimedia, supports the design and production of film and multimedia work. Funds are also available for the adaptation of Portuguese film and audiovisual works on DVD and distribution of works.

Finland supports production of multimedia and media art projects, as does the Netherlands. Ireland has a targeted programme to support new talent working in digital format.

What can Australia learn from overseas models?

So what can Australia learn from international models about boosting investment in digital content? Governments have only a few mechanisms open to them to deliver local screen content, including digital interactive content, to local audiences. For the most part these

involve regulation, tax incentives and direct funding. Australia should take note of the effective features of the models I have briefly outlined. These include:

- The creation of private funds, funded by contributions by industry partners, as in Canada;
- The use of voluntary agreements such as the German model: this would require industry players to see it is in their interest to invest in quality Australian content;
- Tax incentives to stimulate private investment;
- The creation of incentives to support the investment in small innovative businesses such as the French R&D tax credit.

Of course it also has to be remembered that diverse and substantial direct funding from Government is available in all these countries and provides the basis for productive partnerships with the private sector.

Conclusions

In conclusion I want to leave you with a few key and rather baldly stated messages:

- Australia has an extraordinarily talented pool of digital content producers who are already forming effective partnerships and producing work of world standard.
- Private partnerships in this high-risk sector require on-going government incentives and promotion.
- In comparison to other developed countries, government funds to support innovative digital content are scarce and since the conclusion of the Broadband Production Initiative, largely confined to the States.
- The Government's Digital Content Industry Action Agenda is an important step to enhancing the environment for digital content, in key areas such as R&D, investment, skills and training, and export. It should result in a policy and funding framework to ensure the creation and availability of a diverse range of Australian digital content.
- Australia is lagging behind in the ownership and exploitation of our intellectual property in digital content. Looking overseas, there are valuable models of public

and private partnerships for financing digital content that could be adapted to the Australian context.

- This is a critical point in time given the range of fundamental regulatory and policy reviews currently under consideration in the broadcasting sector. The outcomes could help to boost or bury Australian digital content.