

# **DOING BUSINESS WITH AUSTRALIA**

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## **1) COUNTRY OVERVIEW**

I'm going to give you a thumbnail sketch of where we're at in Australia in terms of financing and production. Actually, it's going to be a little fingernail sketch but a longer version is available on paper. I'm then going to look at Australia's official co-production program.

My hope is that you will go away thinking that our industry is very positive about international co-production, but also with the understanding that the Australian industry is not large and is finely balanced, and this can be limiting. In addition, for reasons you are all too familiar with, Australia's industry is built around Government regulation and subsidy. And this regulation and subsidy is in place entirely for cultural reasons.

Underpinning the undoubted success of the Australian industry is the ability of Australian producers to engage with a global marketplace and to access international finance. They are very good at it, they are very good deal makers, they are very good business partners, and they have the absolute support of government agencies such as the Australian Film Commission and the Film Finance Corporation.

Among the arsenal of mechanisms for accessing international finance is official co-productions. But co-productions, by definition, are expensive and can require significant levels of government subsidy. As I have just stated the fundamental reason the industry is supported by government is for reasons of culture, yet the cultural worth of co-productions to the participating nations often has to be diluted, both with regard to the stories told and the support of creative talent. That sets up a tension, at least in our industry, that needs to be acknowledged within all our discussions.

## AUSTRALIAN FILM AND TELEVISION: CORE DETAILS

AUSTRALIA AT A GLANCE	
<i>Population</i>	19.2 million
<i>Television channel</i>	Commercial free-to-air – Seven, Nine, Ten Public broadcasting free-to-air – ABC, SBS Pay TV carriers – Foxtel, Optus Vision, Austar (total of about 50 channels)
<i>Cinema</i>	Annual box office gross – about A\$700m (US\$390m) Admissions – nearly 90 million from about 250 release Screens – 1,817 screens at 544 theatres as of December 30, 2000
<i>Local TV drama output</i>	650-800 hours of drama per year worth A\$180-240m (US\$100-135m)
<i>Local feature output</i>	30 to 40 per year worth A\$115-165m (US\$60-90m)
<i>Foreign production</i>	10-15 features and TV programs annually, worth A\$130-325m (US\$70-180) spending A\$50-110m in Australia.
<i>Co-production</i>	4-7 features and TV programs annually, worth A\$40-150m (US\$20-80m)

*Note: All production figures based on the four years up to 1999/2000*

*Source: Australian Film Commission, Australian Motion Picture Distributors Association*

I'm going to give you some key facts about the Australian film and TV industry and, by the way, our population is roughly 20 million.

- **Television channels:** Five free-to-air channels – three commercial and two public – and a pay TV system which has three principal carriers and about 50 channels.
- **Cinemas:** There are about 1,800 screens and about 250 releases a year. They gross about A\$700m annually thanks to nearly 90 million admissions. (Our exchange rate, very roughly, is 2:1 so that's about US\$390m) but I'm going to talk in Australian dollars from now on. Up until the year 2000 there had been 12 consecutive years of audience growth.
- **Local television drama output:** 650-800 hours of drama per year worth \$180-\$240m.
- **Local feature film output:** 30 to 40 per year, many of which are self-funded and under \$1m, few of which are over \$6m.
- **Audiences for local product:** The TV rating charts are always dominated by local shows – sadly not always drama – but it's a different story in cinemas where US films overshadow all else. The local annual box office share reached a high of 10% in the 1990s but has never fallen below 3%. Last year it was 8%.
- **Foreign/runaway production:** There has been an increase in high profile productions – we average 10 to 15 features and television productions annually, Currently worth A\$130-325m and spending A\$50-110m in Australia. (I'll get to co-productions later.)
- **Sales agents/international distributors:** There's few and the two biggest names are Southern Star and Beyond.

The output of the Australian industry is relatively limited, in comparison with Canada, the UK and other European countries, especially when you are just looking at drama.

Total audio-visual production costs in Australia in 1996/97 were \$1.6 billion. TV drama is estimated to be 23% of that while features are just 13%. In world terms, Australia is 16<sup>th</sup> in the list of feature-producing nations. Canada is 12<sup>th</sup>.

<b>PRODUCTION ACTIVITY IN 1999/2000</b>			
<i>Australian productions: No. (Value in A\$m)</i>	<i>Co-productions: No. (Value in A\$m)</i>	<i>Foreign productions: No. (Value in A\$m)</i>	<i>Total productions: No. (Value in A\$m)</i>
<b>FEATURES (total local spend A\$206m)</b>			
<b>31 (127)</b>	<b>1 (14)</b>	<b>2 (270)</b>	<b>34 (411)</b>
<b>TV DRAMA (total local spend A\$364m)</b>			
<b>41 (220)</b>	<b>6 (140)</b>	<b>12 (53)</b>	<b>59 (412)</b>
Children's drama (total hours 118)			
10 (65)	2 (21)	Nil	12 (86)
Series/serials (total hours 616)			
17 (114)	3 (115)	Nil	20 (229)
Mini-series (total hours 10)			
2 (17)	Nil	1 (6)	3 (23)
Telemovies (total hours 39)			
12 (24)	1 (4)	11 (47)	24 (75)

Source: Australian Film Commission

<b>TOP 10 FILMS IN AUSTRALIA IN 2000</b>		
<i>Film (nationality)</i>	<i>Distributor</i>	<i>Gross A\$</i>
Gladiator (US)	UIP	30.7
MI:2 (US)	UIP	22.5
Stuart Little (US)	Columbia TriStar	20.4
American Beauty (US)	UIP	19.0
Erin Brockovich (US)	Columbia TriStar	17.2
The Dish (Australian)	Roadshow	16.9*
Charlie's Angels (US)	Columbia TriStar	16.2*
Gone In 60 Seconds (US)	BVI	14.1
Dinosaur (US)	BVI	13.8
The Green Mile (US)	UIP	13.1

\* Still in the top 20 chart as of January 10, 2001

Source: Motion Picture Distributors Association of Australia

TOP 10 TV PROGRAMS IN AUSTRALIA IN 2000			
Ranking	Program (nationality and genre)	Network	Audience size (millions)
1	Friends (US drama)	Nine	2.34
2	Nine Renovation Rescue 2 (Aust lifestyle)	Nine	2.32
3	Nine Renovation Rescue (Aust lifestyle)	Nine	2.23
4	Con Air (US movie)	Seven	2.22
5	Backyard Blitz (Aust lifestyle)	Nine	2.16
6	Great Winter Ideas (Aust lifestyle)	Seven	2.15
7	Treasure Island Final (Aust reality)	Seven	2.10
8	Popstars (Aust reality)	Seven	2.09
9	Burkes Backyard Special (Aust lifestyle)	Nine	2.07
10	Spin City (US drama)	Nine	2.05

Source: *Encore magazine*

## FINANCIAL SUPPORT FROM GOVERNMENT

AUSTRALIAN PUBLIC SUBSIDIES (FEDERAL ONLY)	
Organisation	2000/01 amount (A\$m)
Australian Film Finance Corporation (FFC)	48.00
ScreenSound Australia	28.79
Australian Film, Television & Radio School (AFTRS)	17.40
Australian Film Commission (AFC)	16.56
Film Australia	7.80
SBS Independent (SBSI)	4.60
Australian Children's Television Foundation (ACTF)	2.35
Note: In some cases actual expenditure is boosted by revenues	
Public broadcaster	2000/01 amount (A\$m)
Australian Broadcasting Corporation (ABC)	621
Special Broadcasting Service (SBS)	116
Note: The ABC and SBS both include radio, television and internet services. The total for SBS includes the \$4.6 which goes to SBSI.	

Source: *Australian Film Commission*

State Agencies - Government Appropriations (A\$m)				
	1996/97	1997/98	1998/99	1999/00
NSWFTO	4.78	4.79	4.88	5.18
Film Victoria & Digital Media Fund*	5.9	9.83	5.89	5.47
PFTC	6.58	7.17	8.35	9.72
Screen West	1.01	0.98	0.9	1.83
SAFC	3.48	3.11	5.48	4.65
Screen Tasmania			0.01	0.32
Arts Tasmania	21.79	0.08	0.29	0.05
Total	21.79	25.96	25.8	27.22

\* Film Victoria & Digital Media Fund only – not Cinemedia

The Australian production community has had bi-partisan support for film and television subsidies since they were introduced in the early 1970s. The current emphasis is on direct arms-length support but the system has been more tax-based.

The Federal Government pot for the current financial year holds A\$125.5m (US\$70m). Again, full details are in the paper but the most important recipients, for our purposes, are the Australian Film Finance Corporation (the FFC), which gets the biggest slice of \$48m, and my organisation, the Australian Film Commission which gets about \$16.5m

The FFC is the principal production agency and invests in features, documentaries and non-series TV drama. It will only invest in collaboration with private investors and with the participation of the marketplace. This marketplace attachment might be a distribution guarantee from a local film distributor, a local TV licence fee, or presales against certain territories.

The AFC is Australia's development agency. It is primarily for developing people and projects, with some funding available for broader industry programs.

There are also three organisations on the subsidy list that together will get nearly A\$15m for specific sorts of production. Film Australia has a contract to make documentaries that are considered to be "in the national interest". SBS Independent is the production arm of a public broadcaster has responsibility for reflecting Australian diversity. And lastly there's the Australian Children's Television Foundation making programs for young people.

Cash is being tipped in at every level – training, development, production – with limited funds for marketing and release. All our best directors, writers and producers have benefited from one or more of these organisations. Generally speaking, the funding targets are features and television production that may not otherwise be made, such as children's and higher budget adult drama, and documentary.

There is also a pilot scheme in existence aimed at attracting private investment into production to supplement the government subsidies and grow the industry. Investors were able to buy shares in one of two Film Licensed Investment Companies, nicknamed FLICS, in the two years up to June 30 last year.

The first A\$40m was concessional capital in that the investors were able to claim a 100% tax deduction. Unfortunately, Macquarie Film Corporation and Content Capital only raised A\$21.4m before the deadline – not much more than half of what could have been raised. Very little of the money has been spent so it is too early to say whether the companies have been successful in their investment decisions. However, it is unlikely that the FLICs will be a significant source of alternative risk investment.

It also remains possible to invest in one-off Australian productions and get a deduction at the same level under a division of the Tax Act called 10BA. There is also 10B where the criteria for measuring Australian-ness is less strict.

Production boomed because of 10BA in the 1980s when tax deductibility was set first at 150% then at 133%. Now it is hardly used. The intention behind the FLICS is to

give investors access to industry expertise and therefore blue sky potential. But being set at 100% makes neither the FLICs nor 10BA particularly attractive to investors given the risks of investing in the film industry.

The Federal Government also channels significant dollars into the running of the two public broadcasters, the ABC and SBS. Bear in mind too that there are six State Government agencies that support the activities of their local industries – and keep a keen eye on attracting offshore production. They spent a total of \$27m on film and TV in 1999/2000.

### **AUSTRALIAN FEDERAL GOVERNMENT AGENCIES**

#### ***Australian Film Commission (AFC)***

*The primary objective of the AFC is to provide development funding for the film and television industry. This predominantly takes the form of carefully targeted assistance for projects and people but a limited amount for funding exists for broader industry development programs. The organisation also facilitates international co-productions. Secondary functions include the cultivation of audiences, the promotion of Australia's screen output and the collection and analysis of data about the industry.*

#### ***Australian Film Finance Corporation (FFC)***

*The FFC is the principal agency for investing in Australian production. In 2000/01 it aims to invest 50-60% of its budget in features, 30-40% in television drama, and 12-15% in documentaries. It will not fully finance and will only invest in collaboration with private investors and with the participation of the marketplace. This marketplace attachment might be in the form of a distribution guarantee from a local film distributor, a local TV licence fee, or presales against overseas territories.*

#### ***Australian Film, Television & Radio School (AFTRS)***

*AFTRS is a national centre of excellence in professional education and training for the Australian film, broadcasting and new media industries.*

#### ***Film Australia***

*Film Australia is one of the nation's largest producers of television documentaries and educational programs. Its core function is to devise, produce and distribute programs dealing with matters of national interest or designed to illustrate or interpret aspects of Australian life. This is done via a contract with the Government for programs made in the "National Interest Program".*

#### ***SBS Independent (SBSI)***

*SBSI commissions factual and fictional programming from independent Australian producers which helps its parent public broadcaster SBS to meet its responsibility of reflecting Australians' diversity. Its programs are designed for audiences who are not served by the mainstream, for example, those of a multi-cultural background or with broader interests.*

#### ***Australian Children's Television Foundation (ACTF)***

*This independent organisation encourages the development, production and dissemination of television programs, films and other audiovisual media for children.*

#### ***ScreenSound Australia***

*Formerly the National Film and Sound Archive, ScreenSound Australia acquires, preserves and provides access to a collection of film, television, video, radio and recorded sound materials. It aims to increase the knowledge and appreciation of Australia's screen and sound heritage.*

### **OTHER STATE AND TERRITORY FILM AGENCIES**

*Cinemia (which includes the division of Film Victoria)  
New South Wales Film and Television Office (FTO)  
Northern Territory Department of Industries and Business  
Pacific Film and Television Commission (PFTC – Queensland)  
Screen Tasmania*

## CONTENT RULES ON TELEVISION

### AUSTRALIAN CONTENT STANDARD IN BRIEF

*The Australian Content Standard is in two parts*

*1) A transmission quota stipulates that 55% of everything screened between 6am and midnight must be Australian, which works out to about 10 hours a day of any sort of programming.*

*2) The minimum annual quotas for specific types of Australian programming are as follows:*

- *225 points must be earned from first release drama broadcast between 5pm and 11pm (775 points over a three-year period), which equates to 80-258 hours depending on drama type*
- *20 hours of first release documentary*
- *130 hours of first release children's programs, to include 32 hours of first release Australian drama shown within certain time frames*
- *130 hours of preschool programs, including repeats*

As I've said, direct subsidy is the core mechanism that supports Australian production. But, in television, this is underpinned by the indirect mechanism of a local quota – what we call the Australian Content Standard. This only applies to the three commercial free-to-air channels.

The regulation is audience focussed. Its objective is to create television that develops and reflects a sense of Australian identity, character and cultural diversity.

There are two distinct parts to the regulation. Firstly, over half of everything shown between 6am and midnight has to be Australian, and that includes everything from news and sport to lifestyle programming and drama. Secondly, minimum levels of first release Australian drama, documentary and children's programs must be met.

Only 20 hours of new documentary per year is needed to meet the documentary quota. 130 hours of first release children's programming, including 32 hours of children's drama, is enough to meet the children's quota.

The networks have to accumulate a certain number of points to meet the adult drama quota. This point system is about Australian production elements and creative control, not look and feel. It is also budget-based and therefore biased towards the higher budget end of the market. The hard reality, however, is that the networks principally meet the quota by screening series and serials – long-running fast turnaround shows at the lower end of the budget scale.

There is nothing in the rules to ensure there is diversity of budget or content or style within each of the three regulated genres. The whole system is designed to ensure a certain number of hours up on the screen but it's not many hours. In drama it might be anything from 80 to 258 hours in an entire year. It is not a lot and it's rare that the networks would run much more than is required.

Australian content on pay TV is also regulated, but quite differently. It is based on revenues and only applies to drama. As it stands now, predominantly drama channels have to spend 10% of their programming budget on Australian drama content. The industry is lobbying hard to also regulate documentary channels and this is currently on the Government's agenda.

Our drama and documentary subsidies are inevitably stretched and the commitment from the commercial broadcasters is set to meet regulatory requirements. Virtually always the only way to green light drama is deficit financing. The whole system is finely tuned and, given the low level of production, a change in one part can have significant ramifications.

Under these circumstances it is impossible to overlook the objective that underpins both the regulatory and financial support: that is seeing our own faces on the big and small screen. The content quotas are conservative in terms of how many hours get on the screen and wholly local production has to be preserved. In this context it is right and proper that there is debate about what constitutes Australian production.

The steady growth in foreign production is important to the overall health of our industry. At present there are no Commonwealth Government direct subsidy or tax based mechanisms aimed at attracting foreign production. However, all the States have a range of incentive programs in place and actively compete for foreign production.

<b>COMMERCIAL TV PROGRAM EXPENDITURE IN 1998/99</b>		
<b>AUSTRALIAN PROGRAMMING</b>		
<i>Program type</i>	<i>amount (A\$m)</i>	<i>% of total</i>
Sport	183.2	20.4
News and current affairs	158	17.6
Drama – adult	115.8	12.9
Light entertainment – other	71.3	7.9
Light entertainment – variety	43	4.8
Drama – children's	11.3	1.3
Children's – other	10.6	1.2
Documentaries	5	0.6
Other programming	8.8	1
<b>Total Australian</b>	<b>607.1</b>	<b>67.5</b>
<b>OVERSEAS PROGRAMMING</b>		
Overseas – drama	273.4	30.4
Overseas – other	19.2	2.1
<b>Total Overseas</b>	<b>292.6</b>	<b>32.5</b>

*Source: Australian Broadcasting Authority*

## **AUSTRALIA ON THE WORLD STAGE**

Despite having limited resources and being relatively small in international terms, we have a highly successful film and television industry.

In features, our reputation is due to the consistency with which we have scored break-out hits over 25 years. Other influences are our festival presence and the way certain individual Australian filmmakers, DOPs and actors have penetrated the international talent pool.

In television, the perception of success is closely tied to the penetration of some of our series and soaps into daytime schedules. Some of our formats have been replicated in other territories and we are a significant supplier of quality children's drama, not least because of the twin forces of the FFC and the content quotas.

I think we have got the regulatory and financing system right. The content quotas underpin television production. The AFC's carefully targeted programs for the professional development of talent and its funding of script development, is underpinned by the training provided by AFTRS and other state institutions.

The FFC's production funding role compliments the development role of the AFC and the state agencies. There are always concerns about substantially centralising production subsidy in one institution but the FFC is very efficient and effective in its delivery of this subsidy.

I also want to highlight the sheer entrepreneurial spirit of our producers, who have used this grid of assistance as a platform to penetrate international markets. By necessity they have learned the art of inexpensive production, establishing international benchmarks for the cost/quality equation.

It also helps that we speak English – of sorts – and that our product seems familiar because it incorporates elements of US and UK approaches to filmmaking. Our landscape and weather work well, whether to make cold European viewers jealous or to spark their interest in kangaroo-filled environments.

Our world class infrastructure enables us to handle big budget films such as *Star Wars* and *Mission Impossible II*, or a TV show like the second series of *Survivor*. But the core of our industry is local production.

I hope that gives you a good grounding of the Australian scene. I'll be back later to talk specifically about the work we've been doing at the AFC since I joined them 18 months ago and about official co-productions.

## 2) INITIATIVES TO IMPROVE PERFORMANCE

<b>DISTRIBUTION OF RESOURCES IN AFC PROGRAMS</b>	
<i>Features (F) and 45-55 minute short features (SF ) only</i>	<i>notional annual allocation (\$A)</i>
<b>DEVELOPMENT</b>	
Strand A: draft funding – less experienced singles or teams, F and SF	340,000
Strand B: seed funding – singles or teams, F only	320,000
Strand C: matched multiple draft funding – teams, F only	300,000
Strand D: draft funding – established practitioners, F only	350,000
General development investment – producers with teams, slate of F	682,000
New screenwriters – single draft, SF only	60,000
Production investment – F and SF	1,000,000
<b>Total</b>	<b>3,052,000</b>
<b>RESOURCES DIRECTED TO OTHER AFC PROGRAMS</b>	
<i>Short films (under 45 minutes), documentary, animation.</i>	
Consultant producer/mentor program –all types listed above plus SF	70,000
Short drama production investment	900,000
Documentary development (Strands J-L)	440,000
General development – producers with teams, slate of documentaries	150,000
Documentary production investment (Strands N-O)	510,000
Animation development and production (Strand S-T)	250,000
Marketing loans – all genres assisted by AFC	100,000
Travel grants – all genres assisted by AFC	215,000
Cashflow facilities	600,000
<b>Total</b>	<b>3,235,000</b>
<b>OVERALL TOTAL</b>	<b>6,287,000</b>

The AFC has restructured, reviewed all its assistance programs, and substantially restaffed in the last eighteen months. The overhaul was initiated before I joined in August 1999, and has its roots in a major report two years earlier. That report found that each of the Commonwealth agencies needed to concentrate on its core role – ours being development.

Development had slipped off the agenda. It became generally recognised not just that the lack of resources for development was one of the biggest problems in the industry, but also that those funds we did have needed adjustment in the way they were being distributed.

All the work was done very much in consultation with the industry. We regarded that as crucial to getting things right.

Kicking off the changes was a redirection of some of our funds in a way that recognised, resourced and remunerated producers. We believe producers are a key part of the creative process – not an adjunct to it – and are and should drive projects. The culture of the AFC did not recognise that in the past.

Many of our best feature producers had been having difficulty merely surviving. Experienced producers can now apply for up to \$70,000 – documentary producers up

to \$50,000. They can spend this money on general overheads, travel and the other costs of developing and financing films, not just on project-specific work.

The idea is to give producers more autonomy and responsibility in the projects they choose and the way they develop. But fundamental to this is that their existing track record proves they know what they are doing.

Another thing we did in late 1999 was to significantly increase our investment in script development. Closing down the London office and integrating our marketing activities into the development branch were among the ways we managed this. The AFC invests in the development of features, short films, documentaries, the work of indigenous Australians, and new media. Generally we do not contribute to television.

The second stage of our overhaul was reviewing all our funding programs so that they were carefully focussed to address the problems of the industry. It had become clear to us, for example, that Australia was developing too many scripts and also that there was an immediate lack of strong scripts. The process of development was hampered by a lack of resources and, as a result, was very stop-start in nature.

We decided to invest larger amounts of money in fewer projects. We also made it clear that our level of exposure would be determined by the experience of the practitioner or practitioners applying for the money, not just in terms of how much assistance they received but also how early we came on board. It is now possible to get seed funding at the ideas stage and multi-draft funding. The AFC previously only provided project-based draft-by-draft funding.

Generally, we are recognising where someone is in their career and assisting them in accordance with that. We see people as either industry entrants, consolidating their careers, or performing at their peak. We are not just paying attention to project development but also to practitioner development, although this is limited by funding.

Changes in the industry have left a training hole. The production of big budget television commercials and top end television drama has been declining and several media institutions have moved from an in-house to a commissioning model. This has decreased the opportunities for gaining experience. Many of the training programs that used to be available in television no longer exist.

Obviously new talent is the lifeblood of the industry. The AFC has recently introduced a number of development and production programs focussed on short features. Making features before they were ready has burned many talented people. Others were making accomplished shorts, then being lost to the industry. The 45 to 55-minute format is also the focus of our new writers scheme where the bar was previously set too high.

For too long individuals had been developing scripts in isolation. The development of creative teams is now very much encouraged.

With there being such a critical shortage of development resources, and few private sector companies tipping any into the pot, we introduced a scheme to leverage up funds by matching outside contributions of up to \$50,000.

The third stage of this body of work by the AFC was to do a major study on the practice of development. This provided a statistical basis for much of what we knew and included comparisons with other key filmmaking nations. We have submitted the resultant paper to the Commonwealth Government to support our case for an extra allocation of funding next financial year. The report is on our website: [www.afc.gov.au](http://www.afc.gov.au).

We discovered that it takes 4.8 years, on average, to go from the conception of features to production in Australia, compared to 2 to 3 years in Europe, and 2 in the US. The average development budget in Australia is \$56,000 compared to Europe's \$160,000, the UK's \$200,000 and Hollywood's \$625,000. We are not as low, however, as Canada's \$28,000. Often it is the producers that carry the cash deficit.

We found that 340 films were in active development, defined as having received some level of financial support in the last three years. Our development-to-production ratios were 17 to 1, compared to Europe's 8 to 1, and Hollywood's 7 to 9 to 1. We also have the highest rate of writer/directors making films – which exacerbates a tendency for the best of them to head overseas – and a very high number of production companies.

The attrition rates were particularly frightening, and flowed from an emphasis on first timers through the 1990s. Not many of the producers, writers and directors who have made a first film in Australia in the last 30 years have been able to follow up that experience. It varies according to creative role, but in each case at least 65% never made a second feature. Writers are the group with the biggest turnover. This cannot be tolerated in a healthy and mature industry.

Poor development has a flow-on effect to our national slate. Improvements will mean better outcomes for audiences, a more stable and professional industry and, ultimately, better financial and cultural returns for the Government's investment.

First-time benchmarks have now been set to guide the formulation of policy and the design of funding programs. An average development investment of \$200,000 per film is our target and it is hoped that the process will be concentrated into a three-year period. We are aiming for a ten to one ratio of projects developed to those produced and at least half should be driven from the outset by teams of people.

If you would like to study our different programs I recommend you go to our website. It has been an intensely busy and exciting time for the AFC and we look forward to seeing all our work pay off.

### 3) OFFICIAL CO-PRODUCTIONS

AUSTRALIA'S OFFICIAL CO-PRODUCTION PARTNERS				
<i>Country</i>	<i>Nature of agreement</i>	<i>Date signed</i>	<i>No of prods</i>	<i>Total budgets A\$m</i>
France	MOU	1986	16	150
Germany	Treaty	2001	2	4
UK	Treaty	1990	17	132
Canada	Treaty	1990	15	196.5
NZ	MOU	1990	7	28.5
Italy	Treaty	1993	1	n/a
Vietnam	MOU	1996	1	n/a
Israel	Treaty	1997	0	Nil
Ireland	Treaty	1998	2	13

Note: There are more than the 58 productions approved because some were three-way co-productions.

Source: Australian Film Commission.

#### THE STATE OF PLAY

Despite our geographical isolation, for the past 20 years our producers have been very outward looking in terms of financing and selling product abroad – they've had to be. A core part of what they do is raise money via distribution guarantees, television presales, or as private equity investment – and they have successfully grown that investment.

Foreign investors contributed 22% of the total budget of Australian TV drama made last financial year and 64% to the feature slate, although this figure usually varies significantly – for example, it would be 21% without Baz Luhrmann's *Moulin Rouge*.

The international co-financing and co-production of larger budget production continues to grow, although only a small slice is official co-productions.

#### The nature of the agreements

Australia has had an official co-production program since signing with France in 1986. Nine treaty agreements or memorandums of understanding now exist.

Official co-productions must be initiated, developed or scripted by nationals or residents of Australia, or the co-producing country. There must be a co-producer from each country, and the Australian producer must retain a share of copyright. The cast and crew must be nationals or residents of each country, although a limited number of performers from other countries may be engaged.

The agreements vary from country to country, including what genres qualify. In Italy, for example, all television is excluded. The lowest permissible level of Australian creative participation is 20% and that's in Israel and Ireland. In Canada it's 30% and in France it's 40%. The aim is for balance across each agreement over time.

The proportion of Australian participation is judged by a points system. An individual project is scored according to certain Australian key crew and lead actors. Once there is a final tally, at least that percentage of the budget must be spent in Australia, and

there must be at least that proportion of Australians in the entire cast and crew. It must also be commensurate with the budget contribution of the Australian producer.

What underpins the program is that once a project has qualified it is classified as national to both countries and is eligible for all the benefits. In Australia it may become more attractive to the networks because it can help fill their local content quotas, and it also becomes eligible for funding from the FFC, although the FFC will exercise its own judgement. It will only fund the cost of the Australian elements and, importantly, will only invest where the director or writer is Australian, and where an Australian actor fills at least one major role. The total amount spent on co-productions is capped at 10% of the FFC's total annual expenditure.

Australian investors can also get a tax deduction under 10BA if they invest in official co-productions, which still have to have "significant Australian content".

### **Statistics**

In the 15 years to June 2000, 58 official co-productions worth almost A\$500m (roughly US\$250m) were approved. Of these, 24 were features and 16 were miniseries. There have also been documentaries, drama series and telemovies, but less than 10 of each. Titles include *Greencard*, *Black Robe*, *Map Of The Human Heart*, *Kings In Grass Castles*, *Moby Dick* and *Beastmaster*.

While numbers of co-productions in recent years are staying much the same, their value is rising. This is partly because a number of long-running television series are now part of the co-production slate. A total of seven official co-productions began shooting in the financial year to June 2000. One was a feature, one a documentary, and the rest were television. This is the highest number for four years but each year there has been four or more.

This new interest in television coincides with the Australian Content Standard being changed in 1996 to allow series and serials that are official co-productions to qualify for quota points. The FFC is not permitted to fund this type of television. However, the FFC has contributed about 30% of all the Australian investment that has gone into official co-productions over time, although last financial year it did not invest in any. Where Australian investment is in the mix, last year it was raised using the tax system.

Our most regular partners have been the UK, France and Canada – from 15 to 17 each although this includes a couple of three-way productions. The total value of these productions, with each of these countries, has been A\$130 to A\$200m.

The total number of TV dramas and features that went into production last financial year was 93. Less than ten percent of those 93 productions were co-productions. On the basis of value, however, co-productions were worth about 18.5% of the total, or nearly 30% if you exclude foreign production.

In other words, those seven co-productions were worth one-third of the 72 wholly Australian productions, so they are significant within the overall slate judged by value. But the figures also underline the extra costs of these projects.

### **The politics/industry attitudes**

Our official co-production program has been under review – as part of usual policy processes. The initial finding is that it is of value and should continue. The report is presently with our Minister.

Some producers expect to access the program more often, particularly to gain access to Europe. On the other hand, they admit it is often a last resort. They prefer trying other financing options first, because of the increased costs and complexities involved in co-productions. Many projects also have unsuitable content.

Initially the program aimed to encourage creative and technical collaboration with overseas filmmakers and distribution interests, and gain access to new markets and improve returns. It has evolved into a way of financing a broader range of bigger budget productions.

The investment and expenditure levels for Australia and its partner nations have been remarkably similar over time, although Australia's creative participation outweighs those of other countries.

There have been serious concerns expressed recently, however, centred on two Australian/Canadian co-productions *Beastmaster* and *Sir Arthur Conan Doyle's The Lost World*. Coote Hayes is the production company in both cases partnered with Alliance in the case of *Beastmaster* and Telescene in the case of *Lost World*.

The issue is not about direct subsidy – neither have, could have or needed to access Australian public money. Rather, this is an issue about those precious and conservatively small TV quotas. *Beastmaster* is now screening on the Seven Network. It is a high volume program and could be used to meet a big chunk of Seven's quota obligations. A third series was recently approved which will mean there's 66 hours available – that's half of one network's annual quota purchased after completion at secondary market prices. Despite being Australian majority co-productions and predominantly cast and crewed with Australians, it is clearly a program primarily aimed at the US and international market and the number of hours has sparked debate about the lack of any cultural resonance for Australian audiences – and whether that matters.

The primary concern is the risk of shows like this potentially displacing legitimately Australian shows. However, there is no doubt that productions like these create considerable employment, and provide a considerable post production spend. Ironically, co-production status was of no benefit in Australia but was required by the Canadian producer in order to access tax benefits. They argued that they probably would not have come to Australia without official status.

The issue will be raised when the Australian Broadcasting Authority reviews the Australian content rules later this year. At the moment it seems unlikely that on the basis of a single program the ABA will change the way it treats co-productions with regard to Australian quota.

<b>COMPLETED OFFICIAL CO-PRODUCTIONS – AUSTRALIAN/CANADIAN ONLY</b>		
	<i>Year of local release</i>	<i>Production Companies</i>
<b>Features</b>		
Black Robe	1992	Samson Productions, Alliance Entertainment Corporation
Map Of The Human Heart	1993	Working Title, Vincent Ward Film Productions, Les Films, Ariane, Sunrise Films (Canadian/UK)
On My Own	1993	Colosimo Films, Alliance (Canada/Italy)
Turning April	1997	Total Film & Television, Alliance
Sally Marshall Is Not An Alien	1999	Infinity Pictures, Cinar Production
<b>Mini-series</b>		
Golden Fiddles	1991,94	South Australian Film Corporation, Wacko Entertainment
<b>Drama series</b>		
Dumb Bunnies	1999	Yoram Gross Village Roadshow, Nelvana
Beastmaster	2000/01	Coote/Hayes, Alliance
Beastmaster II	not yet	Coote/Hayes, Dar II Productions
Sir Arthur Conan Doyle's Lost World	not yet	Coote/Hayes, 3495493 Canada
<b>Telemovies</b>		
Dr Jekyll & Mr Hyde	not yet	Coote/Hayes Holdings, Telescene Film Group
Lost World (as above)	not yet	Village Roadshow Pictures Television, Telescene

## **CO-PRODUCTION IMPEDIMENTS**

From Australia's point of view, a key limitation to making official co-productions is the minimal levels of higher budget film or television production juxtaposed against the preference of our broadcasters and our audiences for local stories.

Last financial year, 30 of the 31 Australian films cost less than A\$6m, or US\$3m. In the previous year there were a couple over A\$10m but it is consistently difficult to fund anything over A\$6m. Over the 11 years to mid-1999, 37% of the features that were official co-productions had budgets of more than A\$6m, compared to only 15% of all the features shot in Australia in the period, and that includes foreign features that often have very high budgets.

The average production cost per hour of Australian series television has been falling for the past four years and is now at A\$207,000 – the average cost per hour of series co-productions is A\$1.7m. Local broadcasters have held down licence fees on local production and only make limited equity investment available. Deficit funding is increasingly risky given the present international climate.

Producers have had to pare down budgets as a result. It's a difficult climate in which to get high budget wholly Australian drama financed. There's just not much leeway for the extra costs of co-productions. As a consequence an average of only two mini-series are being made per year compared to the annual average of 13 throughout the 1980s.

Linked to this cost question is the approach of the TV networks. Yes, they have to meet drama quotas and official co-productions automatically qualify. But they don't just need Australian programming, they need programming that rates in primetime.

The bulk of the quota is being met through series and serials. By their very nature they are at the low budget end of the spectrum and are very rooted in every day life – hospitals, police stations, local community centres. With a few exceptions, it is the very specifically Australian programming that rates. What happens here is no different to what occurs in other countries. This type of programming doesn't easily fit the official co-production mould.

Networks are extremely cautious about taking the greater risk of supporting higher budget material such as minis and telemovies, which cost them more. The opportunities for producers to pitch suitable ideas for wholly Australian production are very limited, for co-productions more so.

The network focus is on their audience, that is ratings. They don't want to get involved in complex co-productions and share control with a foreign producer and a foreign broadcaster half way around the world.

Our public broadcasters would in some ways be more suitable co-production partners but both of them are under extreme budget pressure. SBS has always been a very lean operation and the ABC suffered big budget cuts several years back and this impacted on local production. A new managing director is currently restructuring and restaffing the place and there is a lot of uncertainty about local programming plans.

Last calendar year was a good one for us in terms of how well our features did locally – the box office share for local films was eight per cent, which was about as good as it got throughout the 1990s. A big factor in the success of the key films that contributed to this success was that there was some level of existing local knowledge about them. One was from a book on the school curriculum, another was an adaptation from the theatre and television.

Internationally the performance of these films has mostly been modest - partly for the very reasons they've worked in Australia. They also don't have elements that allow them to be pre-sold internationally – no stars and often they are by new writers and directors.

But for our films to be working locally to the extent that they are is an excellent result.

Once upon a time the big concern about co-productions was the appearance of 'europuddings', or in the context of us being Commonwealth countries perhaps I should use the term 'commopuddings'. Twisting stories into uncomfortable shapes has become the least of Australia's concerns.

In summary there is no doubt that co-productions can provide a way of financing bigger budget material. But the restrictions on our own sources of finance, both in how much is available and what it's available for, does mean that co-productions are often a last resort.

In conclusion, let me stress that we are positive about extending international relations. The Australian industry has survived and developed in part as a result of its success internationally.

We are entrepreneurial, we are good deal makers, we are good business partners, we are always looking for new opportunities.

Thank you.

[ends]