Australian Film Commission
Australian Film Finance Corporation Limited

Report on the film and television production industry

Prepared in response to a request by
the Minister for the Arts and the Centenary of Federation,
the Hon. Peter McGauran MP

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EXECUTIVE SUMMARY

This report was prepared jointly by the Australian Film Commission (AFC) and the Australian Film Finance Corporation (FFC), in response to a request by the Minister for the Arts and the Centenary of Federation, the Hon. Peter McGauran MP, on 13 September 1999.

The central aim of this report is to investigate the state of the industry, within the available timeframe, and to assist the Government in developing policy responses where necessary.

We have concluded that there are indeed a number of serious issues confronting the Australian film and television industry at this time and consideration should be given to some adjustment of the overall framework of Government support to the industry.

We are confident that the measures we are recommending will address many of these issues and enhance the existing mix of Government assistance in training, development, production and broadcasting.

Our approach has been to track developments at the local and international level which are currently impacting on the industry, with particular reference to developments since David Gonski's *Review of Commonwealth Assistance to the Film Industry*.

We have been unable to cover every production sector of the industry within the time available. In particular, we have not looked at production of television commercials an important contributor to the infrastructure and critical mass of the industry. However, the AFC plans to undertake research on commercials production (as part of its response to the Productivity Commission) and we look forward to presenting these findings to the Minister at a later date.

Australian stories

The Government assists the local industry in order to create opportunities for Australians to produce a diverse slate of projects, reflecting different ideas and points of view.

A vibrant film and television production sector helps promote a more inquisitive, imaginative and thoughtful society, allowing us to define and explore what it is to be Australian. It also provides a medium through which Australia's creative talents are able to reach the world.

The Government assists the industry in order to achieve these cultural objectives and in the knowledge that:

- the production sector remains highly volatile and generally unprofitable;
- there is an expectation of negative rates of return on Government investment.

The industry in 1999

Nurtured by three decades of government support, Australia has developed a local film and television production industry which is more creatively diverse and technically skilled than ever.

It is just one measure of the industry's success that the infrastructure developed here is attracting increased foreign production to Australia, including high profile projects such as *The Matrix*, *Mission Impossible II* and two new *Star Wars* feature films.

Another is the ability of high profile Australian directors, including Baz Luhrmann, Jane Campion and George Miller, to attract a new stream of international finance for production in Australia.

Successful Australian features films such as *Shine, Muriel's Wedding* and *Strictly Ballroom* create local pride in our achievements and represent a unique cultural contribution at the international level. Similarly, Australian television drama and documentary continues to rate highly with local audiences and presents diverse images of Australian life on our screens.

Static local production

Through the process of globalisation, the multi-tiered structure of the Australian production industry the mix of local and foreign productions and hybrids of the two has emerged.

While foreign production and international co-production has risen, Australian production has remained static over the last four years, with a recent downturn in television drama production.

Over the last four years:

- **Total production** in Australia increased significantly (from $479 million in 1995-96 to $678 million in 1998-99); however, the increase was entirely accounted for by foreign productions and co-productions (these grew by $202 million from 1995-96 to 1998-99).

- The value of **Australian feature film production** has been relatively static, except for 1997-98, when production was boosted by *Babe: Pig in the City* (financed by Universal at a reported budget of US$100 million).

- There was a significant decline in **Australian television drama** production in 1998-99:
  - only 14 series and serials were produced in 1998-99 (compared with 23 in the previous year and 21 in both 1996-97 and 1995-96);
  - only two adult mini-series were made in 1998-99 (compared with an average of four per year in the 1990s).

Based on our most current research, **we project total production levels in 1999-2000 will be roughly equivalent to those in 1998-99.**

Growth in foreign production and co-production

- **Foreign production** has been attracted to Australia by favourable exchange rates, relatively low labour costs and the excellent creative and technical infrastructure which exists here.

  The benefits of foreign production include increased employment opportunities for Australian technical personnel and performers as well as some flow-on benefits for the local economy from the purchase of local goods and services, and maintenance of infrastructure.

  However, inaccurate perceptions of this type of production as being a substitute for Australian production represent a risk in terms of the Government's cultural objectives for a local industry.

- There has been a recent upswing in **international co-produced television drama**.

  Most of these projects are originated overseas and do not contribute to the Government's cultural objectives.

  The most significant increase has been in long-running television series: three adult series were produced in 1998-99 (*The Lost World, Beastmaster* and *Farscape),* representing a total production value of $110 million.

  All three series qualify as 'Australian' under the current Australian Content Standard. Should they all be shown on Australian commercial television in one year, they would represent about half of a single channel's local adult drama content points.

  In the current regulatory environment, the growth in co-productions has the potential to reduce the amount of Australian programming available to Australian audiences.

Australian feature films

There has been a polarisation in the size of budgets of Australian feature films in recent years. The budgets for a tiny number of internationally financed Australian features have reached unprecedented highs (including *Babe: Pig in the City* and *Dark City*), and there has also been a proliferation of privately financed films with budgets well under $1 million, which have limited potential to secure distribution and reach audiences.

Overall, Australian feature film budgets have remained static. The average budget of features made in the 1990s was $3.5 million, much the same as the average for the 1980s.

By contrast, both the production and marketing budgets of the feature films produced by the major US studios have risen sharply (the average budget for a studio feature was US$52.7 million in 1998, and almost half as much again was spent on marketing).

The FFC remains the single principal investor in Australian feature films and these sit firmly within the 'independent film' category, which consists of lower-budget films from around the world. They cannot compete with big-budget Hollywood genre movies and often look more like telemovies than features in the late 1990s multiplex environment, which is the natural home of the blockbuster.

Shortage of development funding

In the niche market in which independent films operate, the script (or screenplay) is of paramount importance to the quality of the final product. Independent films cannot rely on stars or big-budget effects to attract audiences.

A survey of feature films backed by the FFC over the last three years shows that an average of only 1.4 per cent of the total budget of these films was spent on development. This compares with an average of two per cent spent on development in the UK, five per cent in Canada and approximately 10 per cent in the US all well in excess of expenditure in Australia.

The current shortage in development funding means local producers are:

- unable to secure long-term relationships with creative personnel (directors, writers) and maintain sustainable businesses;
- unable to undertake effective script development; and
- isolated from the mainstream film financing environment by lack of money to travel to key international markets.

Feature films made without the benefit of sustained development support are destined to fail, critically and commercially, in the increasingly competitive international arthouse market.

Australian television drama

The critical issues for television drama are: the continuing decline in production of flagship adult mini-series, and the decline last year in series drama production.

- **Mini-series**

  Only two adult mini-series were made in 1998-99, reflecting the decline which has occurred throughout the 1990s (an average of four adult mini-series per year were made during the decade, compared with an average of nine during the 1980s). In the absence of a higher level of subsidy, there can be no expectation that more will be produced.

  The high-rating, 'parochial' mini-series of the 1980s such as *Vietnam, Bodyline, The Dismissal, Cyclone Tracey, The Cowra Breakout, The Shiralee, A Town Like Alice* and *The Harp in the South* were made without foreign pre-sales.

  In the current environment, producers must secure foreign pre-sales to raise adequate production budgets and so are under pressure to include international elements in their projects (such as lead actors and locations). This makes it very difficult to finance the classic Australian stories which have rated so highly with audiences in the past.

  Mini-series currently cost $1-2 million per hour to produce and the Australian commercial networks buy them for $300-350,000 per hour.

  There is currently insufficient quota incentive for the commercial networks to program mini-series. During the past two years, they have met their quota requirements largely by programming the less expensive series and serial formats.

  While a revised quota incentive mechanism might go part of the way to addressing the problem, it would not resolve the issue of producers having to raise large amounts of deficit finance overseas.

  If the adult mini-series format is to recover, any revised quota incentive would need to be complemented by increased funding, to allow the FFC to finance a higher percentage of the production budget.

- **Series drama**

  The decline in number of programs was particularly marked for series and serials (only 14 series and serials were produced in 1998-99, compared with 23 in the 1997-98 and 21 in each of the previous two years).

  Due to static licence fees from domestic broadcasters, in combination with rising production costs, producers now rely on securing deficit finance from the international market place to produce Australian series drama.

The current downturn in series production is directly related to a contraction in demand for Australian product in the international market over the last two years.

In summary, as regards Australian television drama, the AFC and the FFC will propose to the ABA that the planned review of the Australian Content Standard in early 2001 be broad and include:

(i) measures to ensure a diversity of Australian programming, particularly long-running series, mini-series and documentary series;

(ii) the impact of the current minimum $45,000 licence fee; and

(iii) measures to ensure that co-produced television dramas do not displace Australian programming.

Documentaries

While production levels are stable, there are no opportunities to explore potential growth areas for Australian documentaries particularly **pay television** and the production of **documentary series** in the current funding and regulatory environment.

While pay TV drama channels are required to devote a certain percentage of their total program expenditure to new Australian drama, there is no equivalent regulation regarding documentary programming.

The majority of documentaries produced by Australians are one-off programs and these continue to be of high quality and to rate well with Australian audiences.

However, growth potential in the international market lies primarily in the production of documentary series. The levels of development funding and production investment currently available to Australian producers are in most cases not adequate for production of documentary series. This prevents local producers from responding to opportunities at the international level.

Conclusion

The AFC and the FFC appreciate the opportunity to respond to the Minister's request.

We believe we have identified the major issues confronting a small national producer like Australia. Some of these problems will require a long-term strategic approach. However, others could be alleviated in the short term, through modest increases to development and production spending and adjustments to the current television regulatory framework.

RECOMMENDATIONS

These recommendations are informed by the following goals:

(a) to ensure Australians have access to film and television programs which reflect Australian identity, character and cultural diversity; and

(b) to maintain and develop the creatively diverse and technically skilled Australian film and television production industry.

Recognising the need to address the changing global market, we put forward the following recommendations for the Minister's consideration:

1. Development

1.1 To address the current shortage in development funding for feature films and documentary, the AFC's funding be increased to an internationally benchmarked level.

1.2 That the AFC and FFC work with the Minister and the Department of Communications, Information Technology and the Arts to establish an agreed benchmark and options for funding, by mid 2000.

2. Production initiatives

That the Government increase current FFC appropriation per annum to allow for:

(a) higher levels of FFC investment in television drama (mini-series and telemovies);

(b) a limited number of higher budget feature films; and

(c) modest increases in investment levels for children's drama and documentary series.

3. Local content

3.1 *Free-to-air*

(a) That the Broadcasting Services Act be amended to expressly provide that in developing program standards for children's programs and Australian content, the Australian Broadcasting Authority must take into account issues which impact on the sustainability of the Australian production sector and its capacity to deliver a diversity of high quality product to Australian audiences

(b) Further to the above, the AFC and FFC will propose to the ABA that the planned review of the Australian content standard in early 2001 be broad and include:

(i) measures to ensure a diversity of Australian programming, particularly long running series, mini-series and documentary series;

(ii) the impact of the current minimum $45,000 licence fee;

(iii) measures to ensure that co-produced television dramas do not displace Australian programming.

3.2 *Pay television*

That the review of Australian content requirement for pay television is brought forward to early 2000 to include:

(a) extension of the expenditure requirement to documentaries and children's programs, including drama;

(b) an amendment to the Broadcasting Services Act which would explicitly link the Government's industry support to the broader cultural objective of having a guaranteed minimum amount of Australian programming on pay services; and

(c) an amendment to the Broadcasting Services Act to provide an obligation for pay services to screen the Australian programs supported.

4. New services

Affirm the Government's commitment to appropriate and reasonable levels of Australian content regulation for new services that emerge in the digital environment.

5. International trade forums

That in international trade forums such as the forthcoming World Trade Organisation round, the Australian Government retains its power to introduce and change cultural support mechanisms.

6. Measures for the future

That the AFC and FFC research the range of measures adopted by our major trading partners such as the UK, the EU and Canada, to strengthen their local film and television industries and recommend appropriate strategies for Australia, including those relating to distribution and exhibition.

1. INTRODUCTION

The catalyst for this report has been the assertion in a number of media stories that the Australian industry is ‘in crisis’.

The Minister has asked the Australian Film Commission (AFC) and the Australian Film Finance Corporation (FFC) to investigate the state of the industry and to assist the Government in developing policy responses where necessary.

When David Gonski handed down his report on Commonwealth assistance to the film industry, at the beginning of 1997, he observed an ‘air of confidence’ surrounding the industry – domestically and internationally.

This was built on the recent success of feature films such as *Shine* and *Muriel's Wedding*, international interest in Australia's adult and children's television programming, and audience demand for local product screened by Australian broadcasters, Gonski said.

It was also evident in the more than doubling in the value of foreign production in Australia since 1992-93, as well as increased foreign investment in local film and TV projects.

At the close of the 1990s, it is clear that Gonski's recognition of the achievements of the Australian production industry is still well founded. It is more creatively diverse and technically skilled than ever and the total dollar value of film and TV production continues to grow.

But, as Gonski pointed out, his review took place in a rapidly changing environment where developments in international trade and technologies were creating both threats and opportunities for the local industry and made it difficult to predict the future with any certainty.

The complex picture which reveals itself in 1999, and the concerns being raised currently about the health of the local industry, are rooted in the very shifts Gonski highlighted – commonly referred to as the process of 'globalisation'.

Australian stories

The Government assists the Australian production industry in order to achieve cultural objectives.

A vibrant cultural sector helps promote a more inquisitive, imaginative and thoughtful society, allowing us to define and explore what it is to be Australian. Film and television productions are an integral part of Australian life and at the end of the twentieth century have emerged as the most accessible of all cultural activities and a medium in which Australian creators are able to reach the world.

The Government assists the local industry in order to create opportunities for Australians to produce a diverse slate of products, reflecting different ideas and points of view.

This slate is produced within a commercially driven marketplace in the clear understanding that the production sector remains highly volatile and generally unprofitable. Products are, in many cases, considered too high risk to attract substantial private investment.

The Gonski report recognised the continued need for Government assistance and non-commercial rates of return on its investment.

The global picture

How comfortably are these cultural objectives sitting within a global environment being re-shaped by new technologies and trade links?

'Convergence' the merging of content and delivery services is coming closer in Australia with the introduction of digital television from January 1, 2001.

It is still far too early to predict with any confidence the nature of the future new media landscape but our assessment is that there are no guarantees the Australian production industry will automatically benefit from the expansion of services and other features of the new technologies. Increased channel capacity does not, of itself, guarantee increased opportunities for locally produced programming.

In fact, unless the sophistication of local content regulation matches the sophistication of the new media landscape, there is a risk that Australians will have less opportunity to view diverse Australian programs on screen. The local production industry in Australia relies just as much on quotas to survive as it does on government assistance through direct subsidy.

This raises questions about how to ensure reasonable levels of Australian content on the new services that will emerge.

There has been minimal new Australian programming commissioned by Australia's pay TV channels, which have consistently failed to meet the requirement that they allocate 10 per cent of their expenditure for new local production. On the positive side, the Government is shortly to introduce legislation designed to enforce the 10 per cent requirement.

In terms of revenues from program sales, market experience is suggesting that the new outlets created worldwide by satellite, cable and other new technologies are in some cases fragmenting revenues for film and television programs rather than contributing additional revenues.

For example, as pay TV outlets have eroded the market share of free-to-air TV, the response by some free-to-air broadcasters has been to reduce their licence fees for programming, so that producers have to secure multiple sales to earn the same amount of revenue as they did prior to pay TV.

As mentioned previously, Gonski identified global pressure for trade liberalisation as another key issue likely to affect the Australian industry in the medium term and it would be useful to briefly update developments since then.

New Zealand programs can now count towards Australian content requirements for free-to-air and pay television as a result of the High Court's decision on Project Blue Sky. The Australian Broadcasting Authority (ABA) has committed to review the impact of the decision at the beginning of 2001.

In March this year, the Minister for Communications, Information Technology and the Arts, Senator Alston, announced that the Government would amend the Broadcasting Services Act to ensure that foreign access to local content quotas is explicitly confined to New Zealand. He also advised that the Government would ensure Australia's cultural objectives are taken into account in negotiating future trade agreements.

The next round of World Trade Organisation (WTO) negotiations, which will include services and intellectual property, is getting underway and debate about the audiovisual sector is expected to emerge again and possibly intensify. This may increase pressure to dilute the regulatory mechanisms which help ensure that Australians have the opportunity to view local film and television programs.

Local developments

A number of other significant developments have occurred at the local level since 1996. These include:

- Cessation of the Commercial Television Production Fund (CTPF), which was established in 1995-96, for three years, and contributed $44 million for television drama production.
- In their first end-of-financial-year fundraising, the two Film Licensed Investment Companies (FLICS) secured only 15.5 per cent of the ($10 million each) they sought to raise to back local feature film and television production. The fundraising coincided with an announcement by the Australian Taxation Office about a crack-down on tax-driven production investment, which worked to deter investors.
- Similarly, little finance was raised under the 10BA tax incentive scheme in 1998-99 ($13.07 million).
- Australia's three publicly listed production/distribution companies, Beyond, Southern Star and Becker, have all reported a fall in share price in response to a significant downturn in international sales.

Local production a complex picture

Through the process of globalisation, the multi-tiered structure of the Australian industry – the mix of local and foreign productions and hybrids of the two – has become more prominent.

In the 1970s and 1980s, it was relatively easy to classify a film or television program as 'Australian': in most cases 'Australian' films were developed, produced and post-produced here by Australian key creatives and a small number were made under official international co-production agreements.

During the 1990s, deepening links with overseas markets have made it more difficult to classify film and television programs satisfactorily as 'Australian', 'foreign' or 'official co-production' (see box on Australian Content at end of section).

The multiplicity of types of productions in Australia is a reflection of what is happening in the international marketplace and exists within most modern national industries. In this sense, it is evidence of the Australian industry's maturity and creative and technical competence.

Any potential problems lie in the balance between the different types of productions and a key aim of this report is to identify whether the current balance in Australia is fulfilling the Government's cultural objectives.

The growth in foreign production and co-production in Australia is reflected in the consolidation and growth of foreign studio facilities. After an unsteady start-up phase, the Warner Roadshow facilities in Queensland are now virtually fully-booked for offshore production of US feature films and television series; Fox Studios in Sydney has opened for business and is currently fully-booked; a new international facility is also being planned for Melbourne (to be co-financed by US-based entertainment conglomerate Viacom, which owns the US studio Paramount).

Other evidence of globalisation since Gonski's review is the purchase of two local production companies by UK entities: the Grundy Organisation was acquired by Pearson and Artists Services, by Granada. Also, the German distribution company EM.TV purchased Village Roadshow's 50 per cent share of Australia's high profile animation house, Yoram Gross.

UK-based Granada has secured an additional foothold in the market through the recent negotiation of a drama output deal with the Seven Network.

Before proceeding further with an analysis of the Australian industry, the report will investigate the international market context in which Australian film and television programs are being financed and sold.

AUSTRALIAN CONTENT

Because of the range of material qualifying as ‘Australian’ and because of the increased volume in that category of Australian which may satisfy a technical definition, it is important to analyse the types of productions that are deemed to be Australian and where the non-Australian gaps occur.

What is an Australian film or television program?

There are two principal definitions, one legislative (in Division10BA in the Tax Act) and the other, the result of the ABA's content standard. There is also Division 10B in the Tax Act.

10BA has two strands.

(a) Programs made wholly or substantially in Australia ‘with significant Australian content’.

Determination of ‘significant Australian content’ is made by DoCITA, after a comprehensive examination of all the various factors, where there is a preponderance of Australian elements: nationality/residency of the key creatives; the cultural property, eg book on which the film is to be based; where it is made; ownership of the copyright; creative control, etc.

Exclusive or majority foreign ownership of copyright would generally disqualify a project for 10BA status unless the other elements are overwhelmingly Australian.

(b) At the other extreme of 10BA is official co-production, which can either be majority or minority ‘Australian’ according to a points scheme. This points scheme looks at the creative and technical individuals involved in the project. Co-productions, like all 10BA projects, are automatically eligible for Australian content quota on television.

There are also 10B projects, which are eligible for concessionary tax treatment. There are many projects made in Australia with significant non-Australian content which qualify as 'Australian' 10B projects, with neither an Australian writer nor director. It is unlikely that many, if any, 10B projects would qualify for Australian content quota.

The second principal definition is the **Australian content definition for television quota purposes.**

‘Australian content’ is satisfied either by programs complying with the tests devised by the ABA or where they are ‘deemed’ to be Australian content.

This ABA test requires either the writer or director to be Australian, and the producer (but not the production company) to be Australian. It also requires 50 per cent of lead roles and 75 per cent of support roles to be Australian but has no requirements for Australian copyright ownership or Australian creative control. Other programs that are deemed to be Australian content, and which therefore qualify for quota, are:

- New Zealand programs; and
- official co-productions, ie made pursuant to co-production treaties or memoranda of understanding.

Co-productions in television

As Australia is becoming a more attractive location for offshore production, it has been the case that foreign program originators will set up their projects here as co-productions with Australia, either as:

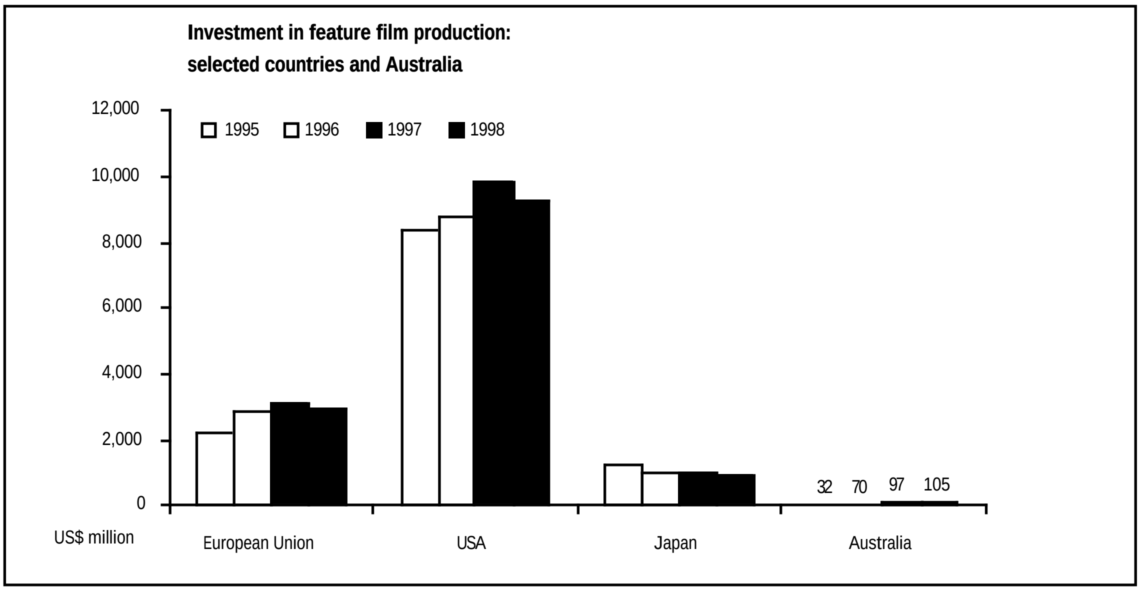
(a) **official co-productions** which may trigger significant benefits from one or both of the official co-production partners in the form of subsidy, quotas, tax deductions or tax credits. [In fact the benefits from the non-Australian partner may be driving force behind the official co-production status, eg the television series *Beastmaster.*]

(b) **unofficial co-productions** which have varying degrees of Australian and foreign involvement.

2. THE GLOBAL MARKETPLACE

Although the Australian film and television industry has won a higher international profile than its small population would suggest, Australia is undoubtedly a small producer in the global context.

Using feature films as an indicator, the figure below demonstrates that production levels in key international markets dwarf the value of production in Australia.



Source: *Screen Digest* June 1999

Nor is Australia part of a trading bloc such as exists in Europe, where cultural and financial links and government initiatives enhance the ability of indigenous industries to sell their programs to other countries within the trading bloc.

The Australian industry is the proverbial small fish in a very large pond and although English provides an entree into certain key world markets, Australia has neither the domestic audience, the dollar value of production nor the trading alliances needed to guarantee a strong position internationally.

The point hardly needs to be made that the film and television business has long been dominated worldwide by a handful of US-based studio-distributors known as 'the majors' (Warner Bros, Disney, Fox, Universal, Columbia, Paramount and MGM)[1]. Together these studios have a world share of at least 80 per cent in film and 70 per cent in television fiction[2].

1 Dreamworks SKG, founded in 1994 by Steven Spielberg, Jeffrey Katzenberg and David Geffen, is a 'start-up' studio, although it does not have the advantage of a film library and diversified distribution activities as do the other studios.

2 From *The Movie Game*, by Martin Dale (1997).

But what has changed in recent years is that the studios (with the exception of MGM) have been absorbed into global entertainment conglomerates, creating a matrix of ownership and control which reaches farther, and is more diverse, than ever before.

The 'big seven' entertainment corporations of the 90s are: Time Warner, Walt Disney, Sony (incorporating Columbia), Seagram (Universal), Bertelsmann, Viacom (Paramount) and News Corp (Fox). They have been described as a global oligopoly akin to those that emerged in the oil and automotive businesses earlier this century.

The table below provides a snapshot of the vertical integration (from production to exhibition/broadcast) and diversified entertainment interests (including music, publishing, merchandising and theme parks) of the big seven.

The Big Seven

	TIME WARNER	WALT DISNEY	SONY	SEAGRAM	BERTELSMANN	VIACOM	NEWS CORP
REVENUES	**$26.8 billion[1]** • 45% publishing • 20% TV networks • 19% cable systems • 16% entertainment (film & TV production, cinemas, home video, music, Internet, theme parks, retailing and product licensing) 34% of Warner Bros. revenues come from outside the US.	**$22.5 billion[1]** Operating revenue($4bn): • 35% creative content (film & TV production and distribution, home video, publishing, music, retailing & product licensing, Internet) • 33% broadcasting (cable, network) • 32% theme parks and resorts, sports	**$15.9 billion** (Sony Corp of America)**1** Total 1999 (6784 billion yen): • 64% electronics • 11% games • 10% music • 8% films/TV (production and distribution, cable & satellite TV networks, home video) • 7% insurance/other	**$15.4b** (Seagram, including Universal and PolyGram)**1** Universal ($6.4b): • 61% filmed entertainment (film & TV production and distribution, cinemas, home video, cable TV), • 24% music • 15% recreation & other (theme parks, retailing, product licensing, Internet).	**$14.3 billion[1]** Bertelsmann: • 31% book clubs/ publishing • 14% printing • 20% magazines • 30% music • 5% Internet/other CLT-UFA: • 74% TV; • 8% radio; • 16% production and rights)	**$13.2 billion** (not including CBS)1 • 22% networks (broadcast, cable) • 39% entertainment (film & TV production & distribution, cinemas, retailing & product licensing) • 32% video • 3% theme parks • 5% publishing • 0.1% online	**$12.9 billion[1]** • Film & TV production and distribution • TV networks (cable, satellite, broadcast) • Home video • Publishing • Music • Internet • Sports • Merchandising, product licensing
COMPANIES*	Warner Bros, Time Inc., CNN, Home Box Office, New Line, Turner Entertainment, Warner Music Group (Atlantic, Elektra, Warner Bros), Warner Books, Little, Brown,	Disney, Buena Vista International, Buena Vista Sales, Buena Vista Internet Group, Miramax, Capital Cities/ABC, Go Network, Mammoth Records, Hollywood Records	Sony, Columbia TriStar (Motion Picture, Television, Home Video), Columbia Records, Epic Records, Sony Disc Manufacturing, Sony Computer Entertainment, Sony Life Insurance,	Universal (Studios, Television, Pictures), Working Title Films, PolyGram, Universal Music (Decca, Deutsche Gramophone), MCA Records,	Random House, Doubleday, BMG, BCA, RTL Television and Radio), RCA Records, AOL Compuserve Europe, UFA Film & TV Produktion, CLT-UFA	Paramount (Pictures, Parks, Television,), CBS, (Television, Cable), Spelling Television, Viacom, Showtime Networks, MTV, Blockbuster, CBS, Simon & Schuster.	Fox (Broadcasting, Television, 2000, Searchlight, Music, Studios), Foxtel, Twentieth Century Fox, BSkyB, HarperCollins Publishers, News Interactive, Festival Records, Mushroom Records
PRODUCT*	*The Matrix*, *Eyes Wide Shut*, Wag the Dog, *The Wedding Singer*, *Austin Powers - The Spy Who Shagged Me* *E.R., Friends, Suddenly Susan, Sex in the City, Dawson's Creek*	*Good Will Hunting, Chasing Amy, George of the Jungle, Tarzan, Sixth Man, Waterboy, Horse Whisperer* *Wasteland, Clerks, Felicity, Zoe, Duncan, Jake and Jane*	*Men in Black*, *The Fifth Element*, Air Force One, *My Best Friend's Wedding, As Good As It Gets,* *The Nanny, Mad About You, Party of Five, Time of your Life*	*Notting Hill*, *Shakespeare in Love* (with Miramax), *Jurassic Park*, *Life, Patch Adams, Out of Sight, The Mummy, Liar Liar* *Law and Order*	*Life is the Main Thing, It's All Bob* *Terror in the Mall, Code Name: Eternity* *A Deadly Weekend, Last Minute Kasbah*	*The Truman Show, Mission: Impossible, Braveheart, Forrest Gump, The Rugrats Movie* *Frasier, The Sentinel, Sabrina The Teenage Witch, Entertainment Tonight, Star Trek*	*Star Wars, Return of the Jedi, Empire Strikes Back, Dr Dolittle, The X-Files, Independence Day* *The Simpsons, Family Guy, Snoops, Harsh Realm, Angel, Stark Raving Mad*

* Companies and audiovisual products: indicative selection only

[1] US dollars; from *The Economist* Nov 21 1998

Other sources: Reuters Advertising and Media Briefing 28/9/99 (Hoover's Company Profiles: Universal Studios, Inc.); *Time Warner 1999 Fact Book*. Web sites for News Corp. (http://www.newscorp.com); Disney (http://www.disneyinternational.com/AnnualReport/); Sony (http://www.world.sony.com/IR/AnnualReport99/); Viacom (http://www.viacom.com). *Motion Picture Investor*, April 17 1998; *Television Business International*, May 1999.

The most recent expansion of the big seven was Viacom's acquisition (in September 1999) of the American free to air network CBS. Taking into account Disney's merger with ABC, this leaves NBC as the only US network not aligned with a major studio.

It is the twin forces of globalisation and new technologies that have shaped the seven entertainment giants. Their prevailing strategy is: the best way to flourish under rapidly changing market conditions is to control both the creation of content and its distribution in as many forms as possible.

To summarise, ownership and control of the film and television industry is becoming increasingly concentrated into the hands of a shrinking number of global corporations which have the market power and international reach to reap the benefits of the digital revolution.

The majors rely on international revenue

One of the most significant shifts of the mid to late 1990s has been that the majority of revenues earned by the US studios – traditionally derived from the large US domestic market – are now earned in international territories.

Whereas the majors generated only one-third of their global box office from international markets in the early 1980s, foreign sales have exceeded 50 per cent since 1995 and the trend is expected to continue.

Exports to non-American television channels – the majors' main engine for growth – have also grown rapidly. (Sales to free TV channels jumped by an average of 21 per cent a year from 1986 to 1996 and the figure for pay TV was even higher, at 32.3 per cent.)[3]

In other words, the commercial viability of the major entertainment corporations now depends heavily on maximising their share of the dollars spent in countries around the world on audiovisual entertainment – including Australia. The costs incurred by the majors in producing and promoting product to feed their global pipelines have increased dramatically and they must look to foreign markets to recoup a large percentage of these costs.

Cross-promotion and selling

What, then, are the implications for independent film and television producers (including Australian producers) seeking to finance and sell projects and to win audiences in this re-drawn international landscape?

Most important is the increased potential for the majors to gain a competitive advantage over independents by cross-promoting and cross-selling their product within their global domains.

3 *The European Film Industry Under Analysis*, the Directorate of Cultural and Audiovisual Policy, 1997.

The following excerpt from *The Economist*[4] uses the television series *The X-files* (produced by News Corp's 20th Century Fox) to illustrate how this can work:

> ‘When [*The X-files*] was first made, in 1993, it was licensed to News Corp's Fox Broadcasting Company and was received without great enthusiasm. Had it been made by anybody else it might have sunk without a trace. But it got a second run because its makers believed in it, and because they controlled its distribution outlet. The video was heavily marketed and released worldwide. It took off like a rocket in Japan. Then Fox started to sell the program to television stations abroad. In Britain it was licensed to BSkyB [News Corp's satellite platform], where it proved a godsend: BSkyB was short of original programming and gave it saturation showing. As X-files fever rose in Britain, it excited curiosity in America and helped to propel the series to success there too.
>
> ‘[It went] to syndication on American broadcast stations, 22 of which are owned by Fox. It showed on Fx, News Corp's cable entertainment network. Fox interactive produced two X-files games; HarperCollins, News Corp's publisher, the books; Fox Music, the CDs; and Fox Licensing and Merchandising made sure the program's catchphrase, "The Truth is Out There", was spread on as many surfaces as the world could stand.’

The outlook for producers of film and television who are outside the majors' grid of ownership and control (including Australian producers) is difficult – not least because production is the most risky and the least profitable segment of the global entertainment business. The real profits lie further upstream, in distribution and exhibition/broadcast. The Hollywood studios invented and thrived on this principle and the entertainment conglomerates of the 90s have shifted it into high gear.

Output deals

Where the majors don't own broadcast or exhibition outlets in particular markets (such as the Australian commercial TV networks and the exhibition circuits of Hoyts, Village and Greater Union), they exercise their market power through 'output' deals.

This means that their blockbuster movies and most successful television drama (such as *Austin Powers, Independence Day, Ally McBeal*) are sold within packages which also contain films and TV programs that have been far less successful with audiences. To get the cream, the broadcasters and exhibitors must accept the rest. Small distributors with small catalogues, and producers with individual projects, are significantly handicapped by this market practice.

The output deals the majors have with Australia's Seven, Nine and Ten Networks have come at a high price in recent years and have fattened program libraries to the point where independent Australian distributors and producers report growing difficulty finding space for their product.

4 *The Economist*, November 21st, 1998.

Similarly, the increased dominance of big-budget Hollywood product in the modern multiplex environment is leaving less room for independent films.

The majors invest in foreign product

The majors' increased reliance on overseas markets for revenue is also encouraging them to review their production strategies to include local product from the international territories in their distribution release schedules. This is particularly relevant in the case of television drama, as worldwide trends indicate a growing audience appetite for 'parochial' or local programming.

The studios have expanded investment and co-production activity around the world by establishing 'first-look' deals with production companies, setting up ongoing joint ventures or establishing their own production presence – particularly within Europe.

In Australia, the majors' presence has been most evident in the establishment of the studio facilities. To date, these facilities have been utilised primarily for production of US feature films and television series, although Fox reportedly has quite a number of Australian feature films and television pilots in development.

International response

In response to the domination of American feature films and television programs many overseas markets, particularly in Europe, have devised new measures to nurture local product (see Appendix 1 for details).

These include:

- increased public support of development and production through both direct subsidy, tax incentives and broadcasting quotas;
- levies on cinema admissions and broadcasters to generate funds for local production;
- measures aimed at supporting independent programs in the distribution and exhibition sectors.

3. PRODUCTION SNAPSHOT

This section provides a snapshot of feature film and independent television drama[5] production, sourced from the AFC's annual surveys of production in Australia.

The production tracked through the AFC surveys represents about a third of all audio-visual production in Australia, according to the Australian Bureau of Statistics. Areas of activity not tracked include in-house production by television stations[6], commercials, corporate video, music video and interactive media.

All productions tracked are categorised as 'Australian', 'foreign' or 'co-production':

* **'Australian'** productions (e.g. *Two Hands, Water Rats*) are projects under Australian creative control, where the key creative elements are predominantly Australian and the project was originated and developed by Australians. This category includes projects which are 100 per cent foreign financed.
* **'Co-productions'** (e.g. *Moby Dick*, *Beastmaster*) share creative control and finance between Australia and foreign partners, with a mix of Australian and foreign personnel in the key creative positions. This category includes projects made under the official co-production program (ie. pursuant to an agreement between the Commonwealth Government or the AFC, and a similar authority or the Government of another country) as well as non-official co-productions.
* **'Foreign' productions** (e.g. *Mission Impossible II, Star Wars*) are under foreign creative control – originated and developed by non-Australians. This category includes foreign projects with an Australian production company operating in a service capacity. A substantial amount of the production must be shot in Australia for a foreign project to be included; productions which are post-produced only in Australia are not included.

Overview

Significant growth over the decade has occurred in foreign production and co-productions. There has been no real growth in Australian production; any growth in Australian feature films has been offset by a downturn in Australian television drama.

Foreign production has been attracted to Australia by a favourable exchange rate, relatively lower labour costs and the excellent creative and technical infrastructure which exists here, built up over many years with assistance from successive Australian Governments.

The benefits of foreign production include increased employment opportunities for Australian technical personnel and performers, opportunities for Australians to work on larger-budget,

5 Independent television drama is defined as mini-series, telemovies and series/serials which involve an independent production company.
6 Defined as being where no independent production company is credited as producer or co-producer.

international productions, some flow-on benefits for the local economy from the purchase of local goods and services and maintenance of infrastructure.

However, the opportunities for Australian personnel are limited as foreign productions rarely use Australian actors in lead roles and there is an increasing trend for the higher budget productions to import creative heads of department.

In the case of feature films, Australian directors are rarely used on foreign projects. Foreign television series do provide some employment for Australian directors and writers, who are hired to implement the overall look and write to storylines creatively determined by the foreign production company.

In addition to increased foreign production, there has also been a recent upswing in **internationally co-produced television drama**.

The most significant increase has been in co-produced television series: three adult series were produced in 1998-99, *Lost World, Beastmaster* and *Farscape,* representing a total production value of $110 million (the series pilot *Dr Jekyll and Mr Hyde* was also produced in 1998-99).

Although these co-productions had significant Australian elements and contributed to employment opportunities (including leading creative positions, such as writer, director and lead actors), they do not contribute to the Government's cultural objectives

Actors employed on these productions are frequently required to perform with American accents. The foreign production companies share copyright and control distribution, seeking to place programs in their principal market, North American cable.

All three series qualify as 'Australian' under the current Australian Content Standard. Should they all be shown on Australian commercial television in one year, they would represent about half of a single channel's local adult-drama content points.

The growth in co-productions, and the now quite significant contribution these make to the total value of production in Australia, should not be seen as a substitute for Australian production in terms of the Government's cultural objectives.

Production trends over the last four years: 1995-96 to 1998-99

Summary of production activity

	Australian productions1		*Co-productions2*		*Foreign productions3*		*TOTALS*	
	No.	*Value ($m)*	*No.*	*Value ($m)*	*No.*	*Value ($m)*	*No.*	*Value ($m)*
FEATURES								
95/96	25	89		0	5	132	30	$221
96/97	32	115	2	15	2	68	36	$198
97/98	37	163	1	3	3	80	41	$246
98/99	41	119		0	4	173	45	$291
TV DRAMA								
95/96	44	191	2	16	9	50	55	$257
96/97	37	191	3	45	8	76	48	$312
97/98	40	219	3	37	6	50	49	$306
98/99	28	160	6	125	11	102	45	$386
TOTAL PRODUCTION								
95/96	69	281	2	16	14	182	85	$479
96/97	69	307	5	60	9	143	84	$510
97/98	77	381	4	40	9	131	90	$551
98/99	69	278	6	125	15	275	90	$678

Source: National surveys of production, Australian Film Commission
1 Productions under Australian creative control
2 Productions with a mix of Australians and non-Australians in key creative positions
3 Productions under foreign creative control substantially shot in Australia

In summary, trends over the four-year period showed:

- **Total production** in Australia increased significantly, from $479 million in 1995-96 to $678 million in 1998-99. However, the increase is accounted for by foreign productions and co-productions, which grew by $202 million from 1995-96 to 1998-99.

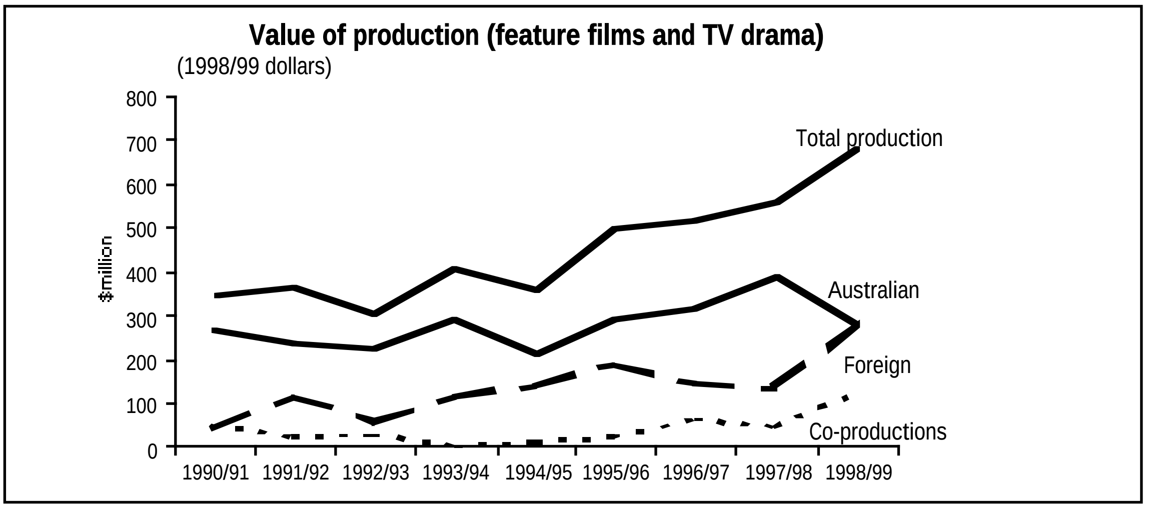
- There was a significant decline in **Australian television drama** production in 1998-99.

- The value of **Australian feature film and television drama production during the four-year period has been relatively static**, except for 1997-98, when production was boosted by *Babe: Pig In The City* (financed by Universal Studios and reportedly budgeted at US$100 million).

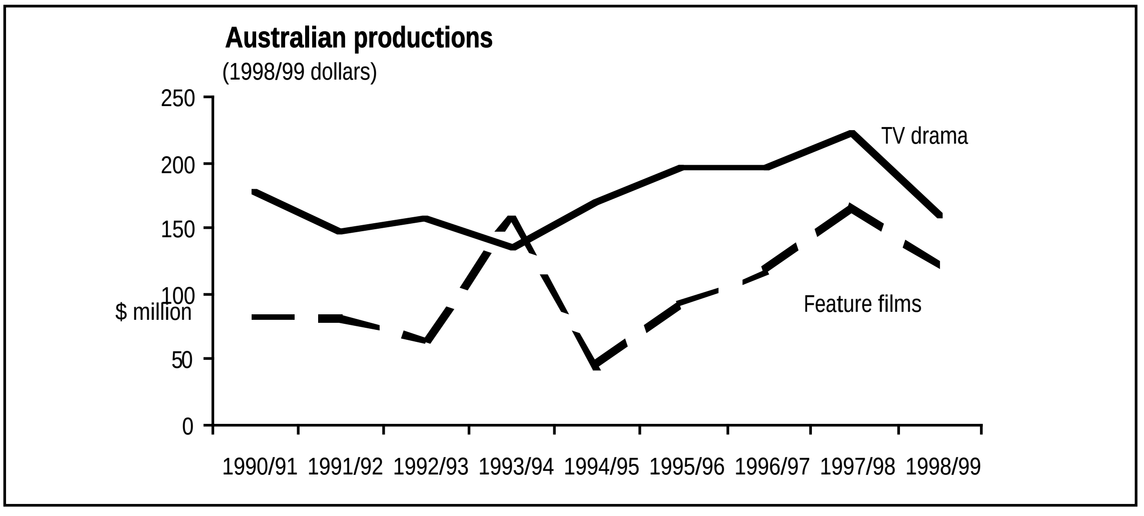
Some of these trends are long term. Foreign production has been steadily rising over the decade while growth in co-productions is more recent.

Trends over the decade: 1990-91 to 1998-99

The graphs show the trends in production since 1990-91, using 98-99 dollars.



Source: National surveys of production, Australian Film Commission



Source:National surveys of production, Australian Film Commission

Note: increase in value of Australian feature film in 1993-94 is accounted for by *Babe* and *Lightening Jack*, and in 1997-98 by *Babe: Pig in the City*

In summary, trends over the decade showed:

- Foreign production increased by 605 per cent, from $39 million (1990-91) to $275 million (1998-99).
- Co-production increased by 165 per cent, from $47 million (1990-91) to $125 million (1998-99).
- Australian production increased by only 6.5 per cent, from $261 million (1990-91) to $278 million (1998-99):
    - Australian features increased by 43 per cent, from $83 million to $119 million;
    - Australian television drama declined by 10 per cent, from $178 to $160.

Australian production has remained static: in real terms, the value of Australian feature film and television drama production in the last financial year ($278 million) was barely over the average for the nine-year period ($275 million).

Most recent trends: 1998-99

Feature films

- The value of foreign features more than doubled from 1997-98 to 1998-99, mainly due to *Mission Impossible II*, publicly reported as having a budget of US$80 million.
- The value of Australian feature film production in 1998-99 dropped by 27 per cent to $119 million (significantly down from the previous year's total of $163 million, which included *Babe, Pig in the City*). This was slightly below the average for the last four years ($122 million).
- Feature budgets continue to be skewed towards the lower end of the spectrum: 16 features were made for less than $1 million in 1998-99, only slightly less than the previous year's high of 18. Almost all of these low-budget features went into principal photography before substantial post-production finance or any distribution deals were secured, relying on private investment and cast and crew deferrals to shoot.

Television drama

- Foreign production doubled from 6 productions worth $50 million in 1997-98, to 11 productions worth $102 million in 1998-99.
- Co-productions increased significantly, from 3 projects worth $37 million in 1997-98, to 4 projects worth $112 million in 1998-99.

- Australian production decreased significantly, from $219 million in 1997-98 to $159 million in 1998-99. The 1998-99 figure was also 16.5 per cent below the average for the last four years ($190 million).

Projections for 1999-2000

Our projections for 1999-2000 are based on an extensive survey of up-coming production for the current financial year (as per AFC annual surveys) and an assessment of the likelihood that financing will be raised and projects will go into production.

The results of our survey for 1999-2000 indicate that the number of projects and the value of production will be roughly the same as for 1998-99.

4. FEATURE FILMS

Feature films are the flagship productions of any national audiovisual industry. The success of 'breakout' Australian films such *as Muriel's Wedding, Shine, Strictly Ballroom, The Piano* and *The Adventures of Priscilla, Queen of the Desert* create pride within the domestic market and raise the profile of Australia internationally.

It is not only box office breakouts, however, which are seen by large numbers of Australians. While the media reports box office performance alone, the table below demonstrates that this is just one measure of the number of Australians who view a particular film.

Title	*Theatrical market*		*Video market**1***		*Television market**2***		*Total*
	Gross box office ($)	*Audience*	*Rental3 units shipped*	*Audience*	*Date of screening*	*Audience*	*Australian Audience**4***
Muriel's Wedding	15,765,571	2,252,224	28,408	3,181,696	21-Sep-97	4,855,550	10,289,470
Shine	10,164,498	1,400,069	28,754	3,220,448	28-Jun-98	3,184,860	7,805,377
The Sum of Us	3,296,004	470,858	9,116	765,744	10-Mar-96	3,601,270	4,837,872
Sirens	2,802,764	400,395	7,500	525,000	16-Mar-97	4,275,140	5,200,535
Dating the Enemy	2,674,524	368,392	20,000	2,632,000	23-May-99	3,631,260	6,631,652
Angel Baby	1,035,632	144,440	4,328	363,552	26-Jul-98	2,423,440	2,931,432
Bad Boy Bubby	775,082	110,726	5,306	445,704	27-Sep-97	1,443,120	1,999,550
Country Life	311,529	44,504	1,978	127,383	28-Mar-99	627,700	799,587

Source: Australian Film Finance Corporation; Get the Picture (AFC, 5th edition, p.144); ACNielsen.

1 Video audience figures are based on estimates supplied by the Australian Video Retailers Association of 'turns' for each film title ('turns' represent the number of times each video unit is rented from a retailer over a six-month window).

2 Capital cities only.

3 Figures for *Sirens* and *Dating the Enemy* are approximate only

4 These audience totals underestimate the real total as they do not include pay TV audiences or non-capital city free TV audiences

As indicated by the audience totals, even a film which earns a relatively small amount at the box office, by mainstream exhibition standards, may be viewed by large numbers of Australians. The specialist release *Bad Boy Bubby*, for instance, grossed well under $1 million dollars at the box office yet was seen by about 2 million Australians. *Country Life*, with a box office of just over $300,000, was seen by almost 800,000 Australians.

At the international level, our talented creative personnel have become cultural ambassadors for Australia in increasing numbers through their work on major international feature films.

Actors – About 40 Australians have won major roles in US and UK films in the last five years, including: Cate Blanchett, Geoffrey Rush, Toni Collette, Rachel Griffiths, Heath Ledger, Judy Davis, Gia Carides, Anthony LaPaglia, Jacqueline McKenzie, Nicole Kidman, Aden Young, Guy Pearce, Jack Thompson, Russell Crowe, Hugo Weaving.

Directors – Over 20 Australians have directed films in the US in the last five years, including Gillian Armstrong, Bill Bennett, Bruce Beresford, John Duigan, Stephan Elliott, Scott Hicks, Fred Schepisi, PJ Hogan, Baz Luhrmann, Jocelyn Moorhouse, Phil Noyce, Peter Weir and Simon Wincer.

Cinematographers – The following Australian cinematographers have worked on over 30 US feature films in the last five years: Ian Baker, Russell Boyd, Peter James, Don McAlpine, Peter Menzies, John Seale, Dean Semler and Geoffrey Simpson

Australia's place in the world market

As discussed, Australia is a relatively small producer of feature films when compared to major international producers:

The total value of feature film production in Australia in 1998 was US$104.6 million, compared with: US$9,254 million for the US, US$963.4 million for France, US$717.3 million for the UK, a total of US$2,923.8 million for the European Union, and US$193 million for Canada.

The major US studios dominate the box office in Australia as they do around the world (see table below). With their prolific annual output and large production and marketing budgets, they are well placed to accommodate the hit-driven nature of the film business.

International box office comparison, estimated annual figures, Australia and selected countries

Country	*No. local features produced*	*Total box office (US$m)*	*Domestic share of box office (%)*	*US share of box office (%)*
New Zealand	7	63	1-2	90
Canada	87	441	2-3	85
South Africa	10	68	0.8	90
Australia	37	419	4	87
Spain	65	445	12	80
Germany	61	914	9	84
United Kingdom	80	925	14	84
France	148	1070	27	69
United States	661	6949	96	96

Compiled by the Australian Film Finance Corporation and the Australian Film Commission, 1999
Sources: Wherever possible, 1998 figures have been used; 1997 figures are included where 1998 were not available. *Variety*, 11--17.1.99, pp 9, 16; *Variety* 25--31.1.99, pp 1, 90--91; *Variety* 19--25.4.99, p. 38 (Spain); *On Film* Feb 1999 (NZ) and New Zealand Motion Picture Distributors' Association. Canadian data: *Review of Canadian Feature Film Policy Discussion Paper*, Feb 1998; *Report of the Review of Canadian Feature Film Policy*, Feb 1999. *Focus 1999--World Market Trends*, European Audiovisual Observatory, 1999. 'Global Box-office 98, Part 1', *Screen International* July 30--Aug 5, 1999; 'Part 2', *Screen International* August 6--12, 1999. Film Production/distribution, *Screen Digest*, June 1999

In fact, it is a relatively small number of Hollywood films – blockbusters like *Titanic*, *Independence Day*, *Jurassic Park*, *Forrest Gump*, *The Lion King* and their smaller, but nonetheless hugely successful, studio stablemates – which set this pattern, not the majority of American films. Most of the films that screen here take a small average box office (see table below).

The top 10 of all the films screened in Australian cinemas in 1998 accounted for one-third of the box office; the top 50 films (out of a total of 271 titles) accounted for almost three-quarters of box office.

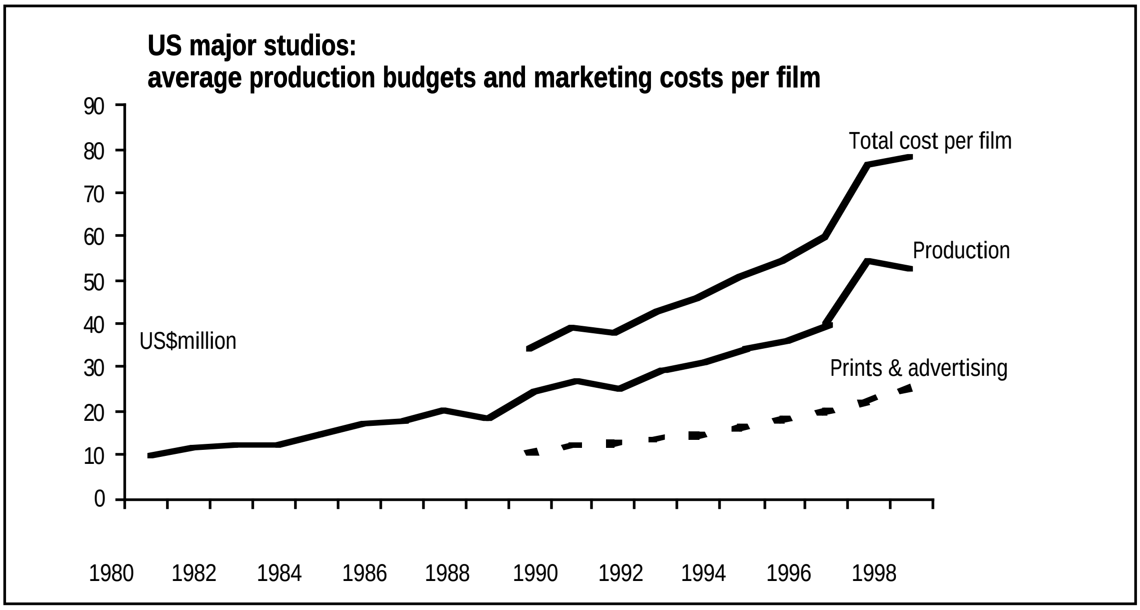
Contributions to Australian gross box office (GBO), 1998

No. films	*Gross box office (GBO) ($m)*	*Percentage of GBO*
Top 10 films	197	31
Top 20 films	297	47
Top 50 films	460	73
Total (271) films	629	100

Source: Australian Film Finance Corporation

Feature film budgets

There has been a sharp rise in the late 1990s in both the production and marketing budgets of the feature films produced by the major US studios. The average budget for a studio feature was US$52.7 million in 1998, and almost half as much again – about US$25 million – was spent on marketing the average studio film (US$3.2 million for prints and US$22.1 million for advertising).



Source: *Focus 1999: World Market Trends*, European Audiovisual Observatory, 1999

In Australia, there has been a polarisation of budgets in recent years. The budgets for a tiny number of internationally financed Australian features (including *Babe 2*, *Dark City* and *Paradise Road*) have reached unprecedented highs and, at the other end of the scale, there has been a proliferation of privately financed low-budget films (known as 'credit card' films), which are made for less than $1 million and move into production with no guarantee that they will be distributed.

Overall, Australian feature film budgets have remained static. The average budget in the 1980s (adjusted to 1997 dollars) was $3.6 million – much the same as the average for the 1990s, which was $3.5 million.

Australian films sit firmly within the 'independent film' category, which consists of lower-budget films from around the world. They cannot compete with big-budget Hollywood genre movies or provide instant marketing hooks in the form of 'marquee' actors nor do they have large marketing budgets.

Independent films rely on strong concepts, scripts, dialogue and acting, and their difference from Hollywood movies, to attract an audience. They can often look more like telemovies than feature films in the late 1990s multiplex environment, which is the natural home of the blockbuster.

Investment finance

The FFC is the principal single investor in Australian feature films. FFC investment is supplemented on each of its projects by a pre-sale or minimum guarantee for both the domestic and the international markets.

Other Australian feature films are financed through various combinations of private investment and alternative avenues of government subsidy.

The Australian feature films tracked by the AFC's National Production Survey in 1998 demonstrate this spread:

- 11 feature films were financed through the FFC route,
- 4 Australian features were fully financed by overseas companies (including *Mr Accident* and *Holy Smoke*),
- 5 features were funded by a mix of various government sources, including AFC, SBSI and ABC
- the remaining 21 feature films were financed through private investment, the bulk of these (14) being 'credit card' films (budgeted at less than $1 million and produced without full post-production finance or a distribution deal in place).

The international marketplace attachment required to trigger FFC investment tends to be provided by Australia's international sales agents: fifty per cent of the feature films backed by the FFC in 1998-99 were attached to local sales agents.

Any downturn in the international market impacts first on the viability of these agents and this has been the case in the last two years. Australia's three publicly listed producer/sales agents – Beyond International, Southern Star and the Becker Group – have all experienced a substantial fall in share price (after a period of growth from 1995 to 1997).

The companies report a depressed international market for independent players with key specialist film distributors of the past – such as Miramax (which has been acquired by Disney) and October (which has been acquired by Universal) – now producing their own product and acquiring less Australian films on completion.

Australia is operating very much on the margins in terms of international investment. As a marginal player, it is difficult for Australia to maintain long-term relationships with potential investors. The list below includes some examples of partners lost in recent years:

- UK-based distributor PolyGram, which invested in and distributed a significant number of Australian features (including *The Adventures of Priscilla, Queen of the Desert* and *Mr Reliable*) has been bought by Universal and is now being dismantled in territories around the world as Universal has opted to continue to distribute its product through UIP outside the US.
- US independent distributor Samuel Goldwyn, which distributed the Australian features *Black Robe* and *Welcome to Woop Woop*, has become a subsidiary of MGM.
- The UK-based CiBy Sales (a subsidiary of French parent CiBy, which invested in *Muriel's Wedding* and *The Piano*) has closed and its former sales team has moved to United Artists Films, a subsidiary of MGM.
- German-based Hollywood Partners, which draws on tax-based funds and invested in Australian films including *Passion* and *In a Savage Land*, has shifted direction, towards a more mainstream slate featuring US actors.
- Pandora, the European distributor which provided minority investment finance in *Shine*, has been involved in litigation with the film's production company.

Feature film recoupment tends to be the most volatile of the program types the FFC supports and relies on TV sales to underpin the risky theatrical and video markets. International sales to foreign distributors normally provide an advance or minimum guarantee against these future revenues and while these amounts have sometimes been quite substantial in the past (especially from North America and Germany), this is no longer the case.

In earlier years, US distributors such as Fine Line, Miramax, October and the former Samuel Goldwyn would provide advances/minimum guarantees of US$500,000 to US$1.5 million for Australian features, the equivalent of which are no longer attracting distribution guarantees. Currently, it is very difficult to secure any all-rights deals in North America and those films which do, attract much smaller amounts.

Germany was a strong licensing market for Australian films but has contracted to the point where it is difficult to secure video distribution deals and TV sales for foreign films.

In the UK, the recent establishment of the English Lotteries Commission has stimulated a large increase in local feature film production, creating new competition and a fall in pre-sales of Australian features to the BBC and Channel Four, which were previously important buyers.

A reduction in the level of advances/minimum guarantees can be seen in all territories. Buyers are no longer willing (nor, in many cases, able) to risk large amounts of money upfront. The output deals secured by the studios with various distributors/broadcasters worldwide provide buyers with an abundance of product, leaving less scope for independent films in general.

Domestic distribution

The majority of Australian films are distributed locally by small specialist distributors (such as Ronin, Globe and Newvision). Like their counterparts in many overseas markets, these independents are undercapitalised and dwindling.

This is due to a combination of what they perceive as a change in the taste of 'arthouse' audiences – shifting toward bigger, more commercial specialist titles – and direct competition for the most commercial specialist films at international markets (*The Opposite of Sex*, *Central Station* and *Life Is Beautiful*, for example, were all picked up by major distributors for Australia).

The Australian independents all report difficulty in selling their product to the commercial TV networks (which have tied up expensive output deals with major distributors). The ABC has also reduced its acquisition of films and while SBS remains a good potential buyer, it offers licence fees substantially below the commercial broadcasters.

Ronin Films (which distributed *Strictly Ballroom* and *Shine*) has moved out of feature film distribution altogether and the Globe Film Co has radically cut back the size of its operation.

The demise of PolyGram worldwide will also have a significant impact on the local distribution scene. PolyGram's Australian subsidiary distributed a number of titles in the domestic market, including *Paperback Hero*, *Dead Letter Office* and *In a Savage Land*.

Given these difficulties, Australian producers now faced reduced opportunities to secure domestic distribution for their films.

The exhibition environment

The economics of multiplex exhibition – in Australia and around the world – are increasingly geared towards large-scale campaigns for films supplied by the major US studio/distributors.

Independent distributors note that there is now little room for the traditional 'platform' release – the path travelled by such breakout Australian hits as *Strictly Ballroom* and *Shine* – where a film starts on a small number of screens then moves wider on the strength of good 'word of mouth' publicity.

Fully overseas-financed Australian feature films

As mentioned previously, Australia's most successful directors have brought a new stream of film production to Australia in recent years.

A handful of relatively high budget feature films, fully financed by US studios, have been made in Australia by directors including George Miller (the *Babe* films, financed by Universal), Baz Luhrmann (*Moulin Rouge*, now in production, financed by Fox) and Jane Campion (*Holy Smoke*, financed by Miramax).

These projects bring substantial economic and cultural benefits for Australia. They qualify as Australian – even though they are fully-financed, and the copyright fully owned, by foreign companies – because the films are originated and creatively controlled (to differing degrees) by Australians.

The continuation of this category of production is tied very much to the ability of top industry talents to attract internationally financed projects here. It is critical to understand that the 'discovery' of these Australian talents by Hollywood was only possible in the first place because of their training and development within the subsidised indigenous industry.

Expansion of this type of production relies on the industry providing development opportunities for new talented personnel.

Foreign production in Australia

Foreign or 'runaway' production – features originated and financed by large US companies and shot in Australia – have boosted production levels in recent years. This category includes such films as The Thin Red Line, The Matrix and the upcoming Star Wars prequels.

Runaway production produces benefits in terms of employment and skills development but does not satisfy Australia's cultural objectives by providing opportunities for Australians to tell their own stories.

Also, according to the Media Entertainment and Arts Alliance, most employment on these productions is, at best, extending only as far the second or third level of department assistants. In the main, it is not providing employment for heads of department.

Shortage of development funding

In the niche market in which independent films operate, the script (or screenplay) is of paramount importance to the quality of the final product. Independent films cannot rely on stars or big-budget effects to attract audiences.

However, the crucial development phase – in which projects are originated, scripts are written and edited, and marketplace attachments are secured – is currently severely under-funded in Australia.[7]

A survey of feature films backed by the FFC over the last three years shows that an average of only 1.4 per cent of the total budget of these films was spent on development. This compares with an average of two per cent spent on development in the UK, five per cent in Canada and approximately 10 per cent in the US[8].

The select Australian films which were hits at the box office during the 1990s all went through a long and thorough development phase. The scripts for *Strictly Ballroom*, *Muriel's Wedding* and *Shine*, for example, were worked and re-worked many times during the long process of raising finance for what were perceived at the time as very high risk projects.

Feature films made without the benefit of sustained development support are destined to fail, critically and commercially, in the increasingly competitive international arthouse market.

Australia's **independent producers** are the fulcrum around which the local production industry has developed. The chronic shortage in development funding means local producers are:

- unable to secure long-term relationships with creative personnel (directors, writers) and to maintain sustainable businesses;
- unable to undertake effective script development;
- isolated from the mainstream film financing environment by lack of money to travel to key international markets.

7 The AFC has increased development funding by close to $1 million in 1999/2000 to a total of $2.3 million. Development finance is also provided through State film agencies.

8 Figures on the percentage of budget spent on development in the UK, Canada and the US are the most accurate that we have been able to identify in the time allowed to prepare this report. Further research will be undertaken to confirm these findings.

While current and future investment by major international studios in Australia may draw on the creative talents of Australian directors and writers, the studios may not offer the same key role to local producers.

For example, industry sources suggest Fox Studios has up to 20 feature films in development through Fox and Fox Icon, with only a tiny minority having producers attached.

In this sense, even a single US studio can provide significant competition for Australian producers in optioning local novels and scripts. Where projects do move into production, studios are likely to retain the key production role as well as the copyright (and any profits).

Producers see this as something of a 'last straw' in a production environment where they are already experiencing difficulty in terms of development capital. They receive minimal funding during the long process of financing and developing films and once they have completed production, the cycle of patching together development finance begins again.

Another way in which the highly capitalised US studios compete with the local industry in terms of development is through the process of 'talent spotting' – signing talented Australian personnel to multi-picture US deals.

Talent spotting is not restricted to box office winners: US production companies on the lookout for new talent are also very interested in signing up a second tier of promising Australian directors – and actors, writers and technicians – whose films haven’t been commercially successful but nevertheless demonstrate their talent.

Given the very low budgets of most Australian features, as well as the limited development funding available to creative teams, it is currently very difficult for producers to reduce the flow of creative talent out of Australia by establishing longer-term relationships with local directors and writers.

5. TELEVISION DRAMA

Australian television drama is highly popular with Australian audiences.

In 1997, *Blue Heelers* was the highest rating drama program of the year in both Sydney and Melbourne (with a rating of 40), followed closely by *Water Rats, Murder Call* and the mini-series *Kangaroo Palace.*

Blue Heelers and *Water Rats* continued to secure top ratings in 1998 and 1999, and other Australian programs which rated well during the period were *All Saints, Stingers, Good Guys Bad Guys, State Coroner* and *Murder Call.*

SeaChange has consistently rated highly on a weekly basis, becoming the country's most watched drama series earlier this year (with a national audience of 1.5 million viewers) and then the most watched program in Australia (with a national audience of 2 million viewers).

The production of Australian adult drama has been underpinned by the requirement that commercial broadcasters screen a minimum number of hours of first-release drama (introduced in 1976) and has flourished with subsequent increases in quota to 1990.

Similarly, increases in the children's drama requirements – from 8 hours per channel in 1984, to 32 hours per channel in 1998 – have stimulated the production of Australian children's drama, which has earned a reputation for quality in diverse world markets.

The draft report on broadcasting released by the Productivity Commission in October re-affirmed Australian audiences' desire to watch Australian programs and concluded that in order for Government to deliver on its cultural objectives, a regulatory system for minimum levels of Australian drama, children' s programming and documentary was required.

Ratings for Australian mini-series

A Town Like Alice	48
The Dismissal	40
The Shiralee	40
Bodyline	38
Anzacs	38
Bangkok Hilton	38
Vietnam	37
For the Term of his Natural Life	37
Fields of Fire	31
Cyclone Tracy	31
Cowra Breakout	28
The Harp in the South	26

Downturn in production in 1998-99

The table below provides a snapshot of independent television drama production in Australia from 1995-96 to 1998-99. It shows a downturn in the value of production, and the number of hours produced, in 1998-99.

Independent TV drama production, 1995-96 to 1998-99

	Australian productions			*Co-productions*			*Foreign productions*			*TOTALS*		
	No.	*Value ($m)*	*Hours*	*No.*	*Value ($m)*	*Hours*	*No.*	*Value ($m)*	*Hours*	*No.*	*Value ($m)*	*Hours*
Mini-series*												
1995/96	**11**	**69**	**99**	2	16	13	2	31	7	15	116	119
1996/97	**6**	**36**	**45**	3	45	25	1	15	2	10	97	72
1997/98	**10**	**52**	**77**	0	0	0	0	0	0	10	52	77
1998/99	**7**	**38**	**38**	0	0	0	2	47	7	9	85	45
Series and serials*												
1995/96	**21**	**102**	**493**	0	0	0	1	1	3	22	103	496
1996/97	**21**	**133**	**488**	0	0	0	2	46	35	23	179	523
1997/98	**23**	**154**	**562**	3	37	42	1	23	22	27	214	626
1998/99	**14**	**108**	**454**	4	112	69	4	29	27	22	249	550
Telemovies												
1995/96	**12**	**20**	**19**	0	0	0	6	18	10	18	38	29
1996/97	**10**	**22**	**16.5**	0	0	0	5	14	7	15	36	23
1997/98	**7**	**13**	**11**	0	0	0	5	28	8	12	40	19
1998/99	**7**	**14**	**11**	2	13	3	5	26	10	14	53	24
TOTAL TV drama												
1995/96	**44**	**191**	**611**	2	16	13	9	50	20	55	257	644
1996/97	**37**	**191**	**549**	3	45	25	8	76	44	48	312	618
1997/98	**40**	**219**	**650**	3	37	42	6	50	30	49	306	722
1998/99	**28**	**159**	**503**	6	125	72	11	102	44	45	386	619

Source: AFC National Surveys of Production.
The duration of multi-part programs—mini-series and series—has been rounded to 30 or 60 minutes per episode as appropriate, eg. 13 x 43 minutes becomes 13 x 60 mins (including commercial breaks).

Total dollar value: In 1998-99, the total value of television drama production dropped by $60 million on the previous year – from $219 million in 1997-98 to $159 million in 1998-99.

In real terms, the 1998-99 figure was 13 per cent below the average per annum value over the four-year period.

Number of productions: only 28 Australian programs were made in 1998-99, compared with 44, 37 and 40 programs in each of the previous three years.

The decline in number of programs produced was particularly marked for **series and serials**: only 14 series and serials were produced in 1998-99, compared with 23 in the previous year and 21 in both 1996-97 and 1995-96.

The dollar value and number of **mini-series** produced during the last four years have been inconsistent. Only two of the seven mini-series made last year were adult programs – *Tribe* and *The Potato Factory* (as discussed, recently increased quotas have stimulated production in the children's category[9]).

The total value and number of **telemovies** were down in both 1997-98 and 1998-99, compared with the value and number of telemovies produced in the previous two years.

The Commercial Television Production Fund (CTPF) supported 9 projects in 1995-96, 7 in 1996-97 and 8 in 1997-98. The cessation of the CTPF accounts for only $10 million dollars of the $60 million decline in television drama production in 1998-99.

Projections: The relatively low level of drama production in 1998-99 is likely to be repeated this financial year. As outlined in the previous section, our research indicates that the dollar value and number of TV drama productions for 1999-2000 will be roughly similar to 1998-99 levels.

Licence fees – the growing gap

It is well established that if there is to be any reasonable level of local drama in a small market like Australia, government support measures are required.

In the larger markets of Europe and North America, producers generally recover the majority of their production costs in the domestic market and are therefore able to sell programs to secondary markets at a much reduced price.[10]

By contrast, Australian producers recover a relatively small percentage of their production costs locally (even though Australian budgets are relatively low and the industry is regarded internationally as being extremely efficient).

9 The children's first release drama requirement increased to 24 hours per channel (from around 16 under the previous points system) in 1996, and to 32 hours in 1998.

10 For example, high budget and top-rating US drama series made for over US$1 million per hour are sold to Australian networks for between A$11,000 and A$40,000 per hour. Examples include *Friends,* which costs US$3.75 million per hour to produce.

In the US, notwithstanding increased reliance on overseas revenue in recent years, domestic licence fees contribute about 70 per cent of the production budget (due to the size of the domestic market). Similarly, in the UK, 70-80 per cent of production budgets can be sourced from broadcasters.

In Australia, the gap between domestic licence fees and production costs is growing.

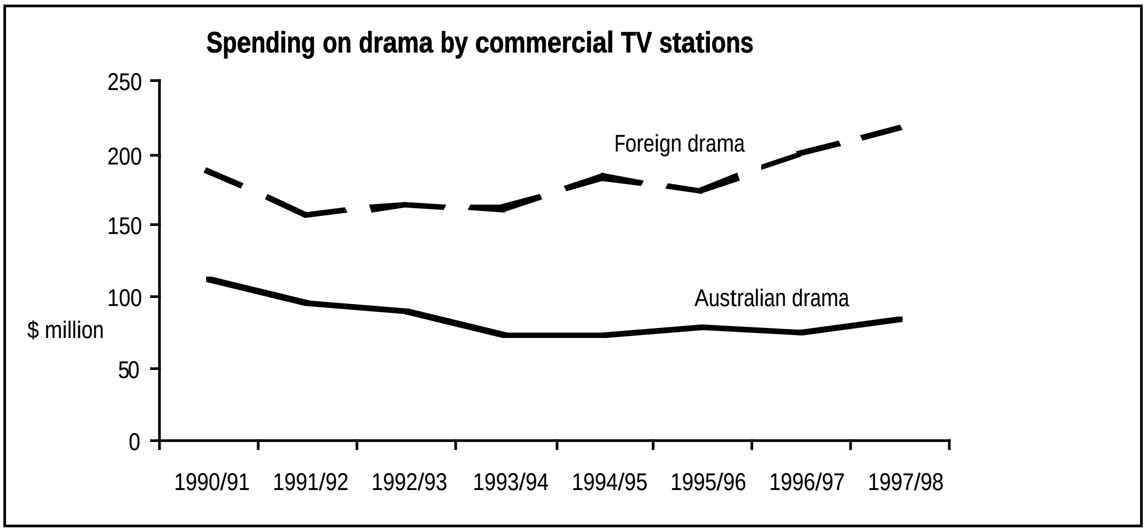
Licence fees paid by Australia's commercial broadcasters vary according to the program format. The licence fee tends to represent only about 45-50 per cent of the budget for series drama and may be as low as 20-25 per cent of the budget for mini-series and telemovies (and less for children's drama).

Type	*Licence fee per hour A$*	*Production cost per hour A$*
Serial drama*	$50,000 – $125,000	$120,000 – $150,000
Series drama**	$150,000 – $270,000	$200,000 $500,000[11]
Mini-series***	$200,00 $300,000	$800,000 $2 million

Source: AFC
* e.g. *Neighbours*, *Home and Away*
** e.g. *Water Rats, Murder Call, Stingers, Blue Heelers*
*** e.g. *Kangaroo Palace, The Day of the Roses*, *The Potato Factory*,

Licence fees have remained static (and declined in real terms) during the decade. In the late 1980s and early 1990s, the commercial broadcasters were paying about $110,00 for serials, $220,000 for series and $350,000-400,000 (sometimes higher) for mini-series.

The chart below demonstrates the decline in overall expenditure on Australian drama by the commercial broadcasters during the 1990s over a period when the networks were in profit.



Source: ABA compliance results

11 Series production costs vary depending on whether the program is filmed on videotape or film. Film, particularly Super 16, provides a higher quality product and has been used more often on in recent years as it is more suitable for overseas markets which require a digital compatible standard. When digital television commences in Australia, in 2001, programs shot on Super 16 will be best suited to high definition transmission.

By contrast, expenditure on foreign drama has increased. Although Australian drama represents around 2% of all drama screened on Australian television, foreign programming sells into Australia at secondary markets prices whereas Australian programming is priced for its primary market.

Downturn in overseas sales

Australian television programs have enjoyed considerable success in the international market during the 1990s. The value of royalties from television sales to overseas territories was $39 million in 1992-93 and increased to $117 million by 1996-97.

The latest available balance of payments figures show a downturn: exports dropped from $117 million in 1996-97, to $98 million in 1997-98[12]. During the same period, imports of foreign television programs rose from $267 million to $318 million (see table below).

Australian sales agents report a further downturn in overseas sales during the last 15 months.

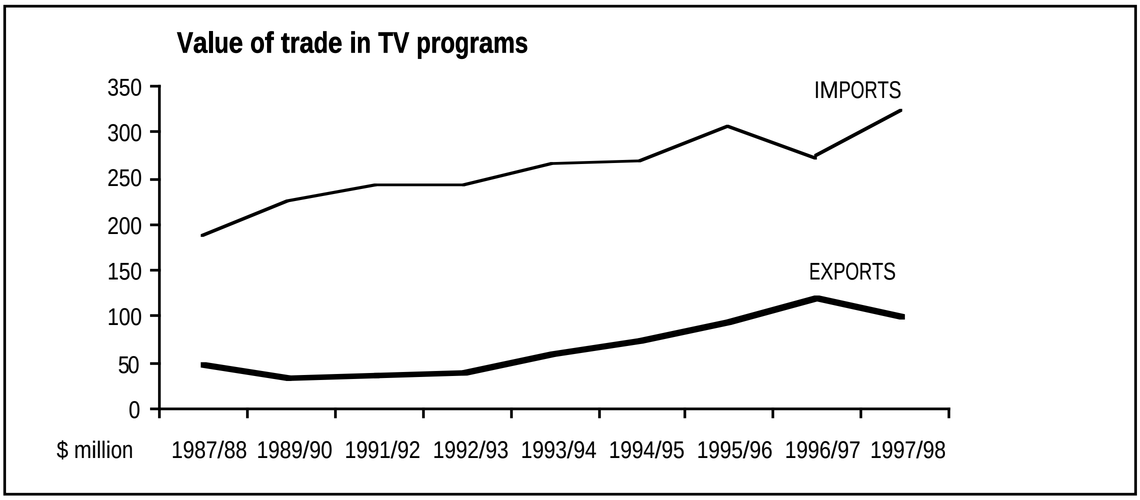
The major factors contributing to this market contraction include:

- Increased focus on local production in European markets, which previously had not developed a local drama production culture in television. This has been underpinned by the introduction (in 1989) of a European content quota[13] and a growing audience preference for locally produced TV drama.
- A slowing in demand from overseas cable and satellite broadcasters, who stockpiled programs in their start-up phase (including Australian programs) to help fill their schedules and are now undergoing a process of rationalisation.
- The large, multi-year output deals (3-5 years) European broadcasters have negotiated with US studios. These require broadcasters to acquire libraries of US television series[14] in order to secure the free-to-air rights for successful Hollywood feature films.

12 The fall was mainly in sales to the UK which dropped by $10 million and New Zealand which dropped by $6 million.

13 Contained in the Television Without Frontiers European Directive 89/552/EEC, which requires a majority of transmission time be reserved for European programs. A number of countries such as France and Italy have also imposed additional local quotas.

14 With average costs of US$1.4 million per hour to produce series drama, and licence fees from US networks of US$900,000 – $1 million, around one third of the budget must now be raised from overseas sales (*Variety Deal Memo*, April 13, 1998).



Compiled by the AFC Research and Information, from data obtained from the Australian Bureau of Statistics, June 1999

Deficit financing – series

Historically, the production costs of Australian serials and to a somewhat lesser extent, series, were fully met by the domestic licence fee.

But as production costs have risen in recent years[15], the static licence fees paid by commercial broadcasters have no longer been sufficient to cover the cost of series production.

Producers have been meeting the deficit either by pre-selling overseas territories or from their own resources (to be recouped from future overseas sales). Vertically integrated television producers (ie with both production and sales/distribution arms) are therefore more viable in the local market than companies without sales infrastructure.

The decline in international sales in the past two years means Australian production companies are experiencing difficulty financing a second or third series of their programs where the first series has not sold internationally – even though the programs may be rating well with Australian audiences.

In some cases series have been dropped altogether, in others, producers are dropping budgets to keep their series in production.

There are no easy solutions to the problems outlined. Traditionally, this area of production has been financed entirely outside public funding mechanisms and there are sound policy reasons for this to continue.

The ABA needs to consider the sustainability of the Australian production sector in its review of the Australian Content Standard.

15 More series are now being shot on film, a more expensive format than video, to make programs more suitable for international markets.

Mini-series

There has always been a significant gap between production costs and domestic licence fees for the more expensive short-form drama categories (mini-series and telemovies).

These 'high-end' formats have traditionally been financed through a combination of licence fees and direct subsidy (primarily through the FFC and for a three year period, the CTPF). Given that budgets range from $800,000 – $2 million per hour it is inconceivable these genres would be maintained without high levels of subsidy.

The minimal number of mini-series on commercial television is not related to lack of audience interest. The mini-series *Day of the Roses* which screened on Channel 10 in 1998 won its timeslot on both Sunday and Monday evenings in all major capital cities and reached over 2.5 million viewers nationwide on each night.

Producers cannot easily access sufficient deficit finance from the international market to meet the gap between the production cost and the amount provided by a combination of FFC investment and the domestic licence fee. Under current guidelines (and due to resource constraints), the FFC can only contribute up to 60 per cent of mini-series production budgets (due to budget constraints 50 per cent is considered desirable).

Consequently, there are now very few adult mini-series being produced in Australia by comparison with the late 1980s and early 1990s. An average of four adult mini-series per year were produced during the 1990s, compared with an average of nine per year during the 1980s.

- In 1998-99, only two adult mini-series were produced: *The Potato Factory* and *Tribe*. *The Potato Factory* (based on the novel by Bryce Courtenay) was able to raise UK finance because it was partly set in the UK.

- In 1997-98, there were three adult mini-series: *The Day of the Roses,* supported by the CTPF (no longer in operation); and *A Difficult Woman* and *Queen Kat, Carmel and St Jude,* both commissioned by the ABC (these two programs sit at the lower end of the mini-series budget range).

- In 1996-97, three Australian adult mini-series were produced. There were two international co-productions, *Kings in Grass Castles* and *Moby Dick* .

Given the need to raise a considerable proportion of deficit finance overseas, Australian producers are under pressure to include international elements in their projects (such as location and lead cast).

The great Australian stories told by some of our classic mini-series – such as *A Town Like Alice, The Shiralee, Vietnam, Bodyline, The Dismissal, Cyclone Tracy, Fields of Fire* and *The Anzacs*- are now impossible to finance.

In 1998, series and serials accounted for 98 per cent of the Seven Network's adult drama points, 83 per cent of the Nine Network's points and 91 per cent of Network Ten's points.

There is currently insufficient quota incentive for the commercial networks to program mini-series. During the past two years, they have met their quota requirements largely by programming the less expensive series and serial formats. The ABA should consider sub-quotas or minimum licence fees to encourage the programming of mini-series.

Unless the FFC is able to increase its outlays to the high end mini-series, no more than 1-3 will be made annually.

Children's drama

Because of restrictions on advertising (and hence network revenue) within children's timeslots, children's drama is entirely quota dependent. The networks do not program children's drama in excess of their quota obligations.

FFC-funded children's drama is in the more expensive mini-series format, not series or serials. It costs approximately $330,000 to $420,000 per half-hour to produce and sells to the networks for $55,000 per half-hour.

Despite this deficit, quality children's drama has good revenue potential because of the scarcity of equivalent programs from other world markets. Australian children's drama has an international reputation for quality and has achieved excellent sales for the handful of Australian producers who specialise in this area.

At this top end, sales are made to the US via specialist pay television channels (Disney, Nickelodeon and the Family Channel), a feat unheard of for local adult mini-series. As a result, recoupment for the FFC is relatively strong: expectations for recoupment range from 30-60 per cent at the top end and the FFC has one title in profit to date.

A shift to series drama has occurred principally in response to the recent increase in quota hours for children's programming (paid at the minimum licence fee). This is reducing the level of 10BA formats financed by the FFC, thereby reducing diversity in children's television programming.

The FFC requirement for a minimum licence fee of $55,000 per half hour has been in place for five years, following incremental increases from $45,000 to $47,500 and then to $50,000. This price has recently been undermined by the new ABA content standard for children's drama which sets a minimum floor price of $45,000 per half hour. Since the new ABA standard, only one drama has been commissioned (by Network Ten) at $55,000 per half hour.

In response to some networks refusing to pay $55,000 per half hour, some producers have lobbied the FFC to reduce its licence fee requirement to $45,000 per half hour and to increase FFC subsidy to cover the shortfall.

Pay television

The results for 1997-98 show that the pay TV sector has again failed to meet the minimum requirement that pay TV drama channels spend 10 per cent of total expenditure on new Australian programs. Expenditure on new Australian programs in 1997-98 was $8,173,505, or 8.1 per cent of total program expenditure[16].

In 1995-96, the first reporting year, expenditure on new Australian programs was 7.1 per cent of total program expenditure; in 1996-97, expenditure was only five per cent.

Almost all this expenditure has been committed to feature films – there has been minimal commissioning of new adult or children's drama and documentaries by the pay operators.

The contribution made to date by pay television drama channels towards the production of new Australian programs has been minimal and focused on feature film.

Conclusion

Australian television drama is in many ways at a crossroads.

The most recent data shows a big increase in foreign production and co-productions in the last four years with no concomitant growth in Australian drama.

In real terms the value of production is lower now than it was at the beginning of the decade and lower than the average over the decade. Hours of first release drama screened by commercial broadcasters have declined over the 1990s as has their expenditure.

Diversity of drama programming has suffered with the commercial networks making up the majority of their quota points with series and serials.

The situation was to some extent masked by the CTPF which led to the production and screening of adult mini-series and telemovies that would not otherwise have occurred. While the CTPF

16 This figure is well below the $13 million predicted in 1997-98 by the Bureau of Transport Communications Economics' study, which was carried out for the ABA as part of its 1996-97 review of the pay TV Australian content requirement.

undoubtedly enhanced the quality and quantity of drama production from 1995-96 to 1997-98, the downturn in production is not merely attributable to the non-renewal of this fund.

In the last few years it has become more difficult for Australian producers to finance the gap between production costs and local investment by international sales – a reflection of the increased focus in European markets, including the UK, on local production.

Australian drama is now operating in an increasingly competitive international marketplace where all players including the US are relying on international sales to meet production costs.

A mix of direct support through additional funding and a review of the Australian content system is required to ensure there is a sustainable independent drama sector delivering Australian programs in the new digital television environment.

6. DOCUMENTARIES

Australian audiences have shown a keen interest in documentaries reflecting various aspects of the county's life, history and pre-occupations. Recent examples include the series *Federation* and *Our Century,* and *Day of the Dogs, Rats in the Ranks, A River Somewhere, Facing the Demons, Hepsibah, Railway Adventures Across Australia* and *Australia Has No Winter* .

A diverse range of documentary programming is produced in Australia, ranging from social, political, historical, and cultural documentaries to science, adventure, natural history, wildlife and travel documentaries.

By their very nature, documentaries often address local issues and therefore do not necessarily travel well. Opportunities for Australian documentary makers to raise foreign finance are limited and the sector relies largely on subsidy and investment by the national broadcasters.

Some documentary formats, such as series and some big-budget specials, do attract interest in overseas markets. However, resources in Australia for these formats are limited.

International market trends

- There is strong demand for documentary programming internationally, from both free-to-air broadcasters and the array of niche documentary pay TV outlets, such as Discovery Channel and National Geographic. The latter seek to acquire product exclusively, preventing free-to-air exploitation in some territories.
- International demand is strongest for documentary series rather than one-off documentaries.
- Growth has occurred in the educational market, particularly for English-language programming.

Production snapshot

The table below shows the total production value and the number of documentaries produced by the independent sector from 1988-89 to 1997-98.

Independent documentary production

Year	*No. of documentaries produced*[1]			*Production*
	One-offs	*Series*[2]	*Total*	*value*
1988/89	144	30	174	$29m
1989/90	115	24	139	$38m
1990/91	106	15	121	$28m
1991/92	126	23	149	$45m
1992/93	112	19	131	$23m
1993/94	108	13	121	$31m
1994/95	113	16	129	$38m
1995/96	120	18	138	$35m
1996/97	115	13	128	$29m
1997/98	91	16	107	$25m

Compiled by AFC Research and Information, October 1999

1 Documentaries included are 25 minutes and over; in-house productions are not included (productions are defined as in-house where no independent production company is involved); figures exclude magazine-format documentaries, current affairs, news, information programs.

2 Where a series has been co-produced with an overseas production company, only the value of the episodes shot by the Australian company has been included in the figures.

There has been no growth in documentary production.

- From 1996-97 to 1997-98 the total production value fell by 16 per cent, from $29 million to $25 million. This figure is also down on the 10-year average of $31.9 million.

- Series production in 1997-98 remains at the ten-year average of 16 series per year and single programs (91) was down on the ten-year average of 115 per year.

Support by government agencies

Support for independent documentary by the FFC and Film Australia has remained stable. However, most of the programs produced through the FFC and Film Australia's National Interest Program (NIP) are broadcast on either the ABC or SBS.

The FFC funds culturally specific programs, through its broadcaster accords and non-accord projects, with foreign pre-sales and a domestic licence fee. In 1998-99, the FFC funded 46.5 hours of documentary.

The NIP was established to support the production and distribution of programs dealing with matters of national interest or which illustrate or interpret aspects of Australian life. The annual federal budget allocation to the NIP has been around $6.5 million, increasing to $6.7 million this financial year.

Commercial free-to-air television

A specific documentary sub quota was not introduced in the Australian content standard for commercial television until 1996, when it was set at 10 hours of first release programming a year. [17]

Under the revised 1999 standard licensees are required to broadcast 20 hours of first release documentary phased, in over two years.

In 1998, affiliates of the Seven Network screened an average of 21 hours first release Australian programming, the Nine Network 39 hours and Network Ten, 12 hours.[18]

Expenditure on new Australian documentary programs by the commercial broadcasters has reduced significantly since the early 1990s.

The networks spent $19.3 million in 1993-94 and $24 million in both of the following two years, after which expenditure dropped to $13.3 million in 1996-97 and to $6.3 million in 1997-98.

Issues for Australian documentary

Most documentaries produced in Australia are one off projects. There is little ongoing documentary production infrastructure and the difficulty of raising finance means that the sector, despite its achievements, is not well placed to further develop and diversify the type of programming produced.

It is particularly difficult for series and high end programs to raise adequate finance even though these are the most popular documentary forms internationally.

There is a lack of resources for the detailed research and development that is an essential part of producing the more substantial documentary projects.

The budgets of most Australian documentary series and single programs are low by international standards. Budgets for Australian series range from $150,000 an hour to between $400,000 and $800,000 an hour. Less than 10 per cent of Australian documentaries in 1997-98 were made with budgets over $500,000 an hour.

The average budget for FFC accord projects in 1998-99 was around $250,000 per hour and for the more commercially driven non- accords, $460,000 an hour.

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17 Under the Australian content standard prior to 1996 documentary was included in the 'diversity' category which also included variety, arts, new concepts, news-current affairs specials and science programs. Licensees could make up 400 of their required 1420 points with either 'diversity' or additional drama. The rest had to be made up of adult drama- 850 points, and children's drama-170 points.

18 ABA 1998 Compliance results

The budgets of most of the foreign series selling into the Australian free-to-air and pay television markets fall within the $500,000 to $1 million-plus per hour range. These sell into the Australian market for licence fees of between US$5,000 to US$20,000 an hour. [19]

Both the FFC and Film Australia have endeavoured to support the production of series and more generally to attract increased foreign sales.

The FFC reports an increase in projects with foreign investment in the last two years – there were 18 such projects in all, including 8 series. Reflecting this, FFC recoupment from documentaries has improved over the last two years, going from just under $1 million in 1996-97 to $1.7 million in 1997-98, and $1.4 million in 1998-99. [20]

Film Australia produced four series in 1998-99 – *Our Century, Federation, Auto Stories* and *The Australian Biography.*

Structural difficulties for the sector are related to an inadequate regulatory framework which has meant that responsibility for the development of Australian documentary has fallen primarily on the government agencies and national broadcasters.

The modest amounts of Australian documentary programming on commercial television cannot be explained by lack of audience interest.

Research has shown considerable viewer support for Australian documentary. A 1996 study found that documentary programs together with children's programs were the areas where demand for additional programming was highest. [21]

The recent success of the documentary *Our Century* is illustrative. Screening in prime time on the Nine Network, *Our Century* received average ratings of 24, with a highest rating of 29.[22] Other examples include *Railway Adventures Across Australia* on Channel 10 (ratings of 18, 19 and into the 20s), *Antarctica Alive!* (20) and *Year of the Dogs* (13).

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19 The Hollywood Reporter: *MIP-TV Special issue April 6-12 1999.*

20 It should be noted that this does not have a major impact on overall FFC recoupment levels as documentary represent less than 10% of total recoupment in any one year.

21 It should be noted that this does not have a major impact on overall FFC recoupment levels as documentary represent less than 10% of total recoupment in any one year.

22 Program investors are Film Australia, the Nine Network, the Commercial Television Production Fund and ScreenSound Australia (formerly the National Film and Sound Archive).

Pay television

While there is a need to identify ways of stimulating increased support for quality Australian documentary on free-to-air television, it is in the area of pay television that issues could be most immediately addressed.

The situation has changed dramatically since the ABA conducted its review of Australian content on pay television in 1996-97. The ABA report recommended that the expenditure requirement not be extended to documentary, given there was only one dedicated documentary pay TV channel (the Discovery channel on the Foxtel platform) at the time.

Just over four years later there are four (predominantly) documentary channels screening on three platforms, with three of these channels transmitting 24 hours a day. Subscriber reach of the three pay TV providers is now just over one million viewers and documentary is popular with the growing Australian pay audience.

The latest pay TV ratings show Discovery is the seventh-highest rating pay channel and National Geographic is number 14.[23] Documentary is considered the fourth most popular genre on pay television.[24]

There is little readily available information on the amount of Australian documentary on the channels. Although the ABA's 1997 report recommended that the Australian content performance of documentary channels be monitored to allow future consideration of possible regulation, it has not undertaken such monitoring. [25]

So far, while some completed programs have been acquired, there has been minimal commissioning of new documentary programs by Australian pay television.[26] Film Australia's research indicates that the National Geographic Channel Australia is the only local documentary channel to fully fund local documentaries.[27] None of the 35 documentary projects funded through the FFC in 1998-99 had support from the Australian pay television sector.

23 *Digital Broadcast Australia*, October 29, 1999.

24 After movies, children's and family and sports -from Cable & Wireless Optus as reported in TV World March 1999.

25 Film Australia is seeking the cooperation of the pay television industry to conduct research into the amount of new Australian documentary being screened.

26 Prices paid for the acquisition of completed Australian programs are in the range of $1500-$4000 per hour.

27 In September 1999, National Geographic Channel Australia commissioned *Redstorm*, a one-hour documentary produced by CAAMA Productions on Australian dust storms and their environmental effects. The program will air on National Geographic Channels around the world. National Geographic also fully funded the documentary *A Ferry Tale* on the Sydney Harbour penguins.

Conclusion

Increased interest in documentary in Australia and internationally has not been matched by an increase in resources for the Australian documentary sector. There has been no growth in subsidy and the regulatory framework for both free-to-air and pay television provide little or no support.

The limited production of documentary series is considered to be a major factor inhibiting the further development of the sector and its ability to compete nationally and internationally. The ability to support increased series production would provide more diversity of programming for Australian audiences and given the market demand for series, enhance the viability of the sector.

Achievement of the Government's cultural objectives in the documentary area will continue to rely to a considerable extent on subsidy and support by the national broadcasters.

Greater support from the commercial sector is appropriate to enhance diversity of choice for Australian audiences. Australian content regulation for pay television should extend to predominantly documentary channels given the rapid expansion of documentary programming that has occurred in recent years.

In addition, there is a need for increased resources for the development of documentary projects, particularly for series.

7. CONCLUSION

The AFC and the FFC appreciate the opportunity to respond to the Minister's concerns.

We believe we have identified the major issues confronting a small national producer like Australia. Some of these problems will require a long-term strategic approach. However, others could be alleviated in the short term, through modest increases to development and production spending and adjustments to the current television regulatory framework.

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AUSTRALIAN FILM COMMISSION &

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APPENDIX

International responses

Considerable attention is being devoted internationally to strengthening the film and television sectors, in response to rapid technological change and the (related) increasing reach of the majors.

As a recent European study noted: 'Support systems for European cinema and audio-visual industries are living entities and as such are frequently modified. This is perhaps even more true at times when signs of renewal can be seen in national audiovisual and cinematographic industries.'[28]

The following is a summary of recent developments.

The European Union

The European Union has developed a raft of programs under its audio-visual policy objectives including:

A new Television Without Frontiers Directive, adopted in 1997. This provided that a majority of material broadcast in member countries should be European. The directive also provides that broadcasters devote at least 10% of transmission time, or 10% of their programming budget to independently produced European works. Member countries can establish additional provisions relating to domestic programming and a number have. For example, France has a requirement that new European programs occupy 60% of prime time programming and that 40% of prime time be French language programs.

1. The MEDIA II program for 1996-2000, with a budget of 310 million ECU, designed to support the European programming industry. This includes investment in training, distribution and development and encouraging a European approach for the circulation of audio-visual works in Europe and abroad.
2. Planning is now well advanced for MEDIA III. Measures recommended include:
   - the need for a European film fund with an emphasis on production funding;
   - a European showcase event like the Oscars;
   - the importance of a distribution-led production strategy;
   - partnership agreements between broadcasters and public authorities;
   - that MEDIA II be strengthened through automatic support systems for distribution[29], an emphasis on development and a boost to exports.

28 European Audiovisual Observatory and the Centre National de la Cinematographie *Public Aid Mechanisms for the Film and Audiovisual Industry in Europe, 19999.*

29 Automatic support schemes are those which support the local production industry via levies on cinema admissions. Such schemes apply at a national or regional level in 11 European countries.

The UK

The government is currently implementing a strategy aimed at revitalising the film industry, following the release of the report *A Bigger Picture* – a review of film policy.

- Steps taken to date include new tax assistance measures and an injection of National Lottery funds into the UK production sector.
- The new strategic film body called The Film Council will start work in April 2000. It will have GBP150m of public and lottery money to invest over three years.
- A government review into the TV production and distribution sectors is being conducted. Currently, 25% of television drama is sourced from independent British producers. Reports suggest that the review could lead to an extension of the independent production quota to other areas, such as news and current affairs.

France

- National de la Cinematographic (CNC) is the French government funding body. Its budget for 2000 will increase by 5.2% to US $462m. It is funded through a 10% levy on cinema admissions, a 5.5% tax on French broadcasters' turnover and 2% tax on home video distribution turnover, plus grants from the Ministry of Culture.
- Paris-based Canal Plus is the largest pay television operator in Europe. Its licence requires it to invest 20% of its revenues in French film production. The new licence agreement with independent producers and distributors starting in 2000 contains a series of measures to strengthen the French film industry, including:

  (a) 5% of its annual obligation to acquire films will be dedicated to pre-buying films with budgets less than or equal to Ffr 35m (US$5.9m);

  (b) Each year, Canal Plus will pledge Ffr 20.5 (US$3.4) a month per subscriber to acquiring European works, of which at least 75% will be French;

  (c) A better deal for producers and/or rights holders by lowering the number of cinema admissions at which increased payments cut in and increasing the premium paid.

  (d) Financial support to exhibitors will be targeted towards independent distributors and art-house exhibitors with, for example US$20 million, earmarked to help independent producers market their films and produce more prints.

Germany

- The culture minister has also pledged to boost the position of independent producers and increase international business through a review of national film fund regulations.
- The federal government supports film through the agency Film Foerderung-Anstalt. The FFA activities are funded through a compulsory levy proportional to the turnover of the various cinema market operators (including video shops and cinemas) as well as voluntary contributions from German TV stations. FFA supports production, co-production, script-writing, distribution and exhibition.
- Eureka, a new European broadcasting, production and advertising alliance, was formed by the German company Kirch Group and Italy's Mediaset. The aim was to establish a larger partner for US players. Eureka is seen as a move towards a European studio system.

Italy

- In a bill which is soon to be presented to parliament, the government proposes curbing the number of cinemas a single company can own in one area, as well as the number of films a single distributor can provide a cinema.
- Incentives include tax reductions to cinemas that screen specific films, that is, national films or those with cultural interest, for at least 25% of the days in each quarter of the year.
- Plans are to increase state subsidy to the industry.
- The Italian government has recently introduced a mandatory Italian content requirement for television.

Canada

- Telefilm Canada, the agency for developing and promoting Canadian film, television and multimedia has an annual budget of $C200 million.
- A new $C30 million multimedia fund was set up in 1998, to be administered by Telefilm Canada.
- The federal government established a review of its feature film policy in February 1998. The main problems identified by the industry are inadequate funding for marketing and development.
- Telefilm Canada is urging the federal government to set up a movie marketing board.

- In 1998, funding for the Canadian Television and Cable Production Fund was extended to 2001. The fund supports production of adult drama, documentary, children's programming and performing arts. Funding was kept at 1997-98 levels: $100 million from the federal government, $50 million from Telefilm Canada, and around $50 million from the cable industry's Production Fund.

- The CBC (the national broadcaster) has recently removed all US programming from its prime-time schedules and is implementing a three-year plan to remove US programming from its daytime schedule.

- An announcement is expected towards the end of 1999 on a proposed Feature Film Fund.

Other

- *Sweden*

  A new five-year plan, starting January 1, 2000, will increase state support for the local industry by 25%.

- *Switzerland*

  The Swiss state broadcasting organisation has agreed to double its financial assistance to the domestic film industry, to SwFr.5.5million.

- *India*

  A government-appointed group set up last year to review the local film industry has recommended more government assistance, strengthening tax provision and greater marketing efforts. Script development has been singled out as an area for improvement.