The internationalisation of Australian film and television through the 1990s

Sean Maher,
Communications Law Centre

Australian Film Commission
Sydney, Melbourne, Brisbane
2004

The Communications Law Centre

The Communications Law Centre is an independent non-profit public interest research, teaching and public education centre, specialising in media, communications, and online law and policy.

The Centre was established in Sydney in 1988 and in Melbourne in 1990. It is affiliated with the University of New South Wales and Victoria University.

Sydney
Communications Law Centre
The White House
Fig Tree Lane
The University of New South Wales
UNSW Sydney NSW 2052
Tel:+ 61 2 9385 7385
Fax+ 61 2 9385 7375
email:admin@comslaw.org.au

Melbourne
Communications Law Centre
Victoria University
Level 3, 301 Flinders Lane
Melbourne VIC 3000
PO Box 14428
Melbourne City MC VIC 8001
Tel:+61 3 9248 1278
Fax+61 3 9248 1277
email: melbourne@comslaw.org.au

http://www.comslaw.org.au

ISBN 0-9580152-6-0

An Australian Government Agency

COMMUNICATIONS LAW CENTRE

Published by the Australian Film Commission

Contents

List of tables

List of figures

Abbreviations

ABC	Australian Broadcasting Corporation
ACCC	Australian Competition and Consumer Commission
ACP	Australian Consolidated Press
AFC	Australian Film Commission
AME	Australian Multimedia Enterprise
AOL	America OnLine
ASX	Australian Stock Exchange
BSA	Broadcasting Services Act 1992
BTCE	Bureau of Transport and Communications Economics
CPS	costs per subscriber
CTITV	Columbia TriStar International Television
DEN	Digital Entertainment Networks
DCITA	Department of Communications, Information Technology and the Arts
FACTS	Federation of Australian Commercial Television Stations
FFC	Australian Film Finance Corporation
FIBRE	Film Industry Broadband Resources Enterprise
FLICs	Film Licensed Investment Company scheme
FTA	free-to-air (broadcaster)
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GII	Global Information Infrastructure
HBO	Home Box Office
IIPA	International Intellectual Property Alliance
IMF	International Monetary Fund
ISDN	Integrated Services Digital Network
ISP	Internet service provider
MAI	Multilateral Agreement on Investment
MDS	multipoint distribution service
MFC	Macquarie Film Corporation
MPDAA	Motion Picture Distributors Association of Australia
MPA	Motion Picture Association (US)
MSG	minimum subscriber guarantee
NBC	National Broadcasting Corporation
OECD	Organisation for Economic Co-operation and Development
P&A	Print and advertising
PBL	Publishing and Broadcasting Limited
PMP	Premium Movie Partnership
R&D	Research and Development
SBS	Special Broadcasting Service Corporation
SPAA	Screen Producers Association of Australia
TNC	transnational corporation
UA	United Artists
WTO	World Trade Organization

Preface

The purpose of this report is to provide a comprehensive and accessible description and analysis of the processes of internationalisation in the Australian audiovisual industry through the 1990s.

The project was conceived and designed to assist researchers and policymakers negotiate rather than simply combat the global environment. The paper does not propose specific policy recommendations. Instead, it provides a balanced analysis capable of acceptance by interested parties who can then develop their own responses to the issues raised and conclusions drawn.

Before any discussion of internationalisation begins, the terms, 'internationalisation' must be distinguished from 'globalisation'. **Internationalisation** is a component of globalisation. It refers to the spread of economic activities across national boundaries in an effort to attain economies of scale. **Globalisation** is a product of a number of processes, including internationalisation and world trade, as well as movements in finance and information, labour and populations.

The report is primarily concerned with the effects of *internationalisation* on Australian film and television production, distribution and exhibition.

Acknowledgments

The report was conceived by Jock Given while he was Director of the Communications Law Centre. I would like to thank Jock for his ideas and assistance, along with his successor Derek Wilding, and Therese Iverach and Jo Hobson from the Centre.

Catherine Griff, Jeremy Bean, Rosemary Curtis and Drew MacRae from the Australian Film Commission provided ongoing research and advice. Cathy Gray was the excellent final editor.

Key data has been generously provided by the Communications Research Unit at DCITA. Thanks to David Luck for donating the unit's time and resources to the project.

Finally, sincere thanks to the three funding organisations, the Australian Film Commission, Cinemedia, and the New South Wales Film and Television Office, and to the Communications Law Centre for overseeing the project.

Sean Maher
Communications Law Centre

Executive summary

Over the last decade the global economy has become more than simply a context for audiovisual industries and media companies. This report outlines the process and effects of internationalisation on Australian film and television production, distribution and exhibition throughout the 1990s.

GLOBALISING TRENDS

The Australian audiovisual market and industries are distinguished by a combination of size, English-language base, an established mix of public and commercial broadcasters, foreign ownership restrictions, growing levels of foreign investment and a public policy of industry assistance.

Trade liberalisation and trading challenges

At a policy level, audiovisual industries have become the target of international trade liberalisation as well as domestic policy reforms associated with deregulation and competition policy.

In 1999 global trade in services accounted for 20 per cent of cross-border trade and 60 per cent of global output; even in 1994 output from the information communications sector was valued at US$1.5 trillion, with media forming 21 per cent of this.

The repeated call on behalf of the Australian audiovisual industry is that current and future assistance measures should be maintained, not in an effort to keep imported entertainment software out, but to ensure that Australian content remains a sustainable and viable component in the programming mix.

The 1990s provided stark examples of the implications of international trade developments for local industry and culture, such as the aborted 1995 Multilateral Agreement on Investment and the 1998 High Court decision permitting New Zealand programs to count as part of Australian Content requirements.

Bilateral agreements may be more likely than outcomes from the WTO, but negotiating exemptions case by case fosters uncertainty and leaves local broadcasting standards open to erosion.

Transnational corporations

The Australian audiovisual industry is being internationalised by the rise of global media transnational corporations (TNCs) and their push into broadcasting, cable, satellite and media markets.

Expansion of media companies through merger and take-over has meant that Hollywood studios now form central components of some of the largest media TNCs, the output from which dominates the Australian box office.

This corporate expansion has been matched by financial returns, such that real annual growth of core copyright industries, including film and television, has been more than double the growth rate of the US economy since 1977.

International operations were given priority by all Hollywood major studios in the 1980s; the concerted horizontal expansion facilitated by 'downstream' alliances with independent producers and partnerships with foreign investors resulted in an increase in overseas revenues of 10 per cent over the decade.

Involvement of media TNCs and medium-sized international companies in Australia's audiovisual sector has expanded significantly.

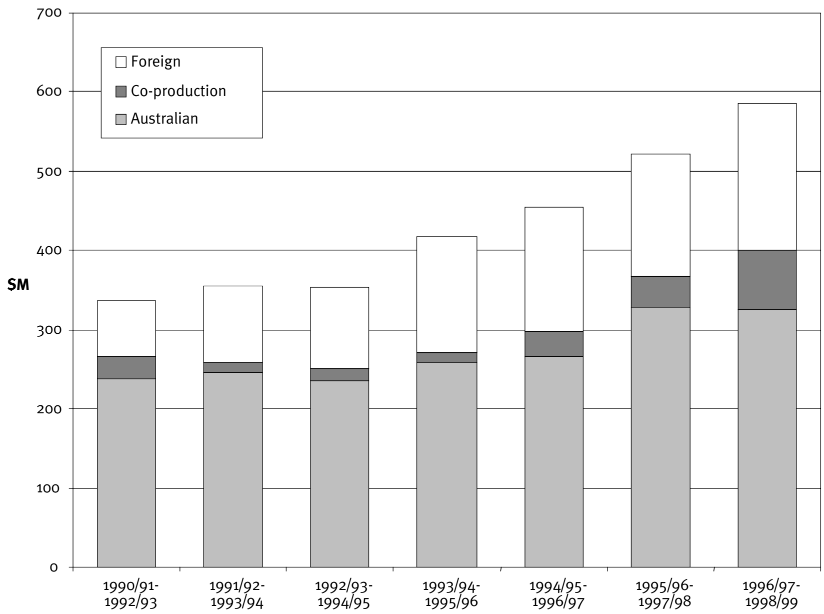
PRODUCTION

Throughout the 1990s each of the three levels of production (broadcasters, producers/distributors, and independent producers) extended its operations through increased participation at an international level, either through take-overs, mergers, joint ventures or partnerships with foreign firms or through expanded activities in foreign territories.

The most dramatic increase in drama production activity over the decade was in foreign production. Co-productions have also increased, but the level of Australian production has remained relatively constant.

The relative size of the Australian audiovisual market has meant that feature films rarely enter into profit through a domestic release; Australian television productions increasingly rely on international sales to fill the revenue gap and international co-productions to spread the costs.

Annual value of feature film and TV drama production, 1990/91–1998/99, 3-year moving average



Source: Prepared by the Communications Research Unit using data from AFC, Get the Picture (5th edn) and AFC, National Production Survey 1998/99.

Notes: 1 Data for 1990/91 to 1994/95 incorporate only official co-productions; for 1995/96 onwards both official and unofficial co-productions are included.

2 All values are in constant 1998/99 prices.

The 1997 Gonski Report on the Australian film industry identified three forms of foreign investment occurring in the audiovisual industry, namely:

- investment by foreign companies in audiovisual infrastructure in Australia;
- production of foreign film and television in Australia; and
- foreign investment in qualifying Australian film and television productions.[1]

Studio infrastructure

At the end of the 1990s, international production facilities established at the Warner Roadshow Studios and Fox Studios had placed Australian studios and supporting technologies on a competitive footing with Hollywood and offshore facilities in the UK and Canada.

The studios are geared towards large-budget international co-productions and foreign productions, especially features, telemovies and series; between 1991 and 1998 foreign productions at Warner Roadshow Studios

[1] David Gonski (1997), *Review of Commonwealth Assistance to the Film Industry*, Department of Communications, Information Technology and the Arts, Canberra.

accounted for approximately $480 million or 80 per cent of the $600 million worth of projects.

The Fox Studio development has contributed to NSW maintaining a dominant position in Australia's production of audiovisual material; at the beginning of 1999 the local NSW industry was estimated to be worth over $300 million, trebling in value over the previous two financial years.

Foreign productions

Throughout the 1990s Australia has been the beneficiary of increased foreign production that traditionally benefited Canada and the UK.

Although the trend is for foreign productions to employ Australian cast and crews in secondary and support roles, it is *not* correct to say that there are echoes of Australia's role in the 1950s as a Hollywood backlot, for the following reasons:

- Australian film and television production is firmly established in its own right with a steady stream of support from Federal Government agencies, state film agencies, tax incentives and other regulatory measures;
- the *Babe* series, *Oscar and Lucinda* and *Moulin Rouge* suggest that US studios are willing to engage in local production with Australian creative control to complement their offshore work;
- films using advanced digital technologies, like *Dark City*, *The Matrix*, and *Babe: Pig in the City*, epitomise the graduation of the Australian post-production sector from the short-length formats of video clips and advertisements to the prestige feature film format.

Australia's ability to attract foreign productions and investment can be attributed to a number of factors such as the availability of skilled crews, production and post-production facilities, infrastructure and partnerships with Australian firms, an English language base, and diversity of locales.

In the late 1990s, a devalued Australian dollar, lower salary ranges for cast and crew and flexible work visa agreements on overseas-funded productions added to Australia's appeal.

Foreign investment in Australian productions

Between 1995/96 and 1999/00 foreign investment in Australian features (not including co-productions) averaged 48 per cent and in television drama it averaged 20 per cent.

Foreign investment in the form of feature co-productions was responsible for some of Australia's most prominent films during the decade. Co-productions became an important and attractive means of spreading the costs and risks of drama and documentary production during the 1990s.

Australian feature films

In 1999/00 Australian feature film production declined as sales to foreign markets continued to diminish and government and private sector investment contracted; the number of Australian feature films dropped from 41 in 1998/99 to 31 in 1999/00.

The level of foreign investment in Australian feature productions eclipsed both government and private Australian sources twice during the 1990s – in 1997/98 and 1999/00, when it represented 66 and 64 per cent of total feature film investment respectively.

Australian private sector investment in Australian features has diminished since 1988 when the 10BA tax incentive scheme was reduced to its current level. In 1990/91, 15 films raised $45.7 million under 10BA, while in 1999/00, seven films used it to raise $20.4 million.

The pilot Film Licensed Investment Company (FLIC) scheme had raised $22.4 million in private sector investment as of 30 June 2000, considerably short of the $40 million permitted.

Feature film investment by government agencies averaged $36 million annually from 1995/96 to 1999/00, comprising 31 per cent of total feature film funding over this period.

Australian feature films are predominantly in the low-budget range; in 1999/00, aside from *Moulin Rouge,* all Australian features were made for under $6 million and 42 per cent were made for less than $1 million.

Competition in the arthouse sector has increased as a result of being targeted by US companies and arthouse divisions within the Hollywood majors; cast costs and increasing print and advertising (P&A) costs are beginning to transform this traditional niche market for Australian films.

Cultural considerations

Co-productions such as *Beastmaster*, *Sir Arthur Conan Doyle's Lost World* and *Farscape* exemplify the kind of 'audiovisual commodity' that can be exploited across a number of markets, rather than reflecting or appealing to any one country or market. They emphasise Australia as a platform to launch competitively priced international product.

When an international audience is targeted, trade considerations are likely to have eclipsed notions of Australian cultural representation. Despite this, these programs qualify as 'Australian' under the Australian Content Standard for commercial television and therefore count towards culturally mandated local content quotas. The AFC has estimated that if *Farscape*, *Lost World* and *Beastmaster* were shown on one Australian commercial broadcaster in a single year, they would satisfy half the local adult drama score.[2] Although there has been some controversy around the question of how foreign investment affects the nature of local content, it is generally acknowledged that local content cannot simply be based on a measure of 'Australian look'.

THE SMALL SCREEN: FREE-TO-AIR, PAY TV

Free-to-air broadcasters

Regulatory limitations on foreign ownership have meant Australian commercial television broadcasting has largely remained in Australian hands and control; instead, internationalisation has manifested in the broadcasting sector in the relationship between foreign content providers and Australian producers, distributors and broadcasters.

As of the end of 2001, the Australian commercial broadcasting sector consisted of 48 free-to-air commercial broadcasters organised into three networks, each with regional affiliates; in 1999/00 the free-to-air broadcasters spent $863.6 million on producing or purchasing programs.

Australian programs accounted for 69 per cent of this total outlay, with overseas acquisitions comprising almost exclusively drama programs including films, series, serials and sitcoms.

Over the decade, spending on Australian programs in the categories of children's drama and sport increased as a proportion of all expenditure, while spending on adult drama decreased.

Proportion of expenditure by commercial television on Australian production, for selected program types, 1990/91–1999/00

Australian program type	1990/91	1999/00	Change
Drama	17.6%	10.4%	–19.5%
Children's drama	0.5%	1.4%	+190.0%
Documentary	n.a. (0.9% in 96/97)	0.7%	n.a. (–8.8% since 96/97)
Sport	14.6%	21.7%	+102.3%

Source: Compiled by the AFC from *Broadcasting Financial Results*, Australian Broadcasting Authority (ABA)

The Australian production industry is one of the most cost-efficient in the world, yet it cannot compete in price against high-budget US drama programs produced at a cost in excess of US$1 million per hour and sold to Australian networks at marginal prices of between US$10,000 and US$25,000 per hour.

Australia's local TV production, worth between $127 million and $239 million annually during the 1990s, is underpinned by local content requirements, with the free-to-air commercial broadcasters commissioning work from the Australian independent production houses to satisfy the necessary quotas; yet the benefits of a regular demand for programs are being shared between Australian production houses and foreign investors and foreign production companies.

Partnerships between Australian and foreign production houses have facilitated international sales, the sharing of production costs and the accessing of co-production benefits with Australia's co-production treaty countries.

Pay TV

From its inception in 1995 pay TV was characterised by a business model of large investment with slow returns over a long period of loss; in its first three years the industry is said to have lost $43 billion.

[2] AFC/FFC (1999), *Report on the Film and TV Production Industry*, Sydney, 5 November, p.25.

Pay TV in Australia operates at two levels: platform operators/owners (pay TV 'broadcasters') and channel providers; foreign ownership and joint ventures between Australian and foreign companies apply at both levels.

A relaxed foreign ownership regime enabled the UK company Cable and Wireless to set up the Australian pay TV licensee, Optus Television, formerly Optus Vision and now owned by Singapore Telecommunications; similarly, US cable and media company UnitedGlobalCom controls and operates Austar, Australia's regional pay TV service.

Deregulation of Australia's telecommunications industries saw Australia's two dominant telcos, Telstra and Optus, become involved in pay TV.

Pay TV channel providers have brought in vast amounts of foreign programming, which has altered the relationship between many US content suppliers and Australian producers and broadcasters.

In mid 2001 there were 57 pay TV channels, 18 of which were classified by the ABA as drama channels; ownership at the channel provider level is broad and ranges from the pay TV broadcasters and Australian free-to-air commercial broadcasters through to joint ventures between local operators, Hollywood studios and other foreign producers.

The bulk of pay TV's programming costs come from the acquisition of movie rights and sporting rights; Australia's federally legislated anti-siphoning rules mean certain sporting rights cannot come under the exclusive control of pay TV operators.

US film and television archives provide the basis of programming and Hollywood studios have considerable interest in pay TV channels; although the Australian pay TV sector's experience with Hollywood and movie supply deals set world records in cost terms, it was part of a global trend.

When pay TV channel providers have invested in Australian content, it has been through a combination of licence fees for programming rights, and equity investment in feature films or telemovies.

The economics of the pay TV industry firmly situate pay TV as a secondary market for local producers who can expect to receive only marginal payments for licence fees and nominal equity investment.

Self-regulation and partial compliance with local content standards by the channel providers affected the Australian production sector; full 10 per cent compliance from 1995/96 to 1998/99 inclusive would have resulted in a total expenditure of $30,872,691, which is $11,375,996 more than the actual voluntary spend of $19,496,695.

Investment in Australian content may be directed into existing television programs, with minimal new programming on pay TV as free-to-air broadcasters and producers use pay TV investment as top-up funding.

THE BIG SCREEN: THEATRICAL DISTRIBUTION AND EXHIBITION

Distribution

US majors and the larger Australian distributors have entered into new partnerships with independent Australian distributors and exhibitors.

In the 1990s US majors increased their level of control in international distribution arrangements and set up independent divisions to concentrate on the arthouse market; the majors easily outbid the independent distributors and provide access to many more markets.

Global release is becoming the standard approach for most Hollywood films, with the Internet now a major marketing tool.

Poorer performance in international markets has created a trend of diminishing returns for the FFC and AFC; for example, the FFC recouped $3.7 million from its investments in Australian films in 1999/00, $7.1 million in 1998/99, $9.1 million in 1997/98 and $12.1 million in 1996/97.

Despite the downward trend, an international distributor is an essential requirement for securing FFC investment in an Australian feature, and foreign sales contributed almost 70 per cent of FFC feature film recoupment in 1999/00.

An Australian independent distributor is more likely to tailor P&A campaigns for Australian films and allow them time to find their audience and is still the best chance an Australian film has of finding an Australian market.

Exhibition

Between 1990 and 1999 the number of cinema screens in Australia doubled from 851 to 1748, annual cinema attendance grew from 43 million to 88 million, and annual box office more than doubled from $284.6 million to $704.1 million.

The Australian exhibition chains Hoyts, Greater Union and Village Cinemas remained the dominant theatrical outlets in Australia throughout the 1990s.

The world's largest exhibition chains outside North America are controlled by Village Roadshow, Hoyts and Greater Union; these Australian companies pursue joint ventures with international and local exhibition chains.

Multiplex and megaplex cinemas offer multiple and overlapping session times of the same type of Hollywood blockbuster films.

Despite the near doubling in the number of Australian cinema screens, the number of films making it into Australian cinemas remained almost the same (252 in 1990 and 250 in 2000); in both 1990 and 2000, 22 Australian films were released, representing 9 per cent of the total number screening in each of those years.

In 1999 Australian films' share of the Australian box office was 3 per cent, compared to 10 per cent in 1994; over the decade there was a marked fluctuation in the share of box office of Australian films.

The average budget of US films made during the 1990s ranged from US$26.8 million in 1990 to US$54.8 million in 2000. By comparison 92 per cent of the Australian films made over the same period had budgets less than A$6 million (around US$4 million).

TRADE: IMPORTS AND EXPORTS

Australia's major export market for television, film and video is the US, followed by the UK.

In the US, the cable television industry has adopted the strategy of financing its own productions to fill its schedules; in the UK, local production has been stimulated through increased industry assistance measures; these developments have the result of dampening demand for imported product, including Australian television programs, films and videos.

Overall, royalty payments for audiovisual imports increased by $232 million or 57 per cent over the period 1989/90 to 1998/99 (from $406 million to $638 million). The greatest contribution to this increase was in TV programs, boosted due to the demands of the Australian pay TV sector.

Audiovisual royalty exports increased by $81 million or 127 per cent between 1989/90 and 1998/99, though the figures are relatively small (from $64 million to $145 million). Television program exports accounted for $79 million of the $81 million total increase in exports.

The increase in exports is equivalent to approximately one-third of the increase in imports; however, at the beginning of the decade, exports represented 16 per cent of the value of imports, while at the end of the period they represented 23 per cent.

Although royalties for imports from the US increased by $100 million during the period under review, as a proportion of total imports, they decreased by 13 percentage points, while UK imports remained static; imports from other territories grew from $13 million (3 per cent) in 1989/90 to $98 million (15 per cent) in 1998/99.

In 1989/90, exports were evenly distributed between the three listed markets; nine years later, the US market share had increased slightly (31 to 35 per cent), the UK share had halved (34 to 17 per cent) while exports to other territories increased from 34 per cent to 48 per cent.

Programs finding export markets tend to be sport, nature documentaries, certain children's programs, science and technology magazine shows, feature films, mini-series and series drama.

The success of television programs from Australia's five major production and distribution companies has been instrumental in lifting exports.

In 1999, *Water Rats* was reputed to have sold to 180 territories, more than any other television program in the world; *Big Sky* and *Murder Call* were also in the top 10; these programs contribute to Australia having a higher profile than would be expected from a comparatively small production industry.

Chapter 1. Globalising trends

Australia's audiovisual sector (see appendix 4) is involved in the production, distribution and exhibition of audiovisual content. Free-to-air broadcasting and pay TV form the most heavily capitalised components of the industry, followed by theatrical exhibition circuits and distribution companies.

The Australian audiovisual market and industry are distinguished by a combination of size, English language base, established mix of public and commercial broadcasters, foreign ownership restrictions, growing levels of foreign investment and a public policy of industry assistance that ranges from subsidised training to directly funded film, television and multimedia productions.

On the levels of consumption and production, the Australian market is a peripheral one relative to the markets of countries like the USA and UK. The positioning of these nations is attributed to their large domestic audiences and levels of expendable income, television penetration and cinema attendance. Recouping the costs of production in their domestic markets enables them to set marginal and discriminating supply prices for their audiovisual product internationally, which assists in maintaining their export dominance.

1.1 THE GLOBAL MEDIA SECTOR

Australian audiovisual production is supported by cultural policies that stress the representation and preservation of Australian culture, character and identity. Yet the production industry is integrated into a commercially weighted broadcasting and media sector that is increasingly networked into the global economy. Appendix 1 provides a chronology of internationalisation throughout the 1990s.

In the 45 years since Australia began television broadcasts and the 30 years since the film renaissance of the 1970s, Australian audiovisual industries remain regulated in an effort to deliver the cultural objectives that underpin public support. While cultural considerations remain a determining factor in Australia's small subsidised audiovisual production sector, the impetus towards free trade dominates at the other end of the global audiovisual spectrum, inhabited by multinational vertically integrated media corporations. Far from remaining isolated from one another, cultural and trade objectives continue to intersect in the global media marketplace.

Towards the end of the last decade the role of public funding provided to the film industry was assessed in David Gonski's Review of Commonwealth Assistance to the Film Industry. The review confirmed the need for ongoing financial assistance in order to sustain a viable production industry and to fulfil cultural objectives of diversity of products, views and visions. Importantly, in describing 'Commonwealth assistance and foreign investment as complementary rather than substitutes for one another', the report acknowledged that this review, completed in 1997, was premised upon the now international character of film production, distribution and exhibition.[3]

But the global economy has become more than simply a context for audiovisual industries and media companies. Within the International Monetary Fund's (IMF) definition of the global economy, media and information networks represent a central component. The IMF states that the global economy is '... the rapid integration of economies worldwide though trade, financial flows, technology spill-overs, information networks and cross cultural currents'.[4] This process of integration, according to McChesney, has facilitated the media sector's rise to become part of the first tier of the US economy, up from a second or third rank position 25 years ago.[5]

Technological developments and satellite and cable delivery systems have created national and international 'footprints' that have extended media markets beyond the boundaries of terrestrial broadcasters, paving the way for global players. The Australian audiovisual industry, like audiovisual industries elsewhere, is being internationalised by the rise of global media transnational corporations (TNCs) and their push into broadcasting, cable, satellite and media markets.

The sector is also characterised by converging media, communications and computing technologies, and new

---

3 David Gonski (1997), op. cit. p.6.

4 Joint Standing Committee on Treaties (1999), *Multilateral Agreement on Investment: Final Report*, Report 18, Commonwealth of Australia, Canberra, March, p.7.

5 Robert McChesney, reported in Stephen Romei (2001), 'Information Overlords and Subscriber Serfs', *The Australian*, Media, 15 February, p.12.

forms of vertical integration. On the one hand, media is challenged by technological advances in the areas of online and digital transmission, the rise of the 'global information infrastructure' (GII), and what has generally been described as the Information Superhighway, with its immense capacity for digital transmission of all previous analogue data, information and entertainment. But on the other, the promise of new media pluralities is not easily fulfilled through the global trading patterns of new integrated TNCs.

At a policy level, audiovisual industries have become the target of international trade liberalisation. Australia's regulations concerning local TV content once earned it a place on the US 'Priority Watch List' in relation to World Trade Organization (WTO) obligations. Domestic policy reforms within Australia like deregulation of the telecommunications market (with implications for the pay TV market), the 1985 Competition Principles Agreement between the Commonwealth and the states and territories, and the 1983 Closer Economic Relations Agreement with New Zealand (refer to 1.2.3 below) continue to reverberate in the local audiovisual sector.

1.2 TRADE LIBERALISATION AND TRADING CHALLENGES

1.2.1 International trade liberalisation

The globalisation of markets can be described as the promotion of free trade through numerous multilateral agreements between individual nation states. The objectives of multilateral trade liberalisation were advanced through the global policy mechanisms of the General Agreement on Trade in Services (GATS) and now through its successor, the WTO. The Uruguay Round of GATT (General Agreement on Tariffs and Trade) between 1986 and 1994 reflected global trading patterns by shifting trade liberalisation from goods to services. In 1999 the global trade in services accounted for 20 per cent of cross-border trade and 60 per cent of global output.[6]

Audiovisual services fall under the WTO classification of the 'information communications sector', which forms a major component of the trade in services of the global economy. In 1994 output from the information communications sector was valued at US$1.5 trillion. Telecommunications formed the bulk of this business at 46 per cent, computers at 33 per cent and media at 21 per cent.[7]

Constituting such a vast proportion of both world trade and the trade in services, the pressure to liberalise trading within industries in the information communications sector will gather pace. Article XIX:I in the last WTO round referred to future rounds of negotiations 'with a view to achieving progressively higher levels of liberalisation'. Countering this was Article XIX:II which states 'the process of liberalisation shall take place with due respect for national policy objectives and the level of development of individual sectors'.[8]

The US government has made audiovisual trade liberalisation a high priority on account of the size of its domestic audiovisual sector, and in accordance with the opportunities for market participation globally. The US is still the most important media marketplace and the major players that dominate in that marketplace (some of which are controlled by corporations based outside the US) dominate global audiovisual trade.

As a WTO member, Australia, along with 42 other WTO member countries including the European Union, has sought cultural exemptions for audiovisual trade. The exemptions do not normally last longer than 10 years and are regularly reviewed.

The repeated call on behalf of the Australian audiovisual production industry is that current and future assistance measures should be maintained not in an effort to keep imported entertainment software out, but to ensure that Australian content remains a sustainable and viable component in the programming mix.

1.2.2 Multilateral Agreement on Investment (MAI)

In May 1995, to complement the many free trade agreements that were brokered during the Uruguay Round of GATT, the Organisation for Economic Co-operation and Development (OECD) drafted a treaty with the goal of achieving a transparent and codified global investment framework. Under the auspices of the Multilateral Agreement on Investment (MAI) a wide range of investment transactions would have received international standardisation. Favouring corporate sovereignty at the expense of national sovereignty, the MAI represented the most recent global policy challenge to the audiovisual industries of Australia and other smaller nations.

---

6 WTO (2001), 'GATS Fact and Fiction', www.wto.org (Trade Topics–Services), p.1.

7 S. Cunningham, E. Jacka, and J. Sinclair (eds) (1995), *New Patterns in Global Television: Peripheral Vision*, Oxford University Press, New York, p.108.

8 AFC/Film Australia Ltd (1999), *Australia's Approach to Further Trade Negotiation*, Submission to the Department of Foreign Affairs and Trade, p.34.

Under the MAI almost all government assistance measures to Australia's audiovisual industries – subsidies, local content quotas, international co-production agreements, foreign ownership restrictions and public broadcasting – would have been jeopardised.

In October 1998 the OECD ceased advancing the MAI and its objectives in the face of mounting social criticism and unified global opposition. But the OECD has made it clear the draft agreement is not dead, merely dormant, to be used as a 'reference point' in future negotiations.

1.2.3 Project Blue Sky

In 1995 six New Zealand production companies (Project Blue Sky Inc.) brought an action against the Australian Broadcasting Authority (ABA) in the Australian Federal Court. Australia has a Closer Economic Relations (CER) Agreement with New Zealand. Project Blue Sky claimed that Australia's local content quotas determined by the ABA under the *Broadcasting Services Act 1992* (BSA) breached this agreement. They argued that the quotas discriminated against New Zealand programs by forcing them to compete with the rest of the world's programming services for broadcast on Australian free-to-air commercial television.

Under section 122 of the BSA the ABA is required to determine the standards relating to the Australian content of programs. However, section 160(d) of the BSA placed a general obligation on the ABA to perform its functions in a manner consistent with Australia's obligations under any conventions to which Australia was a party or any agreement between Australia and a foreign country.

Following various appeals, the High Court found in 1998 that the ABA standard relating to Australian content on Australian commercial television breached Australia's obligations under the Protocol on Trade in Services to the Closer Economic Relations Agreement with New Zealand. The decision required the ABA to amend the standard to enable New Zealand programs to count as part of Australian content requirements by requiring that New Zealanders and New Zealand programs be treated no less favourably than Australians and Australian programs.[9]

By allowing New Zealand programs to qualify for the purposes of Australian content quotas, the High Court decision and trade-weighted legislation like section 160(d) of the BSA threaten to render invalid regulations based on Australian cultural values. Given that Australia is currently party to approximately 900 treaties and international agreements, the decision to rule against the ABA's content quotas suggests that Australia's cultural industries are at risk from these existing treaties and future free trade agreements.[10]

1.2.4 International agreements and Australian content

Since the collapse of the Millennium Round of the WTO in Seattle, US free trade initiatives indicate that bilateral trade agreements rather than multilateral agreements are becoming the preferred option. Bilateral agreements such as the North American Free Trade Agreement are seen as more likely to achieve positive free trade outcomes than discussions within the 140-member WTO, where complexity and intransigence often prevail.

As of March 2001 the possibility had been raised of bilateral free trade negotiations between Australia and the US. Audiovisual services have not been exempted from the discussions and Australia's local television content quotas could become a major issue for the US negotiators.[11]

Ways to address the trade issues raised by the High Court decision in the Project Blue Sky case were outlined in *Australian Content Standard for Television & Paragraph 160(d) of the Broadcasting Services Act 1992,* a report prepared by the Senate Environment, Communications, Information Technology and the Arts Legislation Committee in February 1999. The report presented seven recommendations to minimise the effects of the Project Blue Sky decision and to preserve the integrity of Australia's local content quotas under the 1999 revised standards of the BSA.

The report did not recommend that section 160(d) of the BSA be repealed because it would signal that Australia would not comply with its international obligations. Instead the report recommended a cultural industries exemptions clause in future international trade agreement negotiations. Ultimately, section 160(d) of the BSA was amended in 1999 to limit the relevant treaties to one. It now reads, 'The ABA is to perform its functions in a manner consistent with: … (d) Australia's obligations under the CER Trade in Services Protocol'.

---

9 The new standard embodying this change, the *Broadcasting Services (Australian Content) Standard 1999*, took effect on 1 March 1999. The Children's Television Standard was also amended.

10 Anna Feros (2000), 'Effect of international agreements and impending convergence of technologies on Australian television content', *Media and Arts Law Review*, Vol. 5, No. 2, June, pp87–96.

11 Tom Allard (2001), 'Local content up for grabs in US trade-off', *The Sydney Morning Herald*, 4 March, p.9.

Negotiating exemptions on a case by case approach still leaves the principles of the 1999 BSA standard open to erosion each time Australia enters into a trade agreement. Further, a case by case approach means that the Australian audiovisual industry faces uncertainty in the lead up to every round of trade talks.

1.3 TRANSNATIONAL CORPORATIONS

1.3.1 The internationalisation of Hollywood

In the Australian audiovisual sector, Hollywood has historically been highly visible in the distribution and exhibition markets. Imported feature films have dominated the Australian box office since the introduction of sound in the 1930s.

'Hollywood' is a loose term used to describe American cinema in general but its role within the internationalisation of audiovisual services has a more specific meaning. Today 'Hollywood' denotes a set of multinational media corporations with historic ties to the major Hollywood studios.

The original Hollywood majors around 1950 were Twentieth Century Fox, Universal, Paramount, Warner Brothers, MGM and Columbia. Second tier studios included RKO, United Artists and Disney. The studios have been subject to constant change with mergers, take-overs and technological developments altering their performance and ranking. In their early incarnations the studios operated as brands signalling specialisation in types and genres of films, for example, the MGM musical, the Warner Brothers gangster film. They were essentially early attempts at product differentiation coinciding with the mass production of films pioneered by Hollywood.

A brief history of the changes affecting each of the major studios appears at appendix 3. It describes the trends whereby the studios of the mid-1950s diversified their activities and became multi-domestic organisations that were slowly integrated into holding companies. In the 1980s they became incorporated into US industrial conglomerates and the film-based industry joined its rival, the television industry and other media, which in turn led to its global expansion in the 1990s.

> In the next year or two in the US we are going to see the greatest wave of media deals ever.
>
> Professor Robert McChesney, February 2001[12]

Hollywood studios now form central components of some of the largest media TNCs. Media TNC expansion through merger and take-over across the 1990s climaxed in 1999 in the AOL/Time Warner merger. In November 2000 the Vivendi/Universal deal was completed and 2001 began with News Corporation negotiating the DirecTV deal with General Motors. If successful, this deal would see News Corporation acquire a 35 per cent controlling interest in Hughes Electronics as it merges DirecTV with News' Sky Global Networks to form a US$70 billion satellite TV operation with 20 million subscribers spanning two-thirds of the world's most affluent TV viewers.

In 2001, commentators like Professor Robert McChesney saw these media mergers as the beginning of a continued process of consolidation that will produce just a handful of media giants. Media companies already constitute some of the largest global businesses and have been described as 'giga-corporations'. In a 2001 survey based on market capitalisation, AOL/Time Warner ranked 33 in the top 100 economic entities, placing it ahead of the economies of countries like Singapore, Belgium, Mexico and Malaysia. There were three other media companies in the top 100 – Sony (ranked 88), Vivendi/Universal (90) and Viacom/CBS (97).[13]

Tables 1.1 and 1.2 indicate that involvement of media TNCs and medium-sized international companies in Australia's audiovisual sector had expanded significantly by the end of the 1990s. These organisations demonstrate patterns of vertical integration and cross-sector ownership that may in time challenge the rationale for the form of media ownership regulation adopted in Australia.

---

12 Reported in Stephen Romei (2001), 'Information Overlords and Subscriber Serfs', *The Australian*, Media, 15 February, p.14.

13 Paul Sheehan (2001), 'Global Warning', *The Sydney Morning Herald,* 31 March, p.32

Table 1.1: TNC involvement in the Australian audiovisual sector, December 2000

	Publishing/Press	TV	Film	Video	New media	Music, radio, other
1. AOL/Time Warner (US)		Pay TV channel provider • CNN International • TNT • Tuner Classic Movies • Cartoon Network	Production • Joint venture with Village Roadshow in Warners Roadshow Studios in Qld 1991 Distribution • Warner Brothers Film distribution agreement with Village Roadshow	Warner Home Video	AOL Australia joint venture	
2. Disney/ABC (US)		Pay TV channel provider • Disney Channel	Distribution • Buena Vista International	Buena Vista Home Entertainment		
3. Vivendi/ Universal (France)			Distribution • UIP 50% owner			
4. Viacom (US)		Pay TV channel provider • Nickelodeon Australia • MTV Australia • Showtime • The Movie Channel • Sundance Channel (joint venture)	Production/Distribution • UIP 33% stake	Video Retail Distribution Blockbuster Video		
5. Sony (Japan)			Distribution • Columbia TriStar			Music: • Sony Music Australia
6. News Corp (Aust)	The Australian Daily Telegraph Herald-Sun	Pay TV service provider • Foxtel 25% owner Pay TV channel provider • Fox Sports • Sky News TV production • XYZ 50% stake	Production • *Soft Fruit* – Fox Searchlight • *Oscar and Lucinda* – Twentieth Century Fox • *Holy Smoke* – Twentieth Century Fox Distribution • Twentieth Century Fox		news.com	Music: • Mushroom Records Audiovisual infrastructure • Fox Studios Sydney

Note: Compiled by author from sources available at December 2000; joint or partial ownership indicated where applicable and where data available.

Table 1.2: Medium-sized international media companies in the Australian audiovisual sector, December 2000

	Publishing/Press	TV	Film	Video	New media	Music, radio, other
Granada (UK)		<u>FTA</u> • Channel Seven – 5th largest shareholder <u>Pay TV channel provider</u> • thecomedychannel <u>TV production</u> • Red Heart Productions/ Channel Seven joint venture • XYZ Entertainment joint venture				
Pearson (UK)		<u>TV production</u> • Grundys owner				
CanWest (Canada)		<u>Free-to-air</u> • Majority economic interest Ten Network				
Cable & Wireless (UK)		<u>Pay TV service provider</u> • Optus Pay TV <u>Pay TV channel provider</u> • Optus Sports			Optus@Home & broadband subscription service	
United GlobalCom (US)		<u>Pay TV service provider</u> • Austar (71%)			ISP joint venture	

Note: Compiled by author from sources available at December 2000; joint or partial ownership indicated where applicable and where data available.

1.3.2 Hollywood and the international market

Despite its various incarnations, the one aspect of the US audiovisual production sector that remained constant until the 1980s was its emphasis on the domestic US market. It is well understood that the US entertainment industry's dominance worldwide is a result of the scale and scope of its domestic market. The costs of US film, television and video production are readily recouped within the US and this has facilitated the saturation of foreign markets with US product at prices that cannot be matched by local producers trying to sell local product into their own market.

While US feature films consistently record the highest annual global box office returns year after year, distribution of US films worldwide revolves around a limited number of blockbusters. These few highly successful features supported by stars and multi-million dollar advertising and marketing campaigns function as de-facto subsidies for the many US films that fail at the box office. In 2000, out of 478 US films released, only 19 exceeded foreign box office earnings of US$100 million. Four films earned over US$200 million each, and between them, they accounted for 15 per cent of Hollywood's foreign revenues.[14]

Until the 1980s foreign markets were perceived as lucrative but were nevertheless still approached as secondary. As the level of competition within the US domestic media market increased and the opportunities for growth

[14] *Screen Digest* (2001), 'Foreign box office slump for majors', Issue 351, January, p.12.

within the US reduced, the dominant US firms looked to overseas markets to expand their operations and profits.

> The growth in the film business is overseas, not domestically. We don't make movies that won't travel.
>
> Bill Mechanic, (former) Chairman, Fox Filmed Entertainment, 1 January, 1999[15]

International operations were prioritised by all Hollywood major studios in the 1980s. The result was a concerted horizontal expansion facilitated by 'downstream' alliances with independent producers and partnerships with foreign investors. The strategy produced an increase in overseas revenues of 10 per cent over the decade. By 1990 all overseas markets accounted for 43 per cent of the total theatrical revenue.[16] By 1993 foreign revenues had climbed to 50 per cent.[17]

Since 1991 US domestic box office has grown every year and has again overtaken foreign revenues. In 1999, US box office totalled US$7.4 billion and overseas box office US$6.6 billion. In 2000, the ninth consecutive year of growth, domestic US box office reached US$7.67 billion while foreign revenues fell by three per cent to US$6.4 billion.[18]

It is important to recognise that the above figures relate solely to theatrical box office receipts. Foreign revenue collected from the copyright and intellectual property rights of television programs, video and DVD sales and rentals, music publishing and the many ancillary markets that accompany audiovisual products and services has been a consistent growth area for US firms.

Between 1986 and 1996 exports from the major studios and their parent corporations to non-American free-to-air television broadcasters and pay TV channels around the world increased by an average of 21 per cent and 32.3 per cent per annum respectively.[19] In 1995, the US was the beneficiary of a European trade surplus in media of US$6.3 billion. This was more than triple the surplus of 1988.[20]

According to the report *Copyright Industries in the U.S. Economy: The 2000 Report*, US copyright industries constitute the fastest-growing sector of the US economy. Audiovisual industries discussed in the report constitute core copyright industries and encompass the motion picture industry (television, theatrical and video), the recording industry (records, tapes and CDs), the music publishing industry, the book, journal and newspaper publishing industry, the computer software industry, theatre, advertising and the radio, television and cable broadcasting industries. In 1999, the core copyright industries accounted for 4.94 per cent of US GDP and totalled US$457.2 billion. Real annual growth of core copyright industries has been more than double the growth rate of the US economy since 1977. And for these industries, foreign sales were estimated at US$79.65 billion in 1999, or 17 per cent of total value.[21]

15 *The Australian* (1999), 'Fox Rules Pack at Box Office', 1 January, p.22.

16 Albert Moran (ed) (1996), *Film Policy: International, National and Regional Perspectives*, Routledge, London, p26.

17 Edward S. Herman and Robert W. McChesney (1997), *The Global Media: the New Missionaries of Corporate Capitalism*, Cassell, London, p.44.

18 *Screen Digest* (2001), 'Foreign box office slump for majors', Issue 351, January, p.12.

19 AFC/FFC (1999), *Report on the Film and TV Production Industry*, Sydney, 5 November, p.21.

20 S. Cunningham et al (1995), op. cit., p.42.

21 Stephen E. Siwek (2000), *Copyright Industries in the U.S. Economy: The 2000 Report*, IIPA (International Intellectual Property Alliance), www.iipa.com, p.3.

Chapter 2. Production

The Australian production industry comprises broadcasters, producer/distributors and independent producers. Broadcasters are essentially distributors of programming commissioned from or co-produced with the producer/distributors or independents. Broadcaster-produced programming is classified as in-house production and traditionally revolves around news and current affairs, sports programs, station promotional material, and some drama programs. A broadcaster can also acquire programming by purchasing it from overseas producers.

Production companies with distribution divisions such as Beyond International and Southern Star are listed on the Australian Stock Exchange (ASX). They possess strong levels of capital or have access to lines of credit to facilitate rolling production. These firms pursue a broad slate of productions ranging from television mini-series and serials to feature films. Their distribution divisions distribute foreign films and programs in Australia and Australian films overseas.

The Village Roadshow Corporation falls within this producer/distributor category but is also unique in being Australia's only fully horizontally and vertically integrated entertainment company. Its co-ordinated approach to production, distribution, exhibition, merchandising, and theme park management enables it to take advantage of the economies of scale and scope regularly enjoyed by US production companies.

Independent Australian production companies usually raise funds on a project-by-project basis and can oscillate between feature films, television commercials and television drama production. The sector consists mainly of small, under-capitalised production companies relying on deficit financing to fund projects.

Throughout the 1990s each of the three levels of production extended its operations through increased participation at an international level either through take-overs, mergers, joint ventures or partnerships with foreign firms, or through expanded activities in foreign territories.

The relative size of the Australian audiovisual market has been a determining factor in increased internationalisation. Feature films rarely enter into profit through a domestic release. Increasingly, they need foreign investment if they are to make it to production. In television, diminishing broadcast licence fees mean Australian productions (particularly high-end series, mini-series, and telemovies) increasingly rely on international sales to fill the revenue gap and international co-productions to spread the costs.

2.1 DRAMA PRODUCTION ACTIVITY

Table 2.1 and the associated graphs (graphs 2.1 and 2.2) track the movements in the production of Australian, co-production and foreign drama throughout the decade.

Overall, the more recent figures are higher than the averages for the period, but the most dramatic increase has been in foreign production. Co-production activity has also increased, but Australian production has remained relatively stable.

This pattern is seen more clearly when the figures for the 10-year period are presented in the form of three-year moving averages (graph 2.2). This presentation more accurately reflects the experience of film production occurring over more than one financial year and helps offset the distortions caused to the long-term view by individual high-budget films.

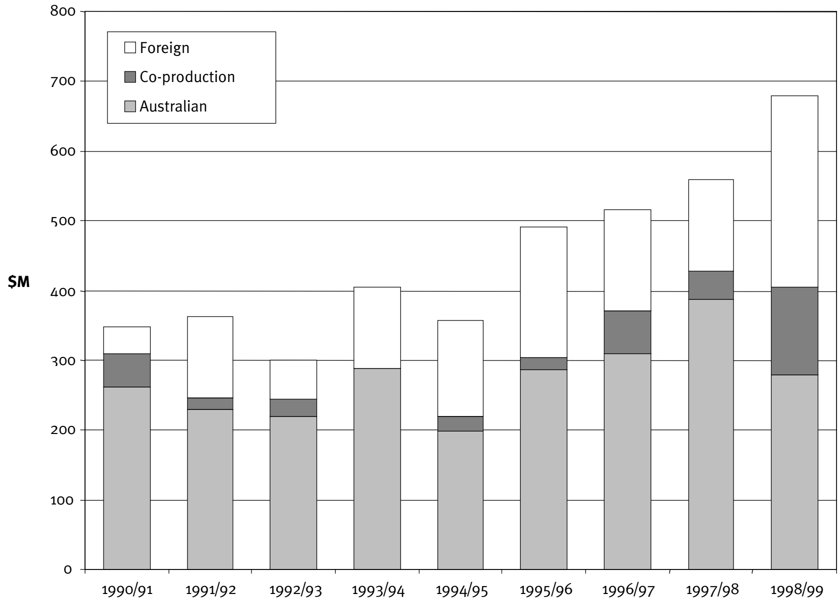
Table 2.1. Total production of feature films, telemovies and television mini-series and series, 1990/91–1998/99

Year	Australian		Co-productions		Foreign		Annual total	
	No.	$m	No.	$m	No.	$m	No.	$m
1990/91	54	261	4	47	3	39	61	347
1991/92	60	229	6	17	5	116	71	362
1992/93	51	220	8	24	4	56	63	300
1993/94	59	289	0	0	6	116	65	405
1994/95	58	199	4	20	9	137	71	356
1995/96	69	287	2	16	14	187	85	490
1996/97	71	310	6	61	10	145	87	516
1997/98	79	387	4	40	9	133	92	560
1998/99	72	279	6	125	15	276	93	680
TOTAL	**573**	**2461**	**40**	**350**	**75**	**1205**	**688**	**4016**
TOTAL %	*83.3%*	*61.3%*	*5.8%*	*8.7%*	*10.9%*	*30.0%*	*100%*	*100%*
INCREASE	18	18	2	78	12	237	32	279
INCREASE %	*33.3%*	*6.9%*	*50.0%*	*166.0%*	*400.0%*	*607.7%*	*52.5%*	*80.4%*
9-YEAR AVERAGE	63.7	273.4	4.4	38.9	8.3	133.9	76.4	446.2

Sources:AFC, *Get The Picture* (5th edn); AFC, *National Production Survey*, 1998/99.

Note: All $ figures are 1998/99 real CPI-adjusted values: 86.5 – 1990/91, 88.1 – 1991/92, 89.0 –1992/93, 90.6 – 1993/94, 93.5 – 1994/95, 97.5 – 1996/97, 98.8 – 1997/98, 100 – 1998/99.

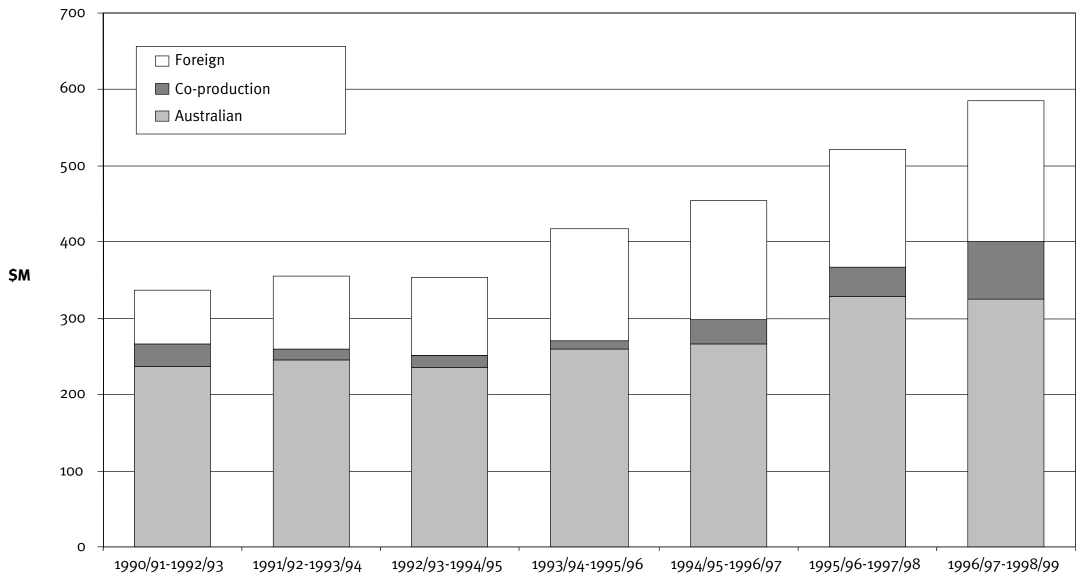
Figure 2.1. Annual value of feature film & TV drama production, 1990/91–1998/99



Source: Prepared by the Communications Research Unit using data from AFC, *Get the Picture* (5th edn) and AFC, *National Production Survey 1998/99*.

Notes: Data for 1990/91 to 1994/95 incorporate only official co-productions; for 1995/96 onwards both official and unofficial co-productions are included. All values are in constant 1998/99 prices.

Figure 2.2. Annual value of feature film & TV drama production, 1990/91–1998/99; 3-year moving average



Source: Prepared by the Communications Research Unit using data from AFC, *Get the Picture* (5th edn) and AFC, *National Production Survey 1998/99*.

Notes: Data for 1990/91 to 1994/95 incorporate only official co-productions; for 1995/96 onwards both official and unofficial co-productions are included. All values are in constant 1998/99 prices.

2.2 INTERNATIONALISATION OF THE PRODUCTION INDUSTRY IN AUSTRALIA

The 1997 Gonski Report on the Australian film industry identified three forms of foreign investment occurring in the audiovisual industry, namely:

- investment by foreign companies in audiovisual infrastructure in Australia;
- production of foreign film and television in Australia; and
- foreign investment in qualifying Australian film and television productions.[22]

2.2.1 Studio infrastructure

As of 2001, Australia hosted two international production facilities, the Warner Roadshow Studios on the Gold Coast in Queensland and Fox Studios in Sydney. These two facilities place Australian studios and supporting technologies on a competitive footing with Hollywood and offshore facilities in the UK and Canada.

Warner Brothers/Village Roadshow and Queensland

In 1991 a joint venture between Australia’s Village Roadshow and the Warner Brothers film studio saw the Warner Roadshow Studios complex established on the Gold Coast. It was the first time a major Hollywood studio had invested in production infrastructure in Australia.

The 32-acre (13-hectare) studio complex houses six sound stages and production offices. The studios actively seek foreign productions and provide assistance in areas where a foreign production company could encounter obstacles including work visas for foreign personnel and local workplace agreements for Australian cast and crew. Queensland’s Pacific Film and Television Commission also actively recruits and provides assistance to offshore productions.

Rental fees for the sound stages range from $9,130 to $22,440 per week – rates which tend to be beyond the reach of most Australian independent productions. The studios are geared towards large-budget international co-productions and foreign productions, especially features, telemovies and series.

Warner Roadshow Studios have proven to be a valuable addition to Queensland’s audiovisual sector. Prior to

[22] David Gonski (1997), op. cit.

1991 and the arrival of the studios, Queensland lagged behind NSW and Victoria in attracting Australian and foreign productions. By 1995/96 Queensland accounted for 35 per cent of Australian production expenditure, amounting to $132 million – more than NSW and Victoria, both on 29 per cent in that year.[23] Between 1991 and 1998 foreign productions accounted for approximately $480 million or 80 per cent of the $600 million worth of projects serviced by the studio.[24]

Fox Studios and NSW

Twentieth Century Fox opened Fox Studios Australia in Sydney in 1998, investing $200 million in a joint venture with developer Lend Lease. Included on the site are six film and television sound stages, an interactive studio and a retail/entertainment precinct.

Fox Studios (located at the former Sydney Showgrounds, Moore Park) was assisted by a 40-year lease and a $24.3 million contribution from the NSW Government[25]. Under a business development package, the NSW Government pays the payroll tax for employees engaged by Fox and its associated companies as well as employees engaged by other companies using the studio facilities for production. This scheme is worth $6.1 million over 8.5 years and terminates in June 2005. It operates independently of the NSW Film and Television Office.

The Fox Studios development has contributed to NSW maintaining a dominant position in Australia's production of audiovisual material. At the beginning of 1999 the local NSW industry was estimated to be worth over $300 million, trebling in value over the previous two financial years. In 1999/00, total production from local, foreign and co-production activity was $351 million.[26]

The Fox Studios facilities have enabled high-budget Australian features to be produced in Australia, such as Gillian Armstrong's *Oscar and Lucinda*, George Miller's *Babe* films (fully financed by Universal), Baz Luhrmann's *Moulin Rouge* (financed by Fox) and Jane Campion's *Holy Smoke*. These are examples of qualifying Australian films financed by overseas companies which hold copyright ownership.

Fox Studios claims to be the first studio that takes full advantage of the digital age. An Integrated Services Digital Network (ISDN) cable link allows daily rushes to be downloaded and sent to the US. Fibre optics link each of the six sound stages. Several independent post-production services cluster on the site. Commentator Professor Tom O'Regan has stated that Fox Studios has closed the technology gap that prevented the Australian production sector from participating in productions driven by special effects.[27]

2.2.2 Foreign productions

Throughout the 1990s Australia has been the beneficiary of increased foreign production that traditionally benefited Canada and the UK. In their simplest form, 'runaway productions' are Hollywood-outsourcing exercises, with US productions moving elsewhere to minimise production expenditure on a film, telemovie or TV series.

In 1998 runaway production was reputed to have redirected US$10.3 billion out of Hollywood, a fivefold increase since 1990, encroaching on Hollywood's US$28 billion industry.[28] Although this figure is premised on a broad costing of the value of runaway productions, it is supported by measurements that reveal between 1996 and 2000 production activity on the lots of the major Los Angeles-based studios dropped 32 per cent.[29] The trend to move productions offshore has sparked protests from within the US production sector and led to demands for US state and federal government intervention.

---

[23] Jock Given (1996) 'Warner Roadshow boosts Qld production figure', *Communications Update*, Issue 128, December, p.12.

[24] Sally Jackson (1998), 'Our locations first among sequels', *The Australian*, December 2.

[25] Tracey Prisk (1998), 'Mechanic Praises FSA', *Encore*, Vol 16, Issue 6, 6 May, p.4.

[26] AFC, *Get the Picture Online*; accessed March 2003.

[27] Tom O'Regan (1999), 'A Tale of Two Cities – *Dark City* and *Babe II Pig in the City*' in Deb Verhoeven (ed) *Twin Peeks: Australian and New Zealand Feature Films*, Damned Publishing, Melbourne, p.195.

[28] Peter Huck (2000), 'The End', *AFR Magazine*, November, pp42–47.

[29] *Screen Digest* (2001), 'LA production down as majors cut slates', Issue 351, January, p3.

At present Canada receives the bulk of Hollywood offshore production, worth around US$450 million in British Columbia and US$300 million in Ontario in 1999.[30] In 1998/99, US productions are estimated to have spent around A$158 million (around US$96 million) in Australia,[31] accounting for around 4 per cent of local estimates of US production expenditure abroad that year.[32]

With the arrival of the Warner Roadshow Studios and Fox Studios, Australia is set to remain a popular offshore destination for relocated Hollywood productions like *Mission Impossible II* and *The Thin Red Line*. On features of this scale, the trend is to employ Australian cast and crews in secondary and support roles. In this sense there are echoes of Australia's role in the 1950s as a Hollywood backlot. But perhaps more importantly, there are significant differences in the role played by the Hollywood studios in today's Australian production landscape.

First, Australian film and television production is firmly established in its own right. It has a steady stream of support ranging from the Australian Film Finance Corporation (FFC), the AFC, the state film agencies, tax incentives and other regulatory measures.

Second, there is evidence with films like the *Babe* series, *Oscar and Lucinda* and *Moulin Rouge* that US studios are willing to engage in local production with Australian creative control to complement their offshore work. Finance from the US majors means these Australian films stand a better chance in both international and domestic marketplaces.

Third, films using advanced digital technologies, like *Dark City*, *The Matrix*, and *Babe: Pig in the City*, highlight possibilities for new kinds of films produced with computer-based special effects. These films epitomise the graduation of the Australian post-production sector from the short formats of video clips and advertisements to the prestige feature film format. The presence of studios with advanced digital capacity has been critical in 'realising the project of efficiently integrating Australia as an offshore node into the global North American–dominated industry'.[33] Overall this will assist Australian productions and their access to developments in filmmaking R&D technology, which can only improve the diversity and performance of Australian films. Both Warner Roadshow Studios and Fox Studios welcome local productions alongside offshore productions on their slates.

In short, the decision to locate foreign productions in Australia is considerably more complex than it was in the past and so is the relationship between the Australian production sector and Hollywood. Australia's ability to attract foreign productions and investment can be attributed to a number of factors such as the availability of skilled crews, production and post-production facilities, infrastructure and partnerships with Australian firms. Each of these factors has grown and developed as a result of cultural policies that have facilitated local production. Recent foreign investment in production infrastructure has further contributed to Australia's ability to attract foreign production.

Investments in Australia's audiovisual infrastructure have only been possible because Australia had already positioned itself as a highly skilled and diversified production competitor. A devalued Australian dollar, lower salary ranges for cast and crew and flexible work visa agreements on overseas-funded productions added to Australia's appeal.[34] Together with Australia's English language base and diversity of locales, these factors have ensured Australia is ranked with Canada, NZ, Ireland, South Africa, UK and Eastern Europe in attracting offshore productions.

In the 1990s, Australia lacked further incentive to offshore productions in the form of a competitive tax regime. Australian states offered some tax concessions but no unified national approach.[35] What is provided to official co-producers and companies producing local programming is a legislated structural support system that ranges from local content quotas to direct government investment via the state and federal film agencies.

---

30 US Department of Commerce (2001), The Migration of US Film and Television Production, pp 49, 50; see http://www.ita.doc.gov/media/migration11901.pdf

31 AFC estimates based on National Survey of Feature Film and TV Drama Production.

32 The US Monitor Company reports, 'In 1998, of the $4.0 billion in economic runaway direct production expenditures, $1.2 billion remained in the U.S., yielding a net US$2.8 billion direct production expenditure abroad.' (*US Runaway Film and Television Production Study Report*, Directors Guild of America [DGA] and Screen Actors Guild [SAG], June 1999 [http://www.ftac.net/html/2a-dgasag.html; accessed March 2003]).

33 Tom O'Regan (1999), op. cit., p.194.

34 *Encore* (1999), 'MEAA handles offshore visa queries', Vol. 17, Issue 3, 26 February, p.33. '…MEAA policy in relation to foreign cast and crew was far more lenient in the case of overseas financed projects, as opposed to publicly subsidised Australian films … The MEAA has not disapproved a visa application for an offshore cast or crew since 1992 …'.

35 In September 2001 the Federal Government announced a new scheme to provide for a refundable tax offset at a fixed rate of 12.5 per cent to qualifying Australian expenditure.

While productions by US studios and producers have been visible through the high-profile Warner Roadshow and Fox Studios, Europe also remains a strong investor in Australian productions. France's CIBY 2000 backed *Muriel's Wedding* and *The Piano*, Gaumont financed *Me Myself and I* and distributor Pandora invested in *Shine*. Germany is looking at Australian television joint ventures, having recently signed a co-production treaty.

2.2.3 Foreign investment in qualifying Australian productions

Identifying productions that qualify as 'Australian productions' is important both for producers (at the financing stage) and for television networks (in seeking points towards the annual quotas for local production).

For investment purposes, Division 10BA of the *Income Tax Assessment Act 1936* sets out the criteria that a production must meet in order to qualify for tax relief. Section 124ZAD provides that the following elements are relevant in determining whether a film has significant Australian content: the subject matter, the location, the nationality and residence of writers, actors, directors and other production personnel, as well as the owners of the copyright and shareholders in any company making the film; the source of finance, and aspects of how and where the film's budget will be spent. A feature film, telemovie, mini-series or documentary which meets these criteria can be issued with a certificate under Division 10BA. The production will then also be eligible for consideration for funding from the Australian Film Finance Corporation. An official co-production may also qualify.[36]

In determining a 'qualifying' Australian production for the purposes of the Australian Content Standard, section 7 provides that the production must be 'under the creative control of Australians'. Projects under Australian creative control are, in general, those which use a combination of Australian actors, producers, directors and scriptwriters and where the program is produced and post-produced in Australia, regardless of whether it was filmed in Australia.

Between 1995/96 and 1999/00 foreign investment in Australian features (not including co-productions) averaged 48 per cent and in television drama it averaged 20 per cent.[37]

Table 2.2 indicates the extent of the independent drama slate supported by investment from Australian government sources, Australian private sources and foreign sources at the beginning and end of the 1990s. These figures include official co-productions but not in-house television productions. They illustrate that the value of the slate with foreign sources as the principal investor increased markedly over the decade, while for government sources it fell and for Australian private investment it rose only slightly.

Table 2.2. Source of funds for the Australian feature film & TV drama slate (including official co-productions), 1990/91 & 1999/00

	Total production costs by 'principal investor'	
	1990/91	**1999/00**[1]
Government agency	$122.0m	$104.0m
Australian investor	$95.0m	$109.6m
Foreign investor	$49.7m	$227.8m
TOTAL	**$267.7m**	**$441.0m**

Source: AFC analysis of unpublished data from the National Survey of Feature Film and TV Drama Production

Notes: 1 Actual contributions of each sector in 1999/00 (not available for 1990/91):

– Government: $70.8m to the productions they were the principal investor for; $78.8m total investment
– Private: $99.7m to the productions they were the principal investor for; $137.0m total investment
– Foreign: $196.0m to the productions they were the principal investor for; $225.0m total investment

Co-productions

Foreign investment and partnerships in qualifying Australian productions can take the form of official co-productions, unofficial co-productions, or straight equity investment. All co-productions bring shared creative control. Co-productions have been the traditional area where foreign production companies are attracted to Australia, forming production partnerships with Australian independent producers or broadcasters.

Globally, throughout the 1990s, as funding became more difficult for producers to source in their domestic market, co-productions became an important and attractive means of spreading the costs and risks of drama and documentary production.

36 Division 10B of the *Income Tax Assessment Act* also establishes a scheme of tax benefits for some forms of investment in the film industry.
37 AFC, *Get the Picture Online*; accessed March 2003.

Australia participates in both official and unofficial co-productions. An unofficial co-production is a method of co-financing which can be easier to arrange than an official co-production. Official co-productions occur only with those countries with which Australia has a co-production treaty.[38]

Hoskins, McFadyen and Finn have identified a number of co-production benefits:

- particularly in the case of official co-productions, access is provided to each partner country's local content requirements and subsidies;
- selling the program in the foreign market – a co-production ensures it is being handled by an insider of that market who knows how best to approach that market and maximise returns on the program;
- possibility of third party access, where each of the partner countries may have regular buyers which each partner can access – for example, an Australian/Italian co-production would see the Italian producer benefit from Australia's close trading and business ties with New Zealand, just as the Australian producer would benefit from Italy's European affiliations;
- variety of other issues like the cross-cultural benefits, the access to foreign locations, cheaper foreign inputs, projects that may not otherwise be culturally relevant or affordable, and the experience of dealing in that foreign market, which may benefit future projects.[39]

In the 1990s, foreign investment in the form of feature co-productions was responsible for some of Australia's most prominent films: *Green Card* (Peter Weir, 1991) with France; *Black Robe* (Bruce Beresford, 1992) with Canada; *Map of the Human Heart* (Vincent Ward, 1993) with France and Canada. Foreign financing from the USA, Italy and France also realised films like *Muriel's Wedding* (PJ Hogan, 1994), *The Piano* (Jane Campion, 1993) and *Bad Boy Bubby* (Rolf De Heer, 1994).

Television co-productions are more likely than feature films to reflect both sides of the partnership on screen – in cast, locations and themes. This is due to television's traditional emphasis on local specificity and the need for the television medium to reflect the domestic audience in order to appeal to it. With recent television co-productions like *Beastmaster* and *Farscape*, however, the emphasis on genre has displaced identifiable cultural representation. This illustrates one response to the growing global market for television programming and the demand for flexible, less culturally specific television programming.

Research and development

Australian productions have suffered from low levels of investment at the development and script stages. Investment at this stage is essentially the audiovisual production sector's 'research and development' (R&D), and like all R&D investments, some produce good returns and some are written off. The high levels of risk at these crucial, early stages of a project have meant that government funders such as the AFC and state film agencies have met development costs and overseen early project development. Government funds for development are limited, and Australian projects tend to be under-developed when they enter the highly competitive exhibition and distribution marketplace.

Australian producers have argued that one of the major benefits of foreign investors is their attitude towards the cost of development. When searching for a project to invest in, foreign investors do not expect it to be fully developed. They accept development expenditures as part of the cost and development as part of the role of the ultimate investors, distributors and broadcasters of a film or television production.

2.3 AUSTRALIAN FEATURE FILMS

Australian feature film production is seen as the flagship of the Australian audiovisual production sector. Although Australian feature films are less profitable than television drama, they continue to attract a disproportionate amount of media attention both domestically and internationally. Feature films generally function as a litmus test for the whole industry and are instrumental in promoting the profile of Australian performers and filmmakers globally.

Australian features are funded through a mix of Australian private investment or industry investment, government investment and foreign investment.

[38] Australia has official co-production treaties or arrangements with the UK, Canada, Italy, France, Israel, Northern Ireland, Germany and New Zealand.

[39] S. McFadyen, C. Hoskins, and A. Finn (1996), *Film and Television Co-production in Australia*, BTCE Occasional Paper 112, Department of Transport and Regional Development, Canberra.

In 1999/00 Australian feature film production declined as sales to foreign markets continued to diminish and government and private sector investment contracted; the number of Australian feature films dropped from 41 in 1998/99 to 31 in 1999/00.

The level of foreign investment in Australian feature productions eclipsed both government and private Australian sources twice during the 1990s – in 1997/98 and 1999/00, when it represented 66 and 64 per cent of total feature film investment respectively.[40]

Australian private sector investment in Australian features has diminished since the scaling back of the 10BA tax incentive scheme. 10BA commenced in the 1980s at '150/50' (150 per cent deduction on investment and 50 per cent tax-free threshold on investment returns) and then reduced to levels of 133/33 in 1983/84, to 120/20 in 1985/86 and to its current level of 100/0 in 1988. In 1990/91, 15 films raised $45.7 million under 10BA, while in 1999/00, seven films used it to raise $20.4 million.[41] Throughout the 1990s, government and foreign investors have been the largest contributors to Australian feature film investment.

Attracting Australian private sector investment in Australian features in the current climate has even proved difficult for the Australian arm of Columbia TriStar International TV (CTITV). In 2000, CTITV attempted to raise funding for six telemovies and a feature film worth over $27.6 million. No government funds were sought. Columbia guaranteed a 35 per cent minimum return over seven years and $2.7 million in presales were already in place.[42] Despite these assurances CTITV failed to raise from the Australian investment community the minimum subscription levels required for the projects to proceed.

The pilot Film Licensed Investment Company (FLIC) scheme was designed to attract more Australian private sector investment. The scheme was an attempt to provide a new mechanism for funding Australian productions. At 30 June 2000 after operating for close to two years, the two licensed companies Macquarie Film Corporation (MFC) and Content Capital had managed to raise $22.4 million ($16.26 million and $6.14 million respectively), considerably short of the $40 million permitted.[43] Continuation of the scheme is under consideration.

In October 2000 MFC in conjunction with the Australian-based US distributor UIP reached an agreement to release a minimum of three locally produced features per year. The deal complements UIP's three equity investments in MFC projects, which totalled $3 million in 2000. Equity investments in Australian productions from internationals like UIP should open up distribution deals and exhibition outlets that have previously been difficult for Australian productions to access as they compete against the steady flow of affiliated US product.

Feature film investment by government agencies averaged $36 million annually from 1995/96 to 1999/00, comprising 31 per cent of total feature film funding over this period.[44]

Australian feature films are predominantly in the low-budget range. In 1999/00, aside from *Moulin Rouge,* all Australian features were made for under $6 million and 42 per cent were made for less than $1 million.[45] In an era where both budgets and performance of films are polarised between high-end US$50+ million blockbusters and low-budget *Blair Witch Project* breakthroughs, mid-range films are finding audiences elusive. Australian features have been described by Australian distributors as not big enough for mainstream release to compete against Hollywood and not small enough for the traditional arthouse market.

Competition for market share in the arthouse sector has increased as a result of being targeted by US companies like Miramax and arthouse divisions within the Hollywood majors. Cast costs and increasing print and advertising (P&A) costs are beginning to transform this traditional niche market where Australian films were more likely to find a distribution deal and an audience. See Chapter 4 (4.1.3 Arthouse and Australian Films) for further discussion of this point.

---

40 AFC, *Get the Picture Online*; http://www.afc.gov.au/gtp/mpfeaturesinvestors.html; accessed March 2003.

41 DCITA, in *Get the Picture Online*; http://www.afc.gov.au/gtp/mptax10batype.html; accessed March 2003.

42 *Encore* (2000), 'Soft market hurts FLICs', Vol 18, Issue 7, August, pp 5–6.

43 ibid.

44 AFC, *Get the Picture Online*, accessed March 2003.

45 AFC (2000), *National Production Survey 1999/00*, p.4.

2.4 CULTURAL CONSIDERATIONS

Most of the work at Warner Roadshow Studios and Fox Studios has been from Hollywood studios and foreign production companies. Australian companies like Coote/Hayes and the joint venture partner Village Roadshow have used the Warner Roadshow facilities for both co-productions and wholly Australian productions. In 1999, Coote/Hayes co-produced the television series *Beastmaster* with Alliance Atlantis and *Sir Arthur Conan Doyle's Lost World* with Telescene. At Fox Studios, Nine Films and Television (a subsidiary of PBL), co-produced the first series of *Farscape* with Jim Henson Productions.

These programs are examples of international co-productions that emphasise Australia as a platform to launch competitively priced international product. They fall into the category of a single audiovisual commodity to be exploited across a number of markets, rather than reflecting or appealing to any one country or market. The distribution and copyright tend to lie with foreign co-producers and the target audience is international in scope.

When an international audience is targeted, in all likelihood trade considerations have eclipsed notions of Australian cultural representation. Despite this, these programs qualify as 'Australian' under the Australian Content Standard for commercial television and therefore count towards culturally mandated local content quotas. The AFC has estimated that if *Farscape*, *Lost World* and *Beastmaster* were shown on one Australian commercial broadcaster in a single year, they would satisfy half the local adult drama score.[46] Although there has been some speculation around the question of how foreign investment affects the nature of local content, it is generally acknowledged that local content cannot simply be based on a measure of 'Australian look'.

The controversy about cultural considerations in relation to co-productions is not new. Refer, for example, to DCITA's *Review of the Australian Official Co-production Program*, February 2001.[47]

Apart from having near-Hollywood status in the Australian production environment, Village Roadshow also has one of the most extensive networks of international and Australian production affiliations. In Australia in the 1990s, the company expanded into radio and new areas such as theme parks.

In its production activities, Village Roadshow's strategy has varied depending on its production partners. The partnership with producers Coote and Carroll in the late 1980s and early 1990s emphasised medium budgets with Australian creative control and specificity. By 1997 the production direction was more global. Village restructured its production division, relocated it to Los Angeles and entered into a 40-picture, five-year partnership with Warner Brothers. The partnership, which is focussed on large-budget Hollywood features, has so far produced 13 features including *The Matrix*, *Analyze This*, *Deep Blue Sea*, *Three Kings* and *Miss Congeniality*.

In another partnership with Warner Brothers, Village has attracted a number of US feature films, television series and telemovie productions to Warner Roadshow Studios. Village also has the Village Roadshow Hoyts Film Production Partnership, whose charter is 'Commercial Movies for a Worldwide Audience'.[48] The partnership's first feature film was *Disturbing Behaviour* in association with MGM Pictures.

These international partnerships, complemented by similar strategies in exhibition, represent a serious push into global markets. If an audiovisual firm operating on the scale of Village Roadshow Ltd is to continue to expand, the international arena is the logical next step. And Australian cultural specificity is clearly not the primary focus for the company.

At the other end of the spectrum are Granada Media's investments in Channel Seven and Red Heart (see chapter 3, page 36). Acting in this capacity, Granada proved critical to the mini-series *My Brother Jack*, which was not only a 'qualifying Australian' production, but identifiably Australian from a cultural point of view. According to the producer, a presale to Granada for the 'rest of the world' distribution rights meant the ambitious $7 million mini-series was finally realised after several years in the planning. The outcome for the Australian producers is that in its foreign release the program will be screened as a telemovie compiled from the Australian-released mini-series.

See chapter 3 for further discussion of cultural considerations in the context of quotas for Australian content on television.

---

46 AFC/FFC (1999) op. cit., p.25.

47 Available through http://www.dcita.gov.au [choose 'Arts and Culture', then 'Film and Digital Content']

48 Tracey Prisk (1998), 'Village and Hoyts form joint venture', *Encore,* Vol 16, Issue 2, 11 March, p.3.

Chapter 3. The small screen: Free-to-air, pay TV

3.1 FREE-TO-AIR BROADCASTERS

Foreign ownership and investment in the Australian commercial broadcasting industry is restricted under Part 5 of the *Broadcasting Services Act 1992*, which covers control of commercial broadcasting licences. The specific limitations state that a foreign person must not be in a position to exercise control of a commercial television licence, that a foreign person must not have company interests in a licensee that exceed 15 per cent and that two or more foreign persons' company interests in a licensee must not exceed 20 per cent.[49]

These restrictions have meant Australian commercial television broadcasting has largely remained in Australian hands and control. Instead, internationalisation has manifested in the broadcasting sector in the relationship between foreign content providers and Australian audiences, markets, producers, distributors and broadcasters.

As the media industry as a whole continues to internationalise, the simple equation of demand and supply between Australian buyers and foreign sellers has altered. Pay TV changed the programming supply landscape, and dominant foreign media companies like Disney now have Australian operations. This section of the report examines the changing relationship between foreign program suppliers and Australian buyers throughout the 1990s, beginning with changes in foreign program supplies to the free-to-air broadcasters at the end of the 1980s.

3.1.1 Acquisitions

The end of the 1980s was a period of unprecedented upheaval for Australia's commercial broadcasters. Partly due to changes in media ownership legislation, all the major networks changed proprietors.

The Bureau of Transport and Communications Economics reported that commercial networks' expenditure on foreign programming doubled in 1989/90. The Nine Network had consistently managed to secure premium US programs and in an effort to challenge Nine's dominance, Network Ten in 1987 broke an informal agreement between the commercial broadcasters not to purchase US programs before November/December each year. This arrangement allowed the Australian broadcasters to assess US programs based on their US network performance. By breaking ranks, Ten struck supply deals with MCA/Universal, Twentieth Century Fox, Orion Pictures, Thames Television, Central and London Weekend Television. Nine responded by securing exclusive output deals with Warner Brothers and Columbia Pictures, while Seven signed Disney, MGM/UA and Lorimar.[50]

To secure these output deals Australian broadcasters paid US suppliers between three and six times the prices paid by European networks. These aggressive and expensive foreign program supply deals contributed to the high levels of debt confronting new network owners.

By the early 1990s ownership of the three commercial television networks had changed again. Qintex had entered into receivership and lost control of the Seven Network, Bond Media had lost the Nine Network, which returned to Kerry Packer. In 1992, Network Ten entered into receivership and gained approval for the Canadian media group CanWest to enter into a loan arrangement that did not breach the foreign ownership limits and did not put it in a position to exercise control of the licences.

3.1.2 Local content

In 2001 the Australian commercial broadcasting sector consists of 48 free-to-air (FTA) commercial broadcasters organised into three networks, each with regional affiliates. Table 3.1 documents the expenditure of the commercial FTA sector on both Australian and overseas production throughout the last decade. Collectively the commercial FTA broadcasters spent $863.6 million on producing or purchasing programs in 1999/00. Australian programs accounted for 69 per cent of this total outlay, with overseas acquisitions comprising almost exclusively drama programs, including films, series, serials and sitcoms.

The largest increases in Australian programming over the decade were seen in children's drama (190 per cent) and sport (102 per cent), whereas expenditure on adult drama fell by 19 per cent. In contrast, in the case of

---

[49] See Sections 57 and 58 of the BSA.

[50] BTCE (1996), *Australian Commercial TV 1986–1995*, Report 93, AGPS, Canberra, June.

overseas programs, it was overwhelmingly drama expenditure that increased (by 35 per cent), with non-drama *decreasing* by 26 per cent.

Table 3.1: Program expenditure – Australia
Spending ($m) on programs of various types by commercial free-to-air services in Australia

	90/91	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/00	% change 90/91 -99/00
Australian programs											
Drama	111.4	95.6	88.8	72.5	72.8	77.2	73.7	82.1	117.9	89.7	-19%
Children's drama	3.0	3.3	4.3	3.0	4.4	7.0	7.8	11.2	10.0	8.7	190%
Other children	10.0	8.5	8.3	10.7	8.0	6.6	10.1	11.8	9.8	11.7	17%
News & current affairs	106.9	139.8	153.8	155.9	145.0	139.7	153.0	160.0	156.4	153.2	43%
Documentaries	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6.8	6.3	6.5	6.2	n.a.
Sport	92.6	107.3	149.9	106.1	117.3	128.8	149.4	153.2	183.1	187.3	102%
Variety	31.4	30.8	34.2	36.6	33.0	49.1	62.5	47.3	43.0	48.6	55%
Other light ent.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	75.0	79.8	69.8	68.4	n.a.
Other programs	15.0	19.1	18.4	26.1	21.7	22.2	8.5	12.4	8.8	22.6	51%
Total Australian	**424.5**	**454.0**	**516.2**	**468.7**	**476.0**	**502.5**	**546.8**	**564.1**	**605.3**	**596.4**	**40%**
As % of total spend	67%	72%	74%	72%	70%	72%	72%	71%	67%	69%	
Overseas programs											
Drama	186.1	156.8	164.8	160.7	183.4	174.2	199.6	217.5	273.3	250.7	35%
Other	22.4	19.2	17.8	23.0	17.2	22.4	15.2	17.2	19.2	16.5	-26%
Total overseas	**208.5**	**176.0**	**182.6**	**183.7**	**200.6**	**196.6**	**214.8**	**234.7**	**292.5**	**267.2**	**28%**
As % of total spend	33%	28%	26%	28%	30%	28%	28%	29%	33%	31%	
Total spend	**633.0**	**630.0**	**698.8**	**652.4**	**676.6**	**699.1**	**761.6**	**798.8**	**897.8**	**863.6**	**36%**

Source: Compiled by the AFC from *Broadcasting Financial Results*, Australian Broadcasting Authority (ABA)

Notes: Details of expenditure on documentaries and light entertainment other than variety programs are not available before 1997/98.

When expressed in terms of the total increases over the decade (table 3.2), these figures show increases in both Australian and overseas expenditure.

Table 3.2: Change in expenditure of commercial television on Australian and overseas programs, 1990/91–1999/00

Australian programs	40.5%
Overseas programs	28.2%
Total	**36.4%**

The increase in expenditure on Australian production overall reflects the increase in the quota for Australian programming under the Australian Content Standard over this period – from 35 per cent in 1990 to 55 per cent in 2000. Australian commercial broadcasters are required to comply with the Australian Content Standard under the BSA. The standard has two main mechanisms: an overall transmission quota and minimum quotas for specific types of programs.

The transmission quota sets an overall annual minimum of 55 per cent Australian programming between 6 am and midnight. There are specific annual quotas for minimum amounts of first-release Australian programs in the categories of drama, documentaries and children's programs. The amount of Australian drama is expressed as a score, rather than in hours, and is calculated using a measurement system which multiplies a 'format factor' by the duration of the program.

Twenty hours of first-release Australian documentaries must be broadcast, as well as 32 hours of first-release Australian C-classified children's drama and eight hours of repeat C-classified Australian children's drama.

Children's programming is also subject to the Children's Television Standard (CTS3), which requires licensees to broadcast 260 hours of children's (C-classified) programs each year (130 hours of which must be first-release

Australian programs) and 130 hours of Australian preschool (P-classified) programs. The minimum requirements for first-release Australian children's drama under the Australian Content Standard (32 hours in 1998) form part of the 130 hours of first-release Australian C programs required by CTS3. Table 3.1 documents the sizeable increase in children's drama over the decade, reflecting increases in the quotas during the 1990s, including a twofold increase in the children's drama quota.

But despite the increase in expenditure over the 1990s, an examination of the sources of this increase appears to substantiate the mechanisms employed by the ABA to measure local programming by means other than just an annual count of gross programming hours. As a proportion of total expenditure, the clearest success case over the course of the 1990s was sport. Unsupported by any content quota, at the start of the decade sport accounted for 14.6 per cent of all program expenditure; by the end of the decade it accounted for 21.7 per cent. By contrast, spending on Australian drama as a proportion of all program expenditure fell sharply. This comparison is set out in Table 3.3.

Table 3.3: Proportion of expenditure by commercial television on Australian production, for selected program types, 1990/91–1999/00

Australian program type	1990/91	1999/00	Change
Drama	17.6%	10.4%	–19.5%
Children's drama	0.5%	1.4%	+190.0%
Documentary	n.a. (0.9% in 96/97)	0.7%	n.a. (–8.8% since 96/97)
Sport	14.6%	21.7%	+102.3%

Source: Compiled by the AFC from *Broadcasting Financial Results*, Australian Broadcasting Authority (ABA)

It should also be noted that there is not a direct correlation between expenditure and transmission time. In 1999/00, for example, expenditure on Australian production accounted for 69 per cent of total outlay. However, compliance reports from the Australian Broadcasting Authority show that the proportion of Australian content on commercial television networks in 2000 was 58.4 per cent.[51] This relationship of lower levels of expenditure with higher levels of transmission time for overseas product is a result of the relatively low cost of purchasing overseas programs, combined with regulatory requirements for the production of new Australian material.

The Australian production industry is renowned as one of the most cost-efficient in the world, producing material at unit costs far lower than those of international competitors. But given the size of television program budgets, commissioning Australian drama or producing in-house Australian sport, news and current affairs and light entertainment becomes expensive for commercial networks and public broadcasters alike. For example, in 1996/97, Australian-produced television drama, situation and sketch comedy cost on average more than $182,500 per hour to produce.[52] The commercial appeal of purchasing high-budget US drama programs produced at a cost in excess of US$1 million per hour and sold to Australian networks at marginal prices of between US$10,000 and US$25,000 per hour makes it impossible for Australian produced material to compete on price.[53]

> International product is sold into our market well below our production costs and at a fraction of its international production budget. For example, a US$13 million episode of *ER* can be acquired in Australia for under A$40,000. The Australian equivalent costs only A$500,000 to produce. In any other industry this would be dumping and illegal.
>
> Nick Murray, Opening Presidential Address, SPAA 2000 Conference, 16 November 2000

Australia's local TV production, worth between $127 million and $239 million annually during the 1990s,[54] is underpinned by local content requirements, with the free-to-air commercial broadcasters commissioning work from the Australian independent production houses to satisfy the necessary quotas. However, with the arrival of international production companies and their joint ventures with Australian production partners, the benefits of a regular demand for these programs are being shared between Australian production houses and foreign investors and production companies.

---

[51] This is this average figure for the combined Sydney, Melbourne and Brisbane stations of all three commercial networks plus the Adelaide and Perth stations of the Seven and Ten networks. These networks individually recorded totals of 61.02% (Seven), 57.2% (Ten), and 47.07% (Nine). It should be noted that these compliance reports exclude the period midnight to 6.00 am, which features a high proportion of overseas programming. ABA, 'Compliance with Australian Content Standard 2000', www.aba.gov.au.

[52] AFC (1998), *Get The Picture*, 5th edn, AFC, Sydney, p.66.

[53] AFC/Film Australia (1999), *Australia's Approach to Further Trade Negotiation*, Submission to the Department of Foreign Affairs and Trade, p.29.

[54] AFC, *Get the Picture Online*; http://www.afc.gov.au/gtp/mptvdramasummary.html; accessed March 2003 (includes both Australian productions and co-productions).

The following graphs show the value of Australian and co-production drama activity over the decade.

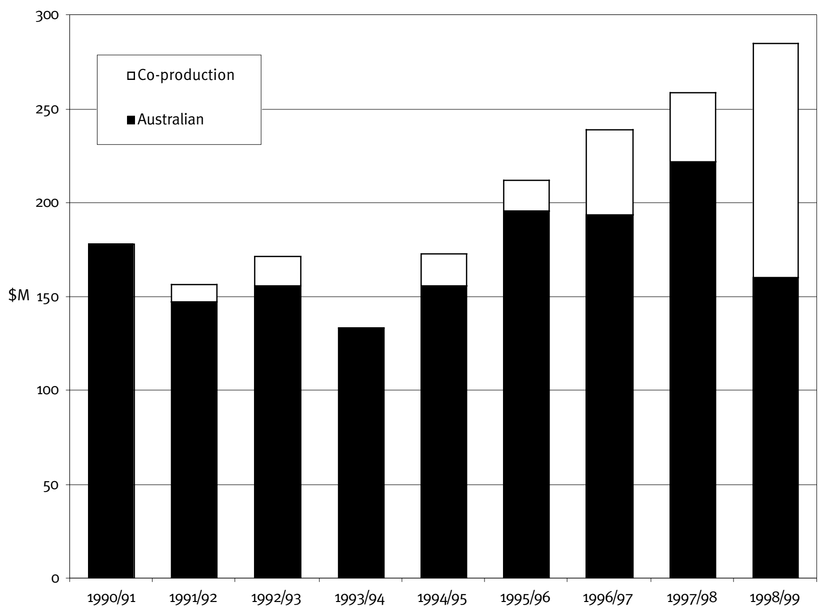
Partnerships between Australia and foreign production houses have facilitated international sales, the sharing of production costs and the accessing of co-production benefits with Australia's co-production treaty countries. Each of these measures helps to counter the downward trend in broadcast licence fees which is widening the gap between production expenditure and local revenue capabilities. Table 3.4 documents this gap between production costs and licence fees for serial drama, series drama, and mini-series.

Table 3.4: Australian broadcasting licence fees and production costs per hour by genre

Genre	Licence fee per hour A$	Production cost per hour A$
Serial drama (e.g. *Neighbours*)	$50,000 – $125,000	$120,000 – $150,000
Series drama (e.g. *Water Rats*)	$150,000 – $270,000	$200,000 – $500,000
Mini-series (e.g. *Kangaroo Palace*)	$200,000 – $300,000	$800,000 – $2 million

Source: AFC/FFC Report on the Film and Television Production Industry, 1999, p 42.

Figure 3.1: Annual value of production of Australian and co-production television drama, 1990/91–1998/99

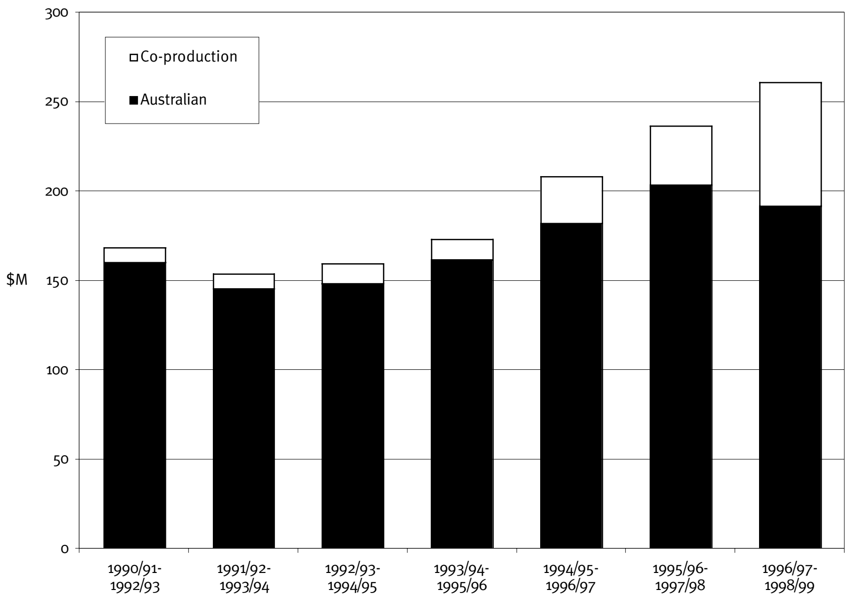


Source: Prepared by the Communications Research Unit using data from *Get The Picture* (5th edn) and *National Production Survey 1998/99*.

Notes: 1 Data for 1990/91 to 1994/95 incorporates only official co-productions; for 1995/96 onwards both official and unofficial co-productions are included.

2 All values are in constant 1998/99 prices.

Figure 3.2: Annual value of production of Australian and co-production television drama, 1990/91–1998/99; 3-year moving average



Source: Prepared by the Communications Research Unit using data from *Get The Picture* (5th edn) and *National Production Survey 1998/99*.

Notes: 1 Data for 1990/91 to 1994/95 incorporates only official co-productions; for 1995/96 onwards both official and unofficial co-productions are included.

2 All values are in constant 1998/99 prices.

3.1.3 Network production

The Nine Network

The Nine Network in Australia is well positioned to develop both Australian and foreign product through the many alliances of its parent company, Publishing and Broadcasting Ltd (PBL). PBL has extensive links with internationals like Hallmark, Warner Brothers, Dreamworks and the US networks CBS and ABC as well as a 20 per cent stake in the Hollywood film studio, New Regency.

Although it produces no drama in-house, the Nine Network does invest in drama production that is largely Australian-made and in programs that are the result of collaborations with overseas partners. In 1998 the network formed Nine Films and Television – a drama unit which enables it to develop programming in which it owns copyright and which will also satisfy local content requirements while qualifying for tax concessions. Nine Films and Television was a partner in the Australian/UK co-production *Moby Dick*, a 4 x 120-minute mini-series. It has a long-term partnership with the US-based Jim Henson Productions, resulting in the co-production of the adult science fiction drama series *Farscape*. Both productions qualify as Australian and count towards Nine's transmission quota and drama score.

The Seven Network

The Seven Network has a steady history of developing and supporting Australian drama content. In recent years Seven's ratings successes revolved around Australian drama and lucrative sporting rights.

In a move uncharacteristic of a commercial broadcaster, Seven broke ranks in 1999 with the other networks and the peak industry body FACTS (Federation of Commercial Television Stations) by stating its commitment to Australian content. In its submission to the Productivity Commission's Broadcasting Inquiry, Seven said that 'important social and cultural policy goals are achieved through local content regulation … [and that] … Local content is becoming increasingly important with the globalisation of media markets and the cultural pressures that derive from transborder broadcasting. The Seven Network accepts the value to Australia of its obligation to meet quota requirements.'[55]

[55] Seven Network, sub. 151, p. 5 cited in Productivity Commission (2000), *Broadcasting*, Report no. 11, Ausinfo, Canberra, p.381.

Seven's stated commitment to Australian programming has not prevented it from keeping pace with the other commercial networks in forging strong international alliances, program supply deals and joint ventures. A previous owner of the MGM film library and rights, Seven sold its stake in the US studio back to Kirk Kerkorian in 1999 and entered into a 15-year program supply deal with the studio.[56] Seven has long-term program supply arrangements with the US network NBC and the Hollywood studios Twentieth Century Fox, Disney and MGM. Paramount programs are shared with Nine. Seven picked up MCA-Universal programming once the Network Ten contract lapsed at the end of 2000.

Apart from relinquishing control of one of the world's most lucrative film libraries, perhaps Seven's most significant recent development in relation to internationalisation was the arrival of the UK-based Granada Media Group on the Australian production scene. When Granada Media purchased the Australian independent production house Artist Services in 1998 it inherited a close working relationship fostered with the Seven Network since 1989.

Artist Services started by producing comedy programs for the Seven Network, then feature films, children's and adult drama series and mini-series, and documentaries for all the networks, until it became Australia's third-largest independent producer. It owned a 20 per cent stake in the pay TV service, thecomedychannel.

Following its Artist Services acquisition, Granada Media purchased shareholder stock in the Seven Network, becoming its fifth-largest shareholder by March 2000. An integral component of Granada's 'buy-in' strategy was the merging of Seven's in-house drama department with Artist Services to form the joint venture Red Heart Productions. Red Heart was set to produce over 350 hours of programming per year, 200 of which are designed for Seven's FTA broadcasting, pay TV and multimedia services.[57] However, in April 2001, Granada Media pulled out of its Red Heart Productions joint venture with the Seven Network and has scaled back its operations to work only on co-productions between itself and Seven.

Network Ten

To date Ten has not appeared to focus on television drama production arrangements with foreign production entities. However, the majority economic interest in the network is held by CanWest, the Canadian media conglomerate. To overcome contravention of the BSA's foreign ownership and control limitations, CanWest engaged in a lengthy reshuffling of economic and shareholder interests to keep control of the network.

Outside of Ten's ownership issues, it has responded to the increased costs of its foreign program supplies by not renewing its MCA/Universal supply deal. Instead it has redirected programming funds into higher levels of Australian content.

3.2 PAY TV

Pay TV has been a turbulent domain in Australia's media market. From its inception in 1995 pay TV was characterised by a business model of large investment with slow returns over a long period of loss. Infrastructure investment for the three pay TV platform operators in Australia is reported to exceed $86 billion[58] and in its first three years the industry is said to have lost $43 billion.[59]

3.2.1 Industry structure

Pay TV in Australia operates at two levels: platform operators/owners (pay TV 'broadcasters') and channel providers. Foreign ownership and joint ventures between Australian and foreign companies apply at both levels. Under the BSA, a foreign person must not have company interests of more than 20 per cent in a subscription television broadcasting licence. Two or more foreign persons must not have company interests of more than 35 per cent.

The major differences from the commercial free-to-air regime are that there is less restriction on foreign control of a subscription television broadcasting licence and the cross media rules do not apply. This more relaxed regulatory regime has seen foreign companies control two of the three platform operations, Optus Television (formerly UK controlled, now owned by Singapore Telecommunications) and Austar (US controlled). In the Australian-controlled Foxtel, the lack of cross media restrictions in relation to pay TV permit Rupert Murdoch's

---

[56] Luke Collins (1999), *The Australian Financial Review*, 23 June, p.19.

[57] SPAA (2000), *Above the Line*, March, p.7.

[58] Luke Collins (1999), 'Positive Vibes for $486M Float', *The Australian Financial Review*, 29 June, p.1.

[59] Helen Meredith (1999), 'Pay TV Puts 1 Million Viewers in the Picture', *The Australian Financial Review*, p.53.

News Corporation to be a major shareholder (25 per cent).

Table 3.5: Pay TV platform ownership at the end of the 1990s

Platform	Ownership
Foxtel	Telstra (Aust) 50%, PBL (Aust) 25% News Corporation (25%)
Optus	Cable and Wireless (UK) 100% (now Singapore Telecommunications 100%)
Austar	UnitedGlobalCom (US) 71%

Source: AFC, *Get The Picture*, 5th edition. See *Get the Picture Online* for up-to-date information

Pay TV's relaxed foreign ownership regime enabled the UK company Cable and Wireless to set up the Australian pay TV licensee, Optus Television, formerly Optus Vision.[60] Similarly, US cable and media company UnitedGlobalCom controls and operates Austar, Australia's regional pay TV service. At present Foxtel and Optus compete in the metropolitan cable markets while Austar enjoys a virtual monopoly with its satellite service to regional Australia. In addition to the three major players, in March 2001 there were several smaller pay TV operators providing or about to provide niche services, mostly focussed on certain geographical regions.[61]

The introduction of pay TV coincided with the partial deregulation of Australia's telecommunications industries. Australia's two dominant telcos, Telstra and Optus, became involved in pay TV in order to diversify into the expanding home entertainment market. Each company installed its own cable infrastructure using pay TV as a means to leverage market dominance in the $5 billion Australian telephone business and in future online services.

Pay TV channel providers have brought in vast amounts of foreign programming, which has altered the relationship between many US content suppliers and Australian producers and broadcasters. A physical presence on Australian shores through a subsidiary operation like the Disney Channel, for instance, meant more autonomy for these foreign producers at some levels and partnerships with Australian firms at other levels.

In mid 2001 there were 57 pay TV channels, 18 of which were classified by the ABA as drama channels. Ownership at the channel provider level is broad and ranges from the pay TV broadcasters and Australian free-to-air commercial broadcasters through to joint ventures between local operators, Hollywood studios and other foreign producers.

The Australian pay TV take-up rate was rapid compared to the rates of the UK and New Zealand at similar stages of development.[62] By December 2001, subscription television had penetrated 21 per cent of Australian households.

Table 3.6: Australian pay TV penetration

	% homes with pay TV	% change
1996	5%	
1997	10%	100%
1998	12%	20%
1999	16%	33%
2000	19%	19%
2001	21%	8%

Source: ACNielsen *Australian TV Trends 2001*; AFC: *Get the Picture Online*, accessed March 2003

Table 3.7 shows where pay TV viewers have chosen to subscribe.

---

60 In mid 2001, Singapore Telecommunications agreed to purchase the interests of Cable and Wireless in Optus. The outcome is the replacement of one foreign owner with another.

61 In its review of pay TV competition in Australia, the Productivity Commission listed the following operators: Neighbourhood Cable, TPG (Boomerang), Access 1, TARBS, Primestar Communications, Easy TV. See Productivity Commission (2001), *Telecommunications Competition Regulation*, Draft report, Canberra, March, pp16.2 and 16.30.

62 Terry Flew and Christina Spurgeon (1999) 'Television after Broadcasting' in G. Turner, and S. Cunningham (eds) *The Australian TV Book*, Allen & Unwin, Sydney, p.75.

Table 3.7: Pay TV subscriber levels by platform, December 2001

Platform	No. of subscribers
Foxtel	775,000
Optus	250,000
Austar	432,000

Source: Digital Broadcast Australia, in AFC: *Get the Picture Online*, accessed March 2003

From both consumer and regulator perspectives, Australian pay TV and free-to-air broadcasting have been received along very different lines. In part this is because free-to-air focuses on mass audiences and pay TV focuses on audience customisation, thus eliciting different approaches to content regulation and cross-media ownership and control.

Subscription television licences are technologically neutral; they do not rely on a particular means of delivery and can employ any one or more of cable, satellite and the microwave multi-point distribution system (MDS). In Australia, unlike the US and UK, free-to-air broadcasters are not excluded from owning subscription television licences or subscription television channels. An Australian subscription television licence has no 'must carry' provisions that require free-to-air television services (commercial, public and/or community) to be carried on pay TV. This differs from 20 out of 27 OECD countries where subscription services have 'must carry' requirements.[63] This has not prevented pay TV licensees from re-broadcasting free-to-air services as part of their basic subscriber packages.[64] A pay TV licence does not provide access to spectrum in the broadcasting service bands.

3.2.2 Australis, Optus Vision and Foxtel

There have been three prominent corporate casualties in the Australian pay TV sector. Australia's first subscription TV service, Australis Media, and its Galaxy service entered into receivership in 1998 after four turbulent years. The same year, US cable operator Century Communications withdrew from the regional Australian cable market after operating for three years and investing US$125 million in East Coast TV. A third regional cable operator, US-based Northgate also fell victim to pay TV rationalisation in April 1998.

Australis' difficulties began when it competed head to head with rival pay TV service Optus Vision over exclusive access to sports and Hollywood film and television output.

Optus Vision was a much larger business than Australis, whose sole business was pay TV via an MDS network and future satellite system. Optus Vision was formed in September 1994 by a consortium that included Australia's second major telecommunications provider Optus Communications (35 per cent), the US cable specialist Continental Cablevision (30 per cent), and the Australian free-to-air commercial broadcasters Nine Network (20 per cent) and Seven Network (15 per cent).

In their efforts to outbid at the supply level, Australis and Optus Vision paid record fees for US programming. These fees would rise even further when Foxtel – a joint venture between News Corporation and Telstra – entered the pay TV environment in 1995.

Between the two fiscal years 1996 and 1997 Australis' program and production costs almost doubled from $70.168 million to $126.752 million.[65] A combination of cashflow problems and increased operating expenses as the company tried to extend from MDS delivery into satellite delivery saw the company attempt mergers with both Optus Vision and Foxtel.

In both February 1996 and July 1997 the proposed merger between Foxtel and Australis was blocked by the Australian Competition and Consumer Commission (ACCC). The merger was denied by the ACCC on the grounds it would jeopardise the operations of Optus Vision, which would affect the parent company Optus Communications and its ability to deliver competition in local telephony.

In May 1998 Australis was declared insolvent and the movie supply deals were renegotiated directly between Foxtel and the Hollywood studios Universal, Columbia TriStar and Paramount. Foxtel also purchased Galaxy's 60,000 digital satellite customers.

The regional pay TV service Austar emerged out of the Australis collapse. A former regional franchisee for

63 ibid., p.74.

64 At the end of 2000 the FTAs and Australian program producers in exchange for pay TV access had just negotiated copyright and re-transmission fees.

65 Australis Media Ltd, annual reports, 1996 and 1997.

Australis' pay TV service, Austar is a majority-owned subsidiary of US parent company UnitedGlobalCom.

3.2.3 Key content drivers

The pay TV target audience is much smaller than the free-to-air broadcasting audience. Pay TV features niche channels, reduced advertising opportunities and an absence of prime-time blocks of programming. Pay TV programming is composed of a combination of specialist and general channels. Specialist channels concentrate almost exclusively on sports, movies, news, weather, music, documentaries or nostalgia programs. General channels offer children's programming or a combination of 'classic' films and television.

Channels are provided to pay TV broadcasters either on an exclusive or a non-exclusive basis. A pay TV broadcaster is essentially a distributor of channels to subscribers, so in most cases pay TV operators do not acquire programs like free-to-air broadcasters do.

The long US experience has illustrated that the key drivers attracting subscribers are sports and movies. The bulk of pay TV's programming costs come from the acquisition of movie rights and sporting rights. US film and television archives provide the basis of pay TV programming. New-release films are distributed on pay TV after theatrical and video release but before free-to-air television broadcasts.

At the end of the 1990s, there were two main consortiums that supplied Hollywood films to Australian pay TV operators:

- the Premium Movie Partnership (PMP) supplied movies to Foxtel and Austar from the following studios: Twentieth Century Fox, Paramount, Universal, Columbia TriStar, and Liberty;
- the Movie Network supplied movies to Optus and Austar from Disney, Warner Brothers, MGM and Village Roadshow, and had arrangements with Dreamworks SKG, New Vision, New Line, Turner Pictures, and the Globe Film Co.

The two major suppliers of sports programs were:

- Fox Sports (supplying to Foxtel and Austar);
- Seven Cable Television (supplying to Optus and Austar).

By the end of 2000, supply through the Movie Network was no longer exclusive to Optus and Austar, and Seven Cable and Sport had long sought access to the Foxtel network. However, Foxtel had not entered arrangements for supply of these services.[66]

Australia's federally legislated anti-siphoning rules mean certain sporting rights cannot come under the exclusive control of pay TV operators. The only way a pay TV broadcaster can acquire rights to a sporting events on the anti-siphoning list is if a commercial free-to-air broadcaster or national public broadcaster has first had the opportunity to acquire the rights. The anti-siphoning rules apply until 2004.

> Of all the lobbying by the networks to date, their ability to deny pay TV any sports programming was 'the big one'.
>
> Mark Westfield, *The Gatekeepers*[67]

Although the Australian pay TV sector's experience with Hollywood and movie supply deals set world records in cost terms, it was part of a global trend. In Europe during the 1990s, movie output deals were renowned for securing 'massive paydays' for the US studios.

> Syndication to pay-TV and terrestrial networks is where the bug bucks are.
>
> Andy Bird, President Entertainment Networks, Time/Warner Europe[68]

When they began their European operations in the early 1990s, independent US pay TV channels experienced similar difficulties with the US studios. The pattern in Europe was for the US studios not to launch their own channels but to sell programming to cable channel suppliers. The studios owned none of the major US cable channels – Discovery, MTV, Nickelodeon and Cartoon Network – in the early 1990s, nor did they have rival European services. Cable channels were outside the traditional model of the Hollywood studio so they remained content providers charging exorbitant fees for programming.

---

66 Productivity Commission (2001), *Telecommunications Competition Regulation*, Draft report, Canberra, March, ch. 16.

67 Mark Westfield (2000), *The Gatekeepers*, Pluto Press, Sydney and Comerford & Miller, Kent.

68 *Cable and Satellite Europe*, April 2000, p.13.

The high costs of US programming also contributed to the 1990 UK platform merger of Sky Television with British Satellite Broadcasting. The formation of BSkyB as a single buyer in the UK satellite business meant that the US programming deals were renegotiated at much lower prices. Australis sought a similar outcome in its merger attempts with Optus Vision and Foxtel, but with both attempts blocked by the ACCC Australis was soon declared insolvent.

3.2.4 Drama and Australian content

Australia's pay TV drama channels present opportunities for the local audiovisual production sector, given the 10 per cent Australian content expenditure requirement.

Early attempts to legislate a minimum amount of expenditure on Australian content on pay TV were not successful because the relevant provisions in the BSA failed to anticipate the eventual structure of pay TV in Australia. Pay TV licensees were targeted under section 102 of the BSA and required to spend at least 10 per cent of their annual programming expenditure on new Australian drama. In fact channel providers, not pay TV licensees, incur programming expenditure. This resulted in the introduction of a voluntary compliance scheme to implement the intention of the pay TV expenditure rules, pending enforceable legislation.

In 1997 an ABA report on Australian content on pay TV recommended compulsory compliance to be achieved by legislative amendment. The *Broadcasting Services Amendment Act (No.3) 1999* repealed section 102 and replaced it with Division 2A in Part 7 of the BSA which made it compulsory for drama channel providers to spend 10 per cent of their annual programming expenditure on new Australian drama.

Table 3.8 demonstrates how self-regulation and partial compliance by the channel providers affected the Australian production sector. Full 10 per cent compliance from 1995/96 to 1998/99 inclusive would have resulted in a total expenditure of $30,872,691, i.e. $11,375,996 more than the actual voluntary spend of $19,496,695.

Expenditure on new Australian drama rose sharply after the introduction of compulsory compliance, with the drama channels spending $18.2 million in 2000/01, compared to $6.34 million in 1998/99.[69]

Table 3.8: Aggregate expenditure on new Australian drama by pay TV drama services under voluntary compliance, 1995/96 to 1998/99

	No. of channels	Total program expenditure A$	Expenditure on new Australian drama A$	Drama expenditure as percentage of total expenditure
1995/96	11	$24,570,420	$1,740,420	7.1%
1996/97	15	$64,581,955	$3,242,745	5.0%
1997/98	16	$100,806,940	$8,173,504	8.1%
1998/99	17	$118,767,599	$6,340,026	5.3%
TOTAL		$308,726,914	$19,496,695	6.3%

Source: ABA Media Release No.46/2000, 13 July 2000.

Investment in Australian programming is expected to increase in conjunction with increasing subscriber numbers and related revenue. Programming expenditure on new movie drama channels is determined by a payment structure based on costs per subscriber (CPS). Programming expenditure increases with more subscribers because the amount licensees pay channel providers is tied to the number of subscribers. In turn, the number of subscribers also determines the amount channel providers pay program rights holders.

In a 1997 study on pay TV, the BTCE (now Communications Research Unit) estimated that programming prices along with subscription numbers will increase in the short to medium term but program prices will decrease as the market matures and minimum subscriber numbers activate discounts from program suppliers.[70] Non-movie drama channels offering series and serial drama programs purchase them through licence fees in the way free-to-air broadcasters do. However, the fees are considerably less than those paid by free-to-air broadcasters: licence fees paid by pay TV channels average 16 per cent of what free-to-air broadcasters pay for the same program.[71]

The cost of programming will determine how much the channels will be required to spend on first-run Australian drama production. The BTCE found that the 10 per cent requirement translated into a 3.5 per cent increase in the number of Australian films and a 1 per cent increase in drama. The study found that the Australian production industry was 'well placed to absorb any demand from pay TV at the 10 per cent level'. As for the pay TV channel

[69] ABA, in *Get the Picture Online*, http://www.afc.gov.au/gtp/wptvexpenditure.html; accessed March 2003.
[70] BTCE (1997), *Australian Content on Pay TV*, Working Paper 31, Department of Transport and Regional Development, Canberra.
[71] AFC/FFC (1999), *Response to the Productivity Commission Draft report – Review of Broadcasting Legislation*, p.51.

providers, the cost burden of the expenditure requirement at 10 per cent was estimated to be highly viable.[72]

Given that the new drama expenditure requirement relied on voluntary compliance, it is not surprising that all but two of the eligible pay TV channels failed to deliver. When pay TV channel providers have invested in Australian content, it has been through a combination of licence fees for programming rights, along the lines of free-to-air broadcasters, and equity investment in feature films or telemovies.

The equity and licence fee approaches have been the preferred forms of investment for Showtime, the Australian channel provider for the US-based Premium Movie Partnership. To the end of 2001 Showtime had provided equity investments in 35 first-run Australian features, 16 presales at script/story stage, and over 20 presales in the form of licence fees.[73]

The economics of the pay TV industry firmly situate pay TV as a secondary market for local producers who can expect to receive only marginal payments for licence fees and nominal equity investment. The Screen Producers Association of Australia (SPAA) has expressed concern that investment in Australian content will be directed into existing television programs, i.e. resulting in minimal new programming on pay TV, as free-to-air broadcasters and producers use pay TV investment as top-up funding.[74]

Under the BSA's compliance requirements, the pay TV sector, through the foreign owners of the pay TV drama channels, represents a potentially valuable addition to the sources of funding for Australian film and television production. Even if it comprises only a secondary market, the sector's participation will contribute to the continuing viability of the Australian production industry.

> Even though we are usually the last piece in the funding puzzle, our involvement often enables a film to go into production.
>
> Samantha Meers, Showtime[75]

3.2.5 Local formats

In early 2001, Australia had three 'pass-through' drama channels:

- the Cartoon Network and TNT, both provided by Turner Entertainment and broadcast by Foxtel, Optus and Austar;
- Hallmark on Foxtel.

A 'pass-through' channel means it is provided in its entirety by an overseas program supplier without being re-packaged or altered for the Australian market. Generally the pass-through approach has not been adopted by drama channel providers in the Australian pay TV market. Local specificity is an important element in the delivery of pay channels, just as it has been for free-to-air broadcasters.

In submissions to the 1997 ABA Inquiry into Australian Content on Pay TV, channel providers and pay TV broadcasters unanimously stated their intention to localise their services to establish an Australian identity for pay TV. Implementation of the localisation strategy resulted in Australian hosts, locally produced channel promotions, identification spots, interstitials, program promotions and marketing.

However a pass-through approach may be preferred for news and sports channels. These channels are packaged overseas and delivered whole into the Australian pay TV home.

The Hollywood studios Universal, Warner, Paramount, Columbia and Fox are major content suppliers and they currently have considerable interest in pay TV channels. The studio owners of the Premium Movie Partnership (PMP), i.e. Paramount, Universal, Columbia TriStar and Twentieth Century Fox, have an agreement with Foxtel whereby they are entitled to purchase an undisclosed amount of non-voting equity in Foxtel.[76] Should this occur it would represent a major structural alignment in terms of direct access by Hollywood studios to Australian consumers.

Disney has already changed its traditional relationship with the Australian market by setting up the Disney Channel subsidiary in Australia. The Australian operation is an extension of Disney's approach globally, as Disney

---

72 BTCE (1997), op. cit., p. xix.

73 Emily Carr (2000), 'Boosting the Production Line', *The Australian Financial Review*, 20–25 April, p.4. Updated by Showtime April 2003.

74 Nick Murray (President of SPAA & CEO of Jigsaw Entertainment) (2000), Opening Address to 2000 SPAA Conference, 16 November. Transcript: Sandy George Media P/L.

75 Emily Carr (2000), op. cit.

76 Luke Collins (2000), 'Studios Stall on Foxtel Buy', T*he Australian Financial Review*, 27 October, p.44.

retains 100 per cent of the Disney Channels in all its subscription television markets. The underlying economic rationale behind a studio like Disney launching a channel as opposed to simply remaining a content provider is twofold. According to McChesney: [77]

- individual channels provide a locally tailored service for individual territories. The strategy is to avoid resembling a Hollywood movie pipeline and build brand awareness through one channel or a series of channels with different markets in mind. Local management of the channel ensures it achieves a local look and feel, which can often lead to a genuine commitment to original local production;
- developing a local channel drives merchandising sales, global branding and ideally leads to inflated program distribution prices.

Australian free-to-air broadcasters have also played a role in shaping the look and content of Australian pay TV channels. One of the first channel collaborations was SportsVision on Optus. The service was a joint venture between Channel Seven (30 per cent), ESPN (25 per cent), Optus (25 per cent) and PBL (20 per cent). A four-channel sports service, SportsVision encountered difficulties with subscriber shortfalls and escalating costs. The PBL withdrawal and subsequent migration to Foxtel saw the channel enter liquidation.

Channel Seven and Channel Nine eventually sold all of their interests in Optus and Seven concentrated on program supplies through its C7 service. In mid 2001, Seven was still pursuing an agreement for the C7 service to be carried on the Foxtel network, in spite of successive judgements in its favour from the Federal Court.

In other regulatory developments, there has been some attention to content supply deals in the pay TV sector. Both the ACCC and the Productivity Commission have raised questions about the effect of exclusive supply contracts on the viability of smaller, high-bandwidth telecommunications services, particularly in regional Australia. It has been suggested that the supply deals by the major providers leave smaller providers unable to obtain content for new services. This content, in turn, is thought to be essential to a viable high-bandwidth operation. One result of this could be the discouragement of competitive telecommunications in regional areas.[78]

Update: In November 2002, the Australian Competition and Consumer Commission (ACCC) approved 'channel sharing' arrangements by Foxtel and Optus, allowing subscribers to each service to get extra channels previously shown only on the rival service. Telstra will also be allowed to resell Foxtel to consumers as part of a bundle of other services, including telephony and Internet access, and Foxtel will upgrade from analog cable to digital in coming years, providing more channels and new services such as interactive television.

The ACCC's approval is subject to key stakeholders Foxtel, Optus, Telstra and Austar fulfilling certain undertakings designed to ensure meaningful competition in the subscription television industry. This includes promises by Foxtel and Optus to provide access to their pay TV programming and networks to competitors, including regional operators. Channels whose rights they have agreed not to acquire on an exclusive basis include the Cartoon Network, TCM, World Movies, Sky News and ESPN International. Further non-exclusive arrangements have been made in relation to the Movie Network and the Premium Movie Partnership.[79]

---

[77] Andy Fry (2000), 'Atlantic Crossing', *Cable and Satellite Europe*, April, pp12–18.

[78] See Productivity Commission (2001), *Telecommunications Competition Regulation: Draft report*, Chapter 16.

[79] Cosima Marriner, 'Pay TV bonanza as giants agree to share', *SMH Online*, November 14, 2002; accessed 10 April 2003; ABA (2002), *Review of Australian Content on Subscription Television: Discussion Paper*, p31; http://www.aba.gov.au/tv/investigations/projects/review_subsTV/index.htm; accessed 10 April 2003.

Chapter 4. The big screen: Theatrical distribution and exhibition

4.1 DISTRIBUTION

Distribution in the 1990s saw significant changes for both the US major distributors and Australian independent distributors.

In the 1990s overseas revenues became vital to ensuring films produced by US majors entered into profit, so maximising revenue from overseas sources become a priority. One way to achieve this was by increasing the level of control in international distribution arrangements, leading to 100 per cent of the revenue flowing back to the US parent corporation.

The arthouse sector represented a second opportunity for the US majors. As the arthouse market experienced continued growth in the 1990s the major distributors set up independent divisions to concentrate on acquiring arthouse films and controlling their revenue.

For their part, Australian independent distributors forged new partnerships with the majors and each other as well as the exhibition chains in an effort to diversify in an increasingly competitive marketplace.

4.1.1 The majors – distribution arrangements in Australia

In the 1990s, the majors focussed on setting up and controlling foreign distribution subsidiaries. In the case of Twentieth Century Fox in Australia, it meant ending the distribution co-venture with Columbia TriStar in 1996. Fox then expanded its operations by also distributing MGM/UA films in Australia, taking over from UIP.

Disney took direct control of its Australian releases from Roadshow, which had previously distributed all Disney titles. The arrangement with Roadshow ended when Disney set up an Australian subsidiary of its distribution arm Buena Vista International.

Roadshow handles Warner Brothers films in Australia. Beyond International has an arrangement with Village Roadshow for international distribution of any film Village Roadshow handles domestically, other than films covered by the deal with Warner Brothers.

UIP has remained a joint venture between Paramount and Universal and has replaced MGM/UA product in Australia with Dreamworks/SKG films. Both Universal and Paramount make their own territorial and regional acquisitions.

4.1.2 Merging arthouse and mainstream distribution

The changing distribution and exhibition landscape in Australia has seen the US majors and the larger Australian distributors enter into new partnerships with independent Australian distributors and exhibitors. In 1999 Twentieth Century Fox took over the physical components of the theatrical distribution of films handled by the Australian independent Newvision, so it could concentrate on acquisition, marketing and ancillary distribution. UIP entered into a similar arrangement with Globe Films, which now handles the independent's physical distribution of films, cashflows and P&A campaigns.

In 1998, a combination of low sales to Asia as a result of the Asian currency crisis and the low Australian dollar sent the Becker Group into the red for the first time in its 33-year history. The family company now has a broad share register, with Television and Media Services acquiring an 11.8 per cent stake and board representation. Becker Group also acquired one of Australia's oldest independents, Dendy Films.

As the majors give new emphasis to pursuing titles from the independent production sector there is increased competition for the distribution of titles. The majors easily outbid the independent distributors and provide access to many more markets if they secure an independent foreign title. The AFC has argued that one of the few advantages Australian films will find in this environment is that as independents increasingly miss out on foreign titles, the search for alternative sources of product will draw them to Australian material.[80]

---

[80] AFC (1999), *Distributing Australian Films*, 31 August , p.9.

Table 4.1: Australian distribution arrangements (studio/distributor) in theatrical release, 1990 and 2001

100% foreign theatrical distribution subsidiary			
1990		**2001**	
PolyGram	PolyGram Pictures	Disney/Touchstone	Buena Vista International
		Twentieth Century Fox	Twentieth Century Fox Film Corporation
		Columbia	Columbia TriStar
Foreign joint venture distribution subsidiary			
1990		**2001**	
Paramount	UIP	Paramount	UIP
Universal	UIP	Universal	UIP
MGM/UA	UIP		
Columbia	Fox Columbia TriStar		
Twentieth Century Fox	Fox Columbia TriStar		
Foreign agency/sub-distribution			
1990		**2001**	
		Dreamworks	UIP
		MGM/UA	Twentieth Century Fox Film Corporation
Australian agency/sub-distribution			
1990		**2001**	
Warner Brothers	Roadshow	Warner Brothers	Roadshow
Disney/Touchstone	Roadshow		
Twentieth Century Fox	Hoyts		

Source: Author/MPDAA

> With the studios adding a greater volume of acquired product to their distribution slates it means there are a lot of titles coming through their infrastructure that compete directly with us. At the specialty end of the market it means a film's theatrical life is much shorter, and the viability of a small film building its audience through word of mouth is much less. As with the mainstream major studio films, if the specialty product doesn't open strongly, it must come off to make way for other product.
>
> Andrew Mackie, Globe Films[81]

Mackie's comments support the view that an Australian independent distributor is still the best chance an Australian film has of finding an Australian market. Independent distributors are more likely to tailor P&A campaigns for Australian films and allow them time to find their audience.

4.1.3 Arthouse and Australian films

Arthouse and mainstream theatrical exhibition have traditionally appealed to separate audiences, who are approached through different marketing strategies. Australian films have traditionally circulated in the arthouse market with an independent distributor, although they occasionally 'break through' into the mainstream. The number of arthouse screens in Australia has risen significantly in recent years.

Although the arthouse market has traditionally accommodated foreign language films the number of foreign films has remained reasonably constant. Filling the screens of these new cinemas have been 'independent' English language films and a growing number of international films often backed by the major studios.

As the mainstream distribution and exhibition sectors transform and there is increasing pressure for fewer films to earn more income, Hollywood distributors have begun to pursue a strategy of diversification. All of the major studios now have a separate 'arthouse' or 'classics' division, which concentrates on producing or distributing films for the growing arthouse market. The German independent film *Run Lola Run* and the Chinese film *Not One Less* were both distributed by Columbia Pictures. *The Opposite of Sex*, *Central Station* and *Life is Beautiful* were

[81] ibid.

all distributed by the major foreign distributors in Australia.

> When we started out [in 1994] hardly any of the studios had special product divisions, now every studio has an independent arm. When acquiring titles we're competing directly with them which makes it more difficult to secure commercial titles.
>
> Andrew Mackie, Globe Films[82]

In moving into the arthouse circuit, the majors have adopted a release pattern similar to their mainstream distribution and exhibition patterns. An increase in the number of arthouse films has generated competition for screen time and outlets, which has reduced the length of time an individual arthouse film can be screened.[83]

Release patterns are increasingly polarised. On the one hand, a mainstream film will 'go wide' with print runs of 75 and over so it can be spread across the exhibition sector and capture the bulk of its box office returns within the first two weeks. On the other hand, a small film deemed to appeal to a specialist audience would warrant only 10–20 prints with minimal investment in promotion. Unable to reach many screens, and poorly advertised and marketed, the film has a slim chance of finding an audience in its shortened release window.

Polarised release strategies and reduced screening periods have serious ramifications for smaller films like Australian features with limited marketing budgets. The arthouse circuit has traditionally given a film sufficient time to 'find' its audience through zero costs measures such as reviews and patron word of mouth. A small P&A strategy was used to slowly build an audience until the film could justify a wider release. With P&A campaigns increasingly pursued along the extremes of wide or narrow and nothing in between, the basis on which Australian films have been marketed is disappearing.

> The increasing cost of releasing films also puts pressure on the viability of releasing small to medium films … They are becoming the most unprofitable area of return; it's getting to be a marginal area. It's easy these days to spend a million dollars on a release.
>
> Stephen Basil Jones, Managing Director, Columbia TriStar Films & Chair of MPDAA[84]

The combination of these developments has contributed to the recent, poorer box office performances of many Australian films overseas. The poorer performance in international markets has created a trend of diminishing returns for the FFC and AFC. For example, the FFC recouped $3.7 million from its investments in Australian films in 1999/00, $7.1 million in 1998/99, $9.1 million in 1997/98 and $12.1 million in 1996/97.[85]

Despite the downward trend, overseas sales remain vital in generating returns for Australian films. An international distributor is essential for securing FFC investment in an Australian feature, and foreign sales contributed almost 70 per cent of FFC feature film recoupment in 1999/00.[86]

Within Australia some Australian films are overcoming obstacles that confront the medium-budget film and achieving a degree of blue-sky returns. In 2000 the combined box office takings of three Australian films *The Dish* ($16.9 million), *The Wog Boy* ($11.5 million) and *Looking For Alibrandi* ($8.3 million) outperformed the total Australian feature film box office of 1999.[87] Combined with the box office takings of films like *Chopper* ($5.7 million) and *Me, Myself and I* ($2.7 million), Australian films collected $54.2 million in 2000 – 7.8 per cent of the box office total of $689.5 million.[88]

4.1.4 New technologies and new strategies

As stated above, a major distribution development in the late 1990s was the global release of feature films by the Hollywood majors. Until 1998 the trend was for the occasional blockbuster in the league of *Titanic* to receive a global release, capitalising on an 'event' marketing campaign in conjunction with major global P&A expenditure. However, global release is becoming the standard approach for most Hollywood films. As of 2000, Columbia TriStar Film Distributors has aimed for six films a year where the overseas release occurs within two weeks of the US release. UIP had success with its worldwide release of *Gladiator*, aimed to follow Columbia TriStar's strategy.

---

82 ibid., p.8.
83 Peter Crayford (2000), 'A farewell to Subtitles', *The Australian Financial Review,* April 20, The Fin, p.3.
84 Blake Murdoch (1998), 'Majors Reap Box Office Benefits', *Encore*, Vol 16, Issue 13, 12 August, p.30.
85 FFC, annual reports data.
86 Nicole Lindsay (2000), 'Films Lack World Appeal', *The Australian Financial Review*, 20 October, p.26.
87 Blake Murdoch (2000), 'Market Settles after Boom Time', *Encore*, Vol. 18, Issue 7, August, p.28.
88 AFC, *Get the Picture Online*; and Bernard O'Riordan (2001), *The Australian Financial Review*, 17 January, p.3.

The Internet has now become a major marketing tool. Both official and unofficial websites generate new levels of awareness and interest in a film in any territory, and distributors want the film widely available in all markets to exploit this awareness and interest.

The impact of the new digital cinemas, e-cinemas, will extend right across film production, distribution and exhibition. The immediate effect on distribution will be to remove many of the logistical obstacles (e.g. expensive print runs, freight, storage and handling costs) otherwise involved in global releases. An average US feature print costs US$1,000 and a typical release costs US$3.5 million. The total cost for US film releases annually approaches US$2 billion. Factor in storage, transport, insurance and disposal expenses and the cost rises to US$5 billion. By eliminating prints from theatrical distribution and exhibition, e-cinema will benefit distributors the most by reducing print and handling costs by an estimated 90 per cent.[89] It is at the exhibition end, however, that the implementation costs of electronic projection will be felt.

Marketing may be driving global release patterns now but true, simultaneous, global releases will be economically irresistible given digital developments. The effect of global releases on Australian films and the Australian distribution and exhibition sectors is yet to be felt. The immediate concerns of Australian and European distributors and exhibitors are the prospect of increased P&A costs and the time compression that goes with global releases.

> We will lose two things: the ability to judge the release in our territory on the back of the film's US performance and our P&A costs will go sky high, as we often use second hand prints and advertising materials.'
>
> Dirk de Lille, Executive Vice President, RCV Entertainment (Europe), on the effect of global releases on European independent distributors.[90]

4.2 EXHIBITION

Table 4.2: Australian major cinema circuits, 2000

	Screens		Sites	
Major cinema circuits	**No.**	**Share**	**No.**	**Share**
Hoyts	312	17.6%	41	7.7%
Village Roadshow	225	12.7%	35	6.6%
Greater Union	202	11.4%	27	5.1%
Birch, Carroll & Coyle	198	11.2%	27	5.1%
Reading Australia	71	4.0%	10	1.9%
Palace	43	2.4%	16	3.0%
AMC	39	2.2%	5	0.9%
Other	684	38.6%	372	69.8%
TOTALS	**1774**		**533**	

Source: MPDAA, *Screen Digest*, November 2000

Exhibition in Australia experienced a number of transformations throughout the 1990s. In line with international developments, theatrical exhibition fully recovered from the VCR-induced downturn of the 1980s. In the years between 1990 and 1999 multiplex cinemas contributed to a strong growth in both the number of screens in Australia and cinema attendance. Between 1990 and 1999 the number of cinema screens in Australia doubled from 851 to 1748, cinema annual cinema attendance grew from 43 million to 88 million, while the annual box office more than doubled from $284.6 million to $704.1 million.[91]

4.2.1 Australian exhibitors and global expansion

The Australian exhibition chains Hoyts, Greater Union and Village Cinemas (the latter two are controlled by Village Roadshow) remained the dominant theatrical outlets throughout the 1990s. Hoyts returned to Australian ownership in 1999 through a gradual buy-out by Kerry Packer's Consolidated Press Holdings of the majority shareholder, San Francisco-based Hellman & Friedman Investment group. This is the first time since the 1930s that the major exhibition chains have been under Australian ownership and control.

89 *Screen Digest* (2000), 'E-cinema to save world film industry $1bn a year', Issue 348, October, p.319.

90 Mary Scott (2000), 'Release Dates Go Global' *Screen International,* June 30 – July 6, No.1265, p.1.

91 AFC, *Get the Picture Online*; accessed March 2003.

With the exception of the arrival of Reading Cinemas in Australia in the mid-1990s, internationalisation in exhibition has occurred through the Australian chains' expansion overseas. Outside North America, the world's largest exhibition chains are controlled by Village Roadshow, Hoyts and Greater Union. International expansion has occurred through these Australian companies pursuing joint ventures with international and local exhibition chains.

Village Roadshow's international expansion strategy began in earnest in 1992 through a joint venture with Hong Kong-based Golden Harvest. The deal saw Village Roadshow operate 197 cinemas across South Korea, Singapore, Malaysia, Thailand and Hong Kong.[92] In Korea, Village Roadshow expanded through partnerships with local exhibition chain Cheil Jedang and in Thailand with another local exhibitor Entertain. In Europe Village Roadshow pursued joint ventures with Warner Brothers International Theatres. Despite exiting the Golden Harvest joint venture in 2000, Village Roadshow remains the largest global exhibitor outside of the US. As of December 1999 the company still had interests in 1,473 screens spanning Australasia, East Asia, Latin America and Eastern and Western Europe.[93]

Hoyts is the second-largest exhibitor outside North America, with over 1100 screens globally in December 1999.[94] It has a strong chain presence in North America as well as interests in Western Europe, Latin America and Australasia. In Western Europe it is focussed on Germany and partnered with local exhibitor Thiele. In South America, it is in joint ventures with local exhibition chain General Cinemas.

Greater Union is ranked as the third-largest exhibitor outside North America, with approximately 900 screens spanning Australasia, East Asia and Western Europe.[95] Like Hoyts, Greater Union's European operations are focussed on Germany, where it is in partnership with local exhibition chain Kieft & Kieft.

4.2.2 Films screened

It was hoped that the rise of the multiplex cinema would contribute to a greater number of screens featuring a wider diversity of films. In Australia, local producers anticipated more screens would see Australian and other non-Hollywood films reach wider audiences and deliver healthier box office returns.

The reality has seen multiplex and megaplex cinemas use the increased number of screens to offer multiple and overlapping session times of the same type of Hollywood blockbuster films. The rise of multiplex cinemas and increase in cinema screens across Australia has contributed to steady growth in the Australian box office figures every year since 1990, except for a minor drop in 2000.

Despite the near doubling in the number of Australian cinema screens throughout the 1990s, the number of films making it into Australian cinemas remained almost the same (252 in 1990 and 250 in 2000).[96] Of the 250 films screened in 2000, approximately 50 were independent English-language arthouse films (which include most Australian films) or foreign-language films.[97]

In both 1990 and 2000, 22 Australian films were released, representing 9 per cent of the total number of films screening in each of those years.[98]

Independent distributors face an exhibition environment where it is increasingly difficult to secure releases for independent arthouse and foreign language films and where larger-budgeted US films are given priority through wider releases on more screens. The average budget of US films made during the 1990s ranged from US$26.8 million in 1990 to US$54.8 million in 2000.[99] By comparison 92 per cent of the Australian films made over the same period had budgets less than A$6 million (around US$4 million).[100]

The culmination of the new multiplex-driven, theatrical exhibition sector saw 1998 become a watershed year for the major US producers/distributors, who collected one of their largest shares of global box office returns at the expense of smaller film industries worldwide. In 1999 Australian films' share of the Australian box office was down to a low of 3 per cent, compared to a high of 10 per cent in 1994. A recovery was seen in 2000 with the

---

92 Garry West (1998), 'Village in a $38 million bid for Harvest', *The Australian Financial Review*, 4 August.

93 *Screen Digest* (2000), 'Australian Claims Biggest Global Cinema Circuits', Issue 343, May, p.160.

94 ibid.

95 ibid.

96 AFC, *Get the Picture Online*; http://www.afc.gov.au/gtp/wcfilmxcountry.html; accessed March 2003.

97 Peter Crayford, 'A farewell to subtitles', *Australian Financial Review*, 20 April, The Fin, p.3.

98 AFC, *Get the Picture Online*, op. cit.

99 Motion Picture Association, *US Entertainment Industry: 2002 MPA Market Statistics* (http://www.mpaa.org/useconomicreview/2002/2002_Economic_Review.pdf; accessed 14 April 2003), p.19.

100 AFC, *Get the Picture Online*; http://www.afc.gov.au/gtp/mpfeaturesbudget.html; accessed 14 April 2003.

release of a small number of successful Australian films, but Table 4.3 illustrates the fluctuation in the share of box office of Australian films over the preceding 10-year period.

The domestic film industries of European and UK markets experienced similar low performances, although the UK recently increased its box office share due to increased production and screening of UK films.[101]

Table 4.3: Australian feature films' share of Australian gross box office, 1990–2000

	Gross box office for Australian feature films ($m)	Australian feature films' share of total gross box office (%)
1990	6.7	3%
1991	19.1	6%
1992	29.7	9%
1993	24.7	6%
1994	46.6	10%
1995	19.8	4%
1996	43.7	8%
1997	28.4	5%
1998	25.6	4%
1999	21.1	3%
2000	54.2	8%
TOTAL	$319.6m	
Annual average over 11 years	$29.1m	6%

Source: AFC/MPDAA

[101] AFC (1999), *Distributing Australian Films*, 31 August, p.3.

Chapter 5. Trade: Imports and exports

Analysis of import and export data reveals the impact of internationalisation on Australia's audiovisual terms of trade throughout the 1990s.

Australia's audiovisual market is primarily the English language market – the USA, then the UK, followed by the secondary markets of Canada, South Africa, Ireland and New Zealand, and the rest of the world. In the USA, Australia's largest audiovisual export market, the cable television industry has adopted the strategy of financing its own productions to fill its schedules. In the UK, Australia's second-largest market, local production has been stimulated through increased industry assistance measures. Both have the result of dampening demand for imported product, including Australian television programs, films and videos.

Table 5.1 shows the extent of Australian audiovisual royalty imports and exports.

Overall, imports (royalty payments) increased by $232 million or 57 per cent over the period 1989/90 to 1998/99 (from $406 million to $638 million). The greatest contribution to this increase was in TV programs, boosted due to the demands of the Australian pay TV sector. In percentage terms, cinema films accounted for a smaller proportion of imports at the end of the decade than they did at the beginning, while there was little change in relation to videos.

Exports (royalty income) increased by $81 million, or 127 per cent, although the figures are much smaller (from $64 million to $145 million). The increase in exports is equivalent to approximately one-third of the increase in imports. Television program exports accounted for $79 million of the $81 million total increase. There was a decline in income from the export of films, while video exports rose, accounting for 9 per cent of total royalty income.

The overall trend is encouraging in that at the beginning of the review period, exports represented 16 per cent of the value of imports, while at the end of the period, they represented 23 per cent.

Table 5.1: Value of trade in royalties arising from imports and exports of cinema films, TV programs and videos, 1989/90 and 1998/99

	1989/90		1998/99	
	$ million	**% total***	**$ million**	**% total***
IMPORTS (royalty payments)				
Television	224	55%	412	65%
Film	86	21%	92	14%
Video	95	23%	134	21%
Total imports	**406**		**638**	
EXPORTS (royalty income)				
Television	33	52%	111	77%
Film	23	36%	21	14%
Video	7	11%	12	9%
Total exports	**64**		**145**	

Sources: AFC, *Get the Picture Online*; accessed March 2003.

Notes: * Percentage of total audiovisual royalty payments (for imports) or royalty income (from exports).
AFC source documents indicate that numbers may have been rounded, resulting in slight variations in totals.

Although the value of imports from the USA increased by $100 million during the period under review, as a proportion of total imports, it decreased by 13 percentage points. UK imports remained static. Perhaps the most interesting change is the growth of imports from other territories, from $13 million (3 per cent) in 1989/90 to $98 million (15 per cent) in 1998/99.

Exports are equally interesting. In 1989/90, exports were evenly distributed between the three listed markets, i.e. a range of $20 million to $22 million each. Nine years later, the US market share had increased slightly (from 31 to 35 per cent), the UK share had halved (from 34 to 17 per cent), while exports to other territories increased from 34 per cent to 48 per cent. In dollar terms, 1998/99's total export royalties of $145 million breaks down as follows: other territories first at $70 million; USA second at $51 million; and UK third at $24 million.

Table 5.2: Value of audiovisual royalty trade by territory, 1989/90 and 1998/99

	1989/90		1998/99	
	$m	**% total***	**$m**	**% total***
IMPORTS (royalty payments)				
USA	321	79%	422	66%
UK	72	18%	118	18%
Other	13	3%	98	15%
Total	**406**		**638**	
EXPORTS (royalty income)				
USA	20	31%	51	35%
UK	22	34%	24	17%
Other	22	34%	70	48%
Total	**64**		**145**	

Sources:AFC, *Get the Picture Online*; accessed March 2003.

Notes: * Percentage of total audiovisual royalty payments (for imports) or royalty income (from exports).
AFC source documents indicate that numbers may have been rounded, resulting in slight variations in totals.

It is worth looking further at the reasons for the growth in exported television programs in the 1990s. Australia's balance of trade in audiovisual royalties has consistently been in deficit, though the ratio of exports to imports improved primarily due to television program exports. Partly this is due to greater access to more foreign markets and partly due to Australia's many international co-production arrangements, as well as the presence of foreign audiovisual firms in Australia. Some Australian audiovisual firms are also building a larger presence in traditional export markets.

In any country, local specificity is a determining factor in attracting television audiences. Only certain television program genres readily find international distributors and partners. News and current affairs – the mainstays of in-house production – are firmly local and are created predominantly for domestic consumption. Programs finding export markets tend to be sport, nature documentaries, certain children's programs, science and technology magazine shows, feature films, mini-series and series drama. Television program formats are also exported, for example, games shows that accommodate a local interpretation and feature local hosts, contestants and audiences.

The success of television programs from Australia's five major production and distribution companies – Artist Services, Becker Group, Beyond International, Crawfords and Southern Star – has been instrumental in lifting exports. In 1999, *Water Rats* was reputed to have sold to 180 territories, more than any other television program in the world. Two other programs, *Big Sky* (ninth in the world, selling to 137 territories) and *Murder Call* (10th, selling to 134 countries) contribute to Australia's having a higher profile than would be expected given the comparatively small size of its production industry.[102]

Changes within the major production companies during the 1990s help explain the television program export growth, and Southern Star is a good illustration.

During the 1990s, Southern Star moved aggressively into foreign markets, seeking international finance and partnerships. It already owned two British production companies, Carnival and Oxford Scientific Films, and acquired Circle Communications in 1997, resulting in increased program sales and improved profits.[103] In 1998, Southern Star entered into a joint venture with China Central TV for a documentary series. The same year, it purchased the UK's largest independent program distributor, Primetime,[104] which enabled it to exploit the worldwide growth of outlets for television and films, i.e. free-to-air, pay TV and digital broadcasters. In 2000, Southern Star raised $31 million with overseas co-financing partners and currently has factual program output deals with the US National Geographic Channels and France's Odyssey Channel.[105] Along with Barron Entertainment, the Becker Group, Beyond International and Village Roadshow, Southern Star listed on the Australian Stock Exchange during the 1990s.

---

[102] Amanda Meade (1999), 'World Beating Water Rats Makes a Big Splash in 180 Ports', *The Australian*, 18 March, p.4.

[103] *The Australian* (1998), 'Southern Star Earnings Rise 3.6pc', 11 June, p.24.

[104] Tracey Prisk (1998), 'SS does Prime Deal', *Encore*, Vol. 16, Issue 17, 7 October, p.5.

[105] Mary Colbert (2000), 'New Tack Needed on Film Finance', *The Australian Financial Review*, 17 November, p.80.

Chapter 6. Conclusions

International dynamics have transformed the global media sector in the 1990s and are already determining the direction of drama production in the Australian audiovisual industry. There is no escaping the international marketplace and Australia is as dependent on the international industry for its local productions and exports as it is for its imports.

If the Australian experience of internationalisation reflects aspects of a new global condition, it suggests that no media organisation is entering the future media landscape alone. Collaborations, partnerships and international joint ventures are the modus operandi of audiovisual companies as they adapt to the changing media market.

What is less clear in this environment of rapid change is the appropriate response from policy makers. As internationalisation gathers pace in Australia, as it is doing elsewhere, it will call into question the cultural policy objectives that underpin the publicly funded support systems that provide the foundation for Australia's audiovisual sector.

Future opportunities for Australian audiovisual trade will depend upon the strategy adopted by both regulators and the Australian audiovisual industry in the face of continued market globalisation. Whether international collaborations between Australian firms and foreign production companies result in single audiovisual commodities or distinct content for individual markets may prove instrumental in opening up foreign audiovisual markets and/or realising the objectives of the cultural policies underpinning public support.

Internationalisation has the potential to further marginalise local audiovisual production as it introduces to Australia global marketplace economics and media players who enjoy worldwide economies of scale and limitless content. Yet it also offers the investment, access and partnership possibilities that can assist Australian content to achieve new heights. Striking a balance within this spectrum will depend on a considered and engaging domestic audiovisual policy – a policy that can provide effective support, promote a strong and innovative domestic audiovisual sector, and simultaneously maximise opportunities presented by international players and foreign investment.

6.1 GLOBALISING TRENDS

International dynamics transformed the global media sector in the 1990s. In the US, the media sector is recognised as an engine for economic growth. In the quest for new economy credentials, a dynamic audiovisual industry will be of key importance to Australia's economic future.

The global expansion and consolidation of media multinationals and the effects of advances in global information infrastructure and delivery technologies appear to some to be beyond the reach of most policy intervention. But as Project Blue Sky illustrated, a comprehensive approach to Australia's cultural industries is required if Australia's audiovisual services are to be exempted from future trade treaties and not treated as an interchangeable commodity in trade negotiations. For this reason, participants in the Australian audiovisual industry will be required to engage with the processes of trade liberalisation and trade agreements in order to have a direct say in the future of the industry.

6.2 PRODUCTION

In keeping with the phenomenon of globalisation, the 'Australian' production industry is increasingly interconnected with 'foreign' production entities. Australian services and facilities providers increasingly rely on foreign production as an important part of their business. The need for our producers to seek funds overseas and to engage in various co-production arrangements engenders a complex set of relationships. These international connections often entail important economic and employment synergies for all parties. The nexus of creative control may be shared as part of a project's financing arrangements.

The more foreign production takes place in Australia, the greater the contribution to the overall level of economic activity in the sector. However, over time Australian filmmakers and services and facilities providers may become increasingly dependent on this level of activity.

Static government funding has meant that our producers are increasingly obliged to raise funds from the international marketplace. Australia relies heavily on the international industry for both local productions and exports as well as for imports.

New programming ventures that result from international partnerships with Australian firms are set to challenge some of Australia's cultural objectives, specifically in the area of material qualifying as Australian local content. At the same time the arrival of foreign investment in both Australian productions and production infrastructure has been instrumental in limiting the impact of decreasing levels of Federal Government investment throughout the 1990s.

6.3 FREE-TO-AIR, PAY TV

The full impact of some of the alliances and directions chosen by the Australian commercial and pay TV sectors has yet to be felt by the Australian independent production sector. If increased in-house production were to come from broadcasters' joint ventures with internationals, for example, the Australian independent production sector may witness serious erosion of demand for independently produced programs. This may provoke further calls for a quota of independently produced content to be imposed on the broadcasters as it is in the UK.

The number of feature films (all films, not just Australian) on the commercial television broadcasters' schedules has decreased in response to pay TV's movie channels. Adjustments like this are set to continue as the two sectors adapt to the new television landscape.

Australia's local content quotas have ensured that steady amounts of new Australian television productions continue to feature on all free-to-air commercial broadcasters' schedules. The different nature and size of pay TV however, will mean that even with the 10 per cent drama expenditure requirement, Australian elements are set to remain primarily in the packaging and marketing of the pay TV channels, while the programming will continue to rely heavily on imported material.

The significance of arms-length relationships between Australian broadcasters, distributors and producers and overseas program suppliers is set to diminish as the Australian production landscape begins to feature more international organisations. Pay TV, new media outlets and improved production facilities have meant more joint ventures and partnerships and a more direct involvement of internationals with Australian audiovisual firms. The relationships between Australian and foreign firms show signs of becoming more strategic, co-dependent and long term.

Relationships between foreign program suppliers and Australian commercial broadcasting networks may have altered periodically throughout the decade but the suppliers have remained instrumental in terms of the overall performance of each network. Where once it was a case of musical chairs with regards to which foreign material a particular Australian media organisation had access to, future arrangements may prove more stable.

6.4 THEATRICAL DISTRIBUTION AND EXHIBITION

Greater autonomy in the distribution of mainstream titles has seen partnerships with Australian firms and joint ventures with other US firms markedly reorganised. Expansion into arthouse distribution by the majors has led to a greater concentration of firms and fewer films available to Australian independents. Further market rationalisation has also seen the majors take over operational aspects of Australian independent distributors, the full ramifications of which are yet to be seen.

In theatrical distribution, increased internationalisation appears to have translated into a harsher trading environment for Australian firms. Local distributors are confronted with higher prices and fewer films to distribute, along with fewer areas of equal partnership and cooperation with US firms.

In theatrical exhibition there are quite different trends in response to internationalisation. Australian firms remain strong both domestically and internationally. The decade witnessed a marked expansion for exhibitors in both Australian and foreign markets. Internationally the expansion was usually facilitated through partnerships with other local exhibitors and in the case of Village, often with Warner Brothers.

With technological advances on the horizon like e-cinemas and broadband content distribution, both distribution and exhibition face the uncertain prospect of even greater upheaval in the next five years. The commercial nature of the distribution and exhibition sectors often sees them overlooked in terms of assistance measures and public policy. But in a globalising and converging world, developments in distribution and exhibition are more central to the overall performance of Australia's audiovisual industry. Unlike in the past, close attention must be paid to both of these sectors to ensure a comprehensive approach is adopted for Australia's audiovisual industries.

6.5 TRADE: IMPORTS AND EXPORTS

Throughout the 1990s, there was improvement in Australia's audiovisual terms of trade. The major part of that improvement was due to the increased export of television programs to international markets beyond the US and the UK. This in turn resulted from increased local production and increased local demand, stimulated by more foreign participation and investment and more outlets respectively. The other significant aspect is the trend by the major Australian audiovisual firms to internationalise by developing their presence within the US and UK markets.

The catch in this, of course, is that the arguments for opening overseas markets are the same arguments for opening up Australian markets. Over the course of the *next* decade, the challenge for industry and government will be in striking a balance between maximising export opportunities and ensuring that Australian content is a part of the local programming mix.

Appendices

APPENDIX 1. CHRONOLOGY OF INTERNATIONALISATION 1990–2000

1990	Production	Distribution/Exhibition	TV / Video	New media (+ telcos)
July			Nine Network reverts to Kerry Packer from Alan Bond	
September			Network Ten goes into receivership under Westpac	OTC and Telecom merger announced
November			News Corp merges SkyTV and BSB in UK	
1991	Production	Distribution/Exhibition	TV / Video	New media (+ telcos)
	Beyond floated in early 1991		Channel Seven owned by Qintex receivers	
1992	Production	Distribution/Exhibition	TV / Video	New media (+ telcos)
June			BSA introduced and ABA replaces ABT	
November			Senate passes Part 7 legalising pay TV	
December			CanWest buys into Ten Network \$242m (CanWest has TV stations in Canada, NZ and Ireland)	
1993	Production	Distribution/Exhibition	TV / Video	New media (+ telcos)
	Disney acquires Miramax			
July			News Corp acquires 63% Star TV	
1994	Production	Distribution/Exhibition	TV / Video	New media (+ telcos)
		First MIP Asia held Channel Seven establishes Hong Kong program sales office		
February	PBL invests \$160m with Regency Enterprises (US film studio)			
June			ACP and Nine Network merge to form PBL	
July				PBL \$100m joint venture with Village Roadshow in Village Nine Leisure – Intencity Games and Leisure
September				Channel Seven/Channel Nine/ Optus joint venture to develop broadband network to deliver local telephony and entertainment services
November			News Corp and Telstra sign agreement to deliver pay TV	
1995	Production	Distribution/Exhibition	TV / Video	New media (+ telcos)
January			Australis launches Galaxy Service Jan 26 (Australia Day)	
March	Pearson International buys Grundy Organisation for \$378m		News Corp/Telstra in Foxtel deal. Sign TNC Heads Agreement for Foxtel to distribute Galaxy package	
April	Foxtel announces Pyrmont pay TV production facility		Galaxy expands to 8-channel service for \$49.95	
July		Foxtel buys 50% XYZ Entertainment	NewsCorp ownership of Star TV reaches 100%	
August			PBL sells 50% Sky Channel P/L to News Corp.	

1995 (cont)	Production	Distribution/Exhibition	TV / Video	New media (+ telcos)
September	1995/96: First year Commercial Television Production Fund – $20,000,000 BSB and PBL Nine Network form 50:50 joint venture to produce 24hr news channel Sky News for pay TV		Optus Vision launches on Optus broadband network – installation charge $29.95, basic monthly subscription $25 Channel Seven to join SkyNews partnership	
October			Foxtel commences cable service News Corp/Telstra/Australis (AML) merger proposed Australis commences DTH satellite service	
1996	Production	Distribution/Exhibition	TV / Video	New media (+ telcos)
May			ACCC opposes Australis/Foxtel merger	
July	Seven buys stake in MGM in 1996 from Kirk Kerkorian's Tracinda. The US$250m investment gives it 50% of the shares of the $1.3b MGM studio.		Foxtel launches Entertainment Plus – an additional five-channel tier for $9.95 per month	
August			Australis Media Services saved by PBL-led consortium. Australis enters into joint venture with Optus Vision to provide Optus Vision with access to satellite infrastructure. Foxtel brings legal action	
September	Southern Star Group floated on ASX	Nine Network and Movie Network secure output deal from Dreamworks		
October		Columbia TriStar and Twentieth Century Fox dissolve longstanding international distribution joint venture UIP		
November	Village Roadshow signs 3-picture joint venture with Frontline Television Productions – first film, *The Castle* 1996/97: 2nd year of Commercial Television Production Fund– $19,400,000			
December	Village Roadshow acquires 50% Yoram Gross Film Studios			
1997	Production	Distribution/Exhibition	TV / Video	New media (+ telcos)
February		Video sell-through distributor CEL Entertainment acquires rental distributor the Home Cinema Group	US video chain West Coast Entertainment purchases Movieland outlets	
March			C&W Optus Communications takes full ownership of Optus Vision from US West (46.5%) Seven (2%) and Nine (5%)	PBL Online launched
April			Channel Seven makes $62.5m equity investment in Optus Communications ABA finds CanWest in control of Network Ten and in breach of foreign ownership rules	

1997 (cont)	Production	Distribution/Exhibition	TV / Video	New media (+ telcos)
May	Beyond International and US DL Taffner form Taffner Beyond Productions to produce light TV entertainment Seven acquires US$100m in preferred stock of MGM	Civic Video chain acquires all 30 major video outlets	Australis joint venture with Optus Vision in satellite pay TV service rejected by ACCC News Corp/PBL/Telstra sign agreement to reallocate Australis assets – PBL to share economic interests in AML with News and Telstra – PBL will sell AML bonds to News and Telstra	
July			Advertising ban on pay TV lifted News Corp and Telstra propose Foxtel AML merger again at 66.5% Foxtel ownership – blocked by ACCC Channel Seven buys Australia TV from ABC	Cable & Wireless buys out Bell South 24.5% share in Optus Communications making it majority shareholder Microsoft/PBL joint venture formed – ninemsn
August				C&W Optus acquires Bell South's 24.5% stake in company
September	1997/98: Final year of Commercial Television Production Fund – $14,200,000	News Corp's Twentieth Century Fox to distribute all Regency productions in all media except international TV. Fox makes sizeable equity investment in Regency	National Geographic Channel and Lifestyle launch Movie Network changes from two to three channels on Optus	
October			News Ltd, Channel Seven and others win bid to build $400m Melbourne Docklands stadium Foxtel and Australis merger blocked by ACCC on grounds it would harm Optus pay TV with the effect of harming competition in local telephony	
November	Village Roadshow Ltd's joint venture with animation studio Yoram Gross enters a five-year $110m co-production alliance with German EM.TV and Merchandising AG to make 10 animated series over the next five years. Entertainment City – Viacom, WIN TV, Pratt Group, Macquarie Bank and Davies Corp win tender to build Docklands Entertainment and studio complex in Victoria		News Corp and Telstra terminate AML/Foxtel merger proposal	
December			News Corp sells 14.8% stake in Channel Seven – $220m Australis/Optus win appeal against ACCC satellite joint venture – too late for AML to do anything with proposal due to looming insolvency	

1998	Production	Distribution/Exhibition	TV / Video	New media (+ telcos)
January			1998/99 first year of 10-year C7 non-exclusive supply deal to Optus Television	
February		Buena Vista International announces will handle own theatrical distribution in Australia from January 99 instead of licensing Roadshow Foxtel's Premium Movie Partnership (PMP) deal via Australis Media ends and Foxtel signs direct agreement with PMP	Nickelodeon launches Hot Chunks – first locally produced pay TV kids show	
March			PBL and News Corp sell Sky Channel to TAB C&W Optus buys 53.5% Optus Vision stock it did not own to bring 100% ownership	
April			Pay TV operator Northgate Communications ceases on 1 April	
May/June	Fox Studios officially opens Television and Media Services acquires 12% Becker Group		AML fails to meet payment for program supply deal with PMP which renegotiates Showtime and Encore deal directly with Foxtel Australis Media Ltd goes into receivership	
June	News Ltd buys Mushroom Records		Optus SportsVision liquidated Australis Media collapses and Galaxy service goes off the air	
July			East Coast Television bought out by UAP (Austar)	
August	Village Roadshow/Warner Brothers co-production agreement extended until 2005 and 40 productions		Austar buys out East Coast Television operating in Newcastle, Wollongong, NSW north and south coasts and Tasmania	
September	Southern Star buys UK company Primetime		PBL joins Foxtel share register	
November			PBL buys 25% Foxtel – $157m	
December	Channel Seven sells US$389m worth of MGM shares back to Tracinda – Kirk Kerkorian's company Granada buys Artist Services			LibertyOne Media launched
1999	Production	Distribution/Exhibition	TV / Video	New media (+ telcos)
January				MCI WorldCOM $520M bid for OzEmail cleared by ASIC
February				PBL agreement to purchase major One.Tel shareholding Channel Seven's Mobility GSM (MGSM) launches 'B' mobile phone group in conjunction with Optus delivering mobile, long distance, ISP services. News Corp buys 14m One.Tel shares – $215m
March		MGM purchase PolyGram film library from TV World	Foxtel satellite service added to cable service where cable is unavailable Foxtel combined cable–satellite footprint = 70%	PBL sells all interests in Cable and Wireless Optus Ltd

1999 (cont.)	Production	Distribution/Exhibition	TV / Video	New media (+ telcos)
March (cont.)		Twentieth Century Fox to handle the Australian theatrical distribution of all New Vision product Ecorp Ltd Div of PBL purchases Ticketek P/L from other PBL subsidiary CPH for $52m	New Australian content standard finalised by ABA allowing NZ content under CER Agreement Foxtel satellite service commences Seven begins bookbuild sale of 75m ordinary Optus shares – sell-through completed July 99	
April			C7 Launched on Austar for 3 years	PBL $13m purchase of Online Brokers Holdings Ltd
May		Packer-owned CPH takes control /ownership of Hoyts		e-partners formed by News Corp with $300m equity base
June			Combined pay TV audience in Australia reaches 1m	Excite@Home joint venture with Optus to deliver Optus@Home
July	Global TV P/L enters into 10-year exclusive production deal with Channel Nine and purchases all Nine's O/B vans and equipment. PBL to get 11m shares in Global parent TMS as part of deal		Austar lists 20% sharelisting on market Seven sells Optus stake. Seven initially invested $226m and raised $440m from a two-tiered sale	ninemsn reaches 55% Aust. web users – highest in Aust.
August			Pay TV reaches 7.3% of Australia's total TV audience and begins accepting advertising ACNielsen first-time data on pay TV – in pay TV households 46% of viewing is pay ACCC decision states Telstra must allow competition on cable network – Channel Seven applies for access	
September		Channel Seven subsidiary in joint venture with US-based Ticketmaster to form Ticketmaster 7 P/L – i7 P/L has 49.9% stake		Channel Seven acquires 12% stake in new media group Channel E
October	NBC and Viacom merger announced		PBL exercises right to acquire 50% interest in Fox Sports Channel for $10.5m	
November			Broadcasting Services Amendment Bill No. 3 passes – enforces pay TV 10% expenditure on local content for drama channels	Network Ten and Village Roadshow form Ten Ventures – A$20m invested each to develop websites on music, films etc WAP (Wireless Application Protocol) Networker launched by Optus to enable mobile phone access to Internet and online services News Corp makes further $200m investment in One.Tel
December				News Corp's News Digital Ventures formed – will seek new media acquisitions

2000	Production	Distribution/Exhibition	TV / Video	New media (+ telcos)
	Early 2000 EM.TV buys the Jim Henson Company			
May			PBL's Nine Network enters into advertising and programming agreement with Indian broadcaster Doordarsman C7 Sports channels delivered to Austar regional subscribers	Austar deal with Optus to allow Austar to resell Optus GSM mobile phone services.
June	Vivendi Universal merger Pearson TV merges with Bertelsmann broadcasting arm *Farscape* renewed for another 22 episodes by US-based sci-fi channel.			
July			C7 Sports channel on Foxtel for duration of Olympics	
August			AC Nielsen data – in pay TV households viewing is 50% pay TV	
September				I7, Channel E, My Money Group form joint venture mymoney.com to produce online financial info, comparative transaction info and personal finance portal
October				Village Roadshow/Network Ten joint venture launches Scape.com websites. (liquidated March 2001)
December				LibertyOne Media placed into voluntary administration

APPENDIX 2. TOP SIX GLOBAL MEDIA COMPANIES

(compiled December 2000)

1. AOL/Time Warner: USS$34.2b+

Publishing/ Press	TV	Film	Video	New media	Music	Radio/Other
Time Life Sports Illustrated People Fortune DC Comics Warner Books	TV Warner Bros. TV The WB TV Network (75%) New Line TV Telepictures Productions Cable Half cable channels in USA Time Warner Cable TWE – Advance/ Newhouse Partnership (65%) TBS (Turner Broadcasting System) incl. TCM, TNT, Cartoon Network CNN Network HBO Network	Warner Brothers New Line Cinema Fine Line Features New Line International Castle Rock Entertainment Telepictures Warner International Theatres	Warner Home Video New Line Home Video	AOL › 22 million Internet subscribers AOL Plus Netscape Netcenter (25m+ users) Netscape Navigator/ Communicator AOL International (Latin America, Europe, Mexico, Brazil, Argentina, Australia, Hong Kong, Japan, Canada) AOL TV Open TV Corp Compuserve	Warner– EMI Warner Music Group	

2. Walt Disney: US$23.4b

Publishing/ Press	TV	Film	Video	New media	Music	Radio/Other
ESPN Family Fun Disney Magazine Discover Book publishing	TV ABC Network Buena Vista TV Touchstone TV Walt Disney TV International Go Network Cable ESPN Network Disney Channel A&E (37.5% joint venture with Hearst & NBC) E! (joint venture with Comcast)	Buena Vista Filmed Entertainment Walt Disney Feature Animation Touchstone Films Miramax Films	Disney Video Premieres Buena Vista Home Entertainment		Buena Music Group Walt Disney Music Publishing	Radio 43 US stations incl. ABC Radio Networks, Radio Disney, ESPN Radio Other Walt Disney Theatrical Productions Celebration City–Florida Theme parks Retail Restaurants Sports teams

3. Vivendi Universal US$22.6b						
Publishing/ Press	**TV**	**Film**	**Video**	**New media**	**Music**	**Radio/Other**
Vivendi / Havas Group	TV Universal TV & Networks Groups (Germany, France, Spain, Latin America, UK, South Africa) CANAL+ Expand (TV production) CANAL+ Expand (TV programming distribution) Cable USA Networks (43%) BSkyB (minority stake) Vivendi–CANAL+ (French pay TV 13 million subscribers in France, Italy, Poland, Spain)	Universal Pictures Working Title (50%) UIP (50%) CANAL + CANAL + Le Studio Loews Cineplex Entertainment (25%) United Cinemas International (49%)		Universal Studios New Media Group Vivendi stake in AOL France Sega Game-Works (27%)	Universal Music Group Geffen Interscope A&M MCA Records Motown	Theme parks Resorts Retail chains Sports clubs

4. Viacom: US$20.3b						
Publishing/ Press	**TV**	**Film**	**Video**	**New media**	**Music**	**Radio/Other**
Simon & Schuster MTV Books	TV CBS TV Network – CBS New Media, Sports, Entertainment & News CBS Enterprises – King World Productions, CBS Broadcast International United Paramount Network Paramount TV – Spelling TV, Paramount Network TV, Big Ticket TV, Viacom Productions Paramount Channel Cable MTV Network – Europe, Latin America, Russia, MTV Asia VH1 – UK, Germany MTV Asia – China, Korea, SE Asia, India, Australia, Nickelodeon – US, Australia, UK Country Music TV Showtime The Movie Channel FLIX Sundance Channel	Paramount Pictures Nickelodeon Movies MTV Films United International Pictures (33%)	Blockbuster (majority stake) Paramount Home Entertain-ment	CBS Internet Group MTVi Group	Famous Music Publishing	Radio 165 US stations Other Theme parks Retail chains

5. Sony Corp: US$16.9b*						
Publishing/ Press	**TV**	**Film**	**Video**	**New media**	**Music**	**Radio/Other**
	TV Sony Pictures Entertainment Columbia Tri-Star Television Group	Sony Pictures Entertainment Columbia Tri-Star Motion Picture Group	Columbia Tri-Star Home Video	Sony Computer Entertainment	Sony Music Entertainment	

6. News Corporation: US$14.3b						
Publishing/ Press	**TV**	**Film**	**Video**	**New media**	**Music**	**Radio/Other**
Harper Collins Hearst Book Group The Times The Sun The Sunday Times Post-Courier News of the World NY Post The Australian The Daily Telegraph Herald Sun Independent Newspapers + magazines	TV Fox TV Stations (23 stations covering 40.6% of US viewers) Fox Broadcasting Cable Foxtel Australia Channel [V] Asia Fox News Fox Family Channel The Health Network Fox Sports net (includes Liberty Media stake & 40% stake in Rainbow Sports) fx Fox Sports Latin America BskyB Star TV Sky Latin America	Twentieth Century Fox Fox 2000 Fox Studios Fox Searchlight Fox Animation Studios	Fox Home Entertainment	Fox Interactive ChinaByte epartners	Fox Music Mushroom Records Festival Records	Sports teams (NRL & LA Dodgers) NDS Kesmai PLD Telecom

*Does not include electronic manufacturing businesses.

Note: Compiled by author from sources available at December 2000;
Joint or partial ownership indicated where applicable and where data available.

APPENDIX 3. HOLLYWOOD AND TNCS: A BRIEF HISTORY

Before they became transnational in the 1980s, the Hollywood studios diversified their activities from the mid-1950s, became 'multi-domestic' and were slowly integrated into holding companies. Incorporated into US industrial conglomerates, the film-based industry entered the new era coupled with its rival medium, television, and other assorted media, leading to its global expansion in the 1990s.

Paramount

In 1967 Paramount became a subsidiary of the conglomerate Gulf and Western, a broad collection of businesses ranging from sugar production to financial services. In the 1980s Gulf and Western began divesting non-entertainment and communications interests, a process that culminated in more than 50 companies being shed and a name change from Gulf + Western Inc. to Paramount Communications Inc. in June 1989.

By 1991 television interests in the form of program sales, six television stations, a 50 per cent stake in the cable network USA Network (with MCA), and interest in the 10-channel pay-per-view service TVN Entertainment, accounted for over one-third of Paramount's revenues.

Towards the end of 1993 Paramount Communications was the take-over target of Viacom International, one of the newer media companies firmly rooted in television. In 1986 Viacom had bought Warners' interests in The Movie Channel and its cable services Nickelodeon, MTV, and VH-1. By the time it bought Paramount it was also the owner of the pay TV cable channel ShowTime, five independent TV stations, and cable systems reaching over one million US subscribers. The Paramount acquisition transformed Viacom from a television/cable distributor into a content producer and distributor for its burgeoning entertainment markets.

Viacom's Paramount acquisition signalled the rise in the USA of the new cable companies that had been considered secondary players in the 1980s, behind the studios and the commercial television networks.

Time Warner

Warner Brothers was an early diversifier into television and became a target for the conglomerate Kinney National Services, which had interests in industries ranging from car rental companies to construction. Warner Brothers was transformed into Warner Communications at the end of the 1960s and it gave Kinney control in both film and television sectors. By 1979, Warner Communications was contributing US$110 million annually to the Kinney Corporation, up from $10 million at the beginning of the decade.[106]

In January 1990, Time Inc. acquired the stock of Warner Communications and subsequently became one of the largest communications companies in the world, with assets of $25 billion and revenues of $7.6 billion.[107] Time had overseas revenues of 6 per cent while Warners' overseas revenues comprised 40 per cent.

The formation of Time Warner also resulted in the second-largest cable operator in the US. Its vertically integrated cable business comprises complete ownership of Warner Cable Communications Inc. and 82 per cent ownership of American Television and Communications Corporation. Cable programming channels like HBO, the oldest and largest cable service, as well as Cinemax and thecomedychannel, complemented the two cable services. In 1990, at the time of its merger, Time Warner through Warner Brothers Inc and subsidiary Lorimar Telepictures Corporation, represented the largest supplier of original network programming in the USA. In 2000, the AOL/Time Warner merger produced the world's largest entertainment company.

Walt Disney Company

The Walt Disney Company started as a small independent production company producing cartoons that were distributed by the other studios. In 1953, Disney was a small player with a reputation for high-rating but expensive programs that were in constant demand with the US commercial television networks. In 1955, by forming its own distribution company, Buena Vista, Disney moved up to rank eighth in the Hollywood studio hierarchy. Controlling its own distribution meant it no longer had to rely on the ailing studio RKO Pictures, thus enabling the company to keep more of its box office takings and television revenues.

Buena Vista was the important step towards developing an integrated film, television and theme park strategy, which collectively could market a homogenised product. In the 1980s the company experienced a period of growth that paralleled its expansion in the 1950s. In 1983 it launched the US Disney Channel on US cable

[106] John Izod (1988), *Hollywood and the Box Office, 1895–1986*, MacMillan Press, Basingstoke, p.178.
[107] Janet Wasko (1994), *Hollywood in the Information Age: Beyond the Silver Screen*, Polity Press, Cambridge, p.49.

television. In 1984 the company organised itself along three major divisions – Filmed Entertainment, Theme Parks, and Resorts/Consumer Products and in 1987 it bought its first television station in Los Angeles.

In filmed entertainment Disney expanded into adult drama with its subsidiary Touchstone Pictures in 1985 and again in 1990 with the formation of the production arm Hollywood Pictures. In 1993 it complemented these developments with the purchase of Miramax, one of the largest independent producer/distributors.

Described as having the greatest synergies of any Hollywood major, the Walt Disney Company survived near bankruptcy in the 1970s to proclaim the 1990s the 'Disney Decade' with revenues around $7.5 billion in 1992.[108] In 2000, Disney acquired the ABC Network. It is ranked as the second-largest media group in the world, with revenues in excess of $US23 billion.[109]

Twentieth Century Fox

The Twentieth Century Fox inventory of films in 1969 was valued at $238 million, but this did not stop the company losing $65 million that year and $81 million the following year.[110] Under new management film production was reduced and emphasis placed on profitable divisions. Television production was foremost amongst them, along with its film laboratories, three television stations and the Hoyts theatre chain in Australia.

A string of successful blockbusters throughout the 1970s, including *The Poseidon Adventure* (1972), *Towering Inferno* (Warners co-production, 1974), and *Star Wars* (1977), set the studio on the road to recovery. By the 1980s the performance of Twentieth Century Fox was sufficient to make it a take-over target for Rupert Murdoch's Australian-incorporated News Corporation.

The 1985 acquisition of Twentieth Century Fox by News Corporation was part of News' strategy to become a global media company. News Corporation's other media concerns in 1985 were already highly diversified and ranged from newspapers, magazines and books to television, video and satellite distribution.

At the time of the Fox acquisition, News Corporation had assets of $6.4 billion. By 1992 they had grown to $19.7 billion[111] as the company, armed with the Fox brand name, pushed further into American media markets. The Fox Broadcasting Company was launched in 1986 and soon became the first unofficial network to challenge the dominance of the ABC, CBS and NBC networks.

Columbia Pictures

In 1982 Columbia was purchased by the Coca Cola Company, which had steadily been acquiring entertainment interests. By the end of 1987, it owned the television production houses Embassy Communications and Merv Griffin Enterprises, and was part owner of RCA Columbia Home Video and Weintraub Entertainment Group. In 1988, these Coca Cola entertainment divisions were assembled under the new subsidiary Columbia Pictures Entertainment.

In 1989, the Sony Corporation paid the Coca Cola Company $3.4 billion for Columbia Pictures Entertainment – the highest amount a Japanese firm had ever paid for a US company.[112] The Columbia take-over coincided with Sony's purchase of the production company Guber-Peters Entertainment. These acquisitions complemented Sony's earlier purchase of CBS Records, and gave Sony a strong presence in audio/video hardware and software manufacturing in the US.

With the Columbia purchase, Sony also took control of TriStar Pictures. TriStar Studios, started in 1983, represented the formation of the first major new studio since the 1940s. The company was formed by a partnership between Columbia Pictures, HBO and the CBS network. Each partner had 25 per cent, with the remaining 25 per cent publicly listed. In 1985, CBS sold its 25 per cent share to Columbia, making Columbia the dominant shareholder.

MCA/Universal

The Music Corporation of America (MCA) was one of the first entertainment companies to embrace a strategy of merger and take-over to establish a cross-media industry culture. MCA had its origins in the 1930s as an agency representing bands and actors. It gradually acquired other agencies and controlled a large number of Hollywood

[108] ibid., p.52.

[109] Kim McAvoy (2000) 'Top 25 Media Groups', *Broadcasting & Cable*, 28 August, p.32.

[110] John Izod (1988), op. cit., p.172.

[111] Janet Wasko (1994), op. cit., p.58.

[112] Janet Wasko (1994), op. cit., p.61.

actors. As the dominant Hollywood agency it was in a position to pursue deals which netted its clients higher salaries and a percentage of a film's profits. MCA benefited because their fee was based on a percentage of the actor's salary.

In the early 1950s, MCA moved into television production with its subsidiary company Revue. The success of its television production business saw Revue buy Universal's production facilities in 1959. Universal was suffering financial weaknesses like the other majors in the 1960s and MCA, facing anti-trust actions as a result of being both a television producer and actor agency, launched a take-over of Universal. The agency division was sold off and it acquired 50 per cent of Universal from its parent company Decca Records. By the 1980s MCA/Universal grew into a highly diversified entertainment company with interests in retail, hotels, sports, publishing, theme parks and 50 per cent of the USA Network.

In 1990, the Japanese electrical manufacturer Matsushita bought MCA/Universal. Under the helm of Matsushita are numerous consumer electronic companies, including the familiar brand names of JVC, National, Panasonic and Technics. Like Sony with Columbia Pictures, Matsushita's purchase of MCA/Universal saw it move into the manufacturing of both audiovisual hardware and software.

APPENDIX 4. SNAPSHOT OF THE AUSTRALIAN AUDIOVISUAL SECTOR, DECEMBER 2000

AUSTRALIAN MEDIA CONGLOMERATES – AUDIOVISUAL COMPONENTS

News Corporation

- Foxtel
- Fox Studios
- XYZ 80%
- epartners

Publishing and Broadcasting Limited

- Channel Nine
- Foxtel
- ecorp

Telstra

- Foxtel
- Big Pond

Village Roadshow

- Village Exhibition
- Roadshow Distributors
- Warners/Roadshow studios joint venture Warner Brothers

Seven Network

- Channel Seven
- C7
- C7 Weekend
- I7

Cable & Wireless Optus

- Optus Television
- Optus@home

FOREIGN MEDIA CONGLOMERATES OPERATING IN AUSTRALIA

Disney	US
AOL/Time Warner	US
United Global Com	US
Viacom	US
Pearson	UK
Cable & Wireless	UK
CanWest	Canada
Vivendi/Universal	France
Singapore Telecommunications	Singapore
Sony	Japan

MAJOR AUSTRALIAN FILM/TELEVISION PRODUCER/DISTRIBUTORS	FOREIGN FILM/TELEVISION PRODUCER/DISTRIBUTORS IN AUSTRALIA
Becker Group	Granada Media (50% Red Heart joint venture Seven Network)
Beyond	Pearson (owner Grundy Productions)
Crawfords	Paramount
Coote/Hayes	Twentieth Century Fox
PBL – Nine Films and Television	UIP – Universal, Columbia TriStar and MGM/UA
Red Heart – Seven Network, 50% Red Heart	Warner Brothers
Southern Star	
Village Roadshow	
XYZ Entertainment	

AUSTRALIAN TELEVISION BROADCASTERS

Commercial free-to-air networks	
Nine Network	100% Australian
Seven Network	Majority Australian (UK Granada Media 5th largest shareholder)
Network Ten	Canadian (CanWest majority economic interest)
Public broadcasters	
Australian Broadcasting Corporation	
Special Broadcasting Service	
Pay TV operators	
Foxtel	Telstra/News Corp/PBL (50%/25%/25% respectively)
Optus Television	C&W Optus (100%) (now Singapore Telecommunications)
Austar	United Global Com (71%)

MAJOR PLAYER BREAKDOWN – AUSTRALIAN INTERESTS
As at end 2000

News Corporation		Market capitalisation A$44,829,715,000 (7 November 2000)
Small screen		
Foxtel	25%	Pay TV platform
Fox Sports Channel	50%	Pay TV channel
Sky News Channel	33%	Pay TV channel
fx cable network	100%	Pay TV channel
Big screen		
Fox Entertainment Group	83%	
Fox Studios Sydney	50%	50/50 joint venture Lend Lease
New media and online services		
E Partners	100%	News Corp E-Commerce subsidiary
News.com	100%	Website
CareerOne	100%	Recruitment
Homesonline	100%	Financial services
gofish	100%	Online trading and auction site
E-Direct	100%	Database management and consumer profiling
Telecommunications		
One.Tel	24%	
Recorded music		
Festival Records	100%	
Mushroom Records	100%	
Revenues by region		
US	72%	
UK	23%	
Australia	5%	
Revenues by medium		
TV	35%	
Newspapers	25%	
Magazines/Inserts	22%	
Filmed Entertainment	15%	
Books	2%	
Other	1%	

Cable and Wireless Optus		Market capitalisation: A$66,001,941,000 (7 November 2000)
Small screen		
Optus Television	100%	(Pay TV platform)
Main Event P/L	33%	(Pay TV program supplier)
Satellite Delivery of Austar		
Big screen		
None		
New media and online services		
Optus@Home	50%	Joint venture with Excite@Home

Publishing and Broadcasting Limited		Market capitalisation A$9,013,919,000 (7 November 2000)
Small screen		
Nine Network	100%	FTA broadcaster – 3 metropolitan stations, 1 regional station
Foxtel	25%	Pay TV platform
Fox Sports Channel	50%	Pay TV channel
Sky News Channel	33%	Pay TV channel
HFCL –Nine India Ltd	49%	Joint venture India FTA broadcasting
Big screen		
Nine Films and Television	100%	Production unit
US-based Regency Enterprises	20%	US production house
Hoyts	100%	Exhibition circuit, through Consolidated Press Holdings – majority PBL shareholder
New media and online services		
Ecorp	80%	PBL online subsidiary
ninemsn	50%	Microsoft joint venture
Ticketek	100%	Online and retail ticket sales
Charles Schwaab Aust	50%	Recruitment joint venture/US Charles Schwaab
ebay Aust/NZ	50%	50:50 joint venture /US eBay online auctions/trading
Wizard	50%	Financial services/mortgages
Monster.com	50%	Recruitment and careers – 50:50 Joint venture with US Monster.com
Acxiom	50%	Consumer Profile, database management company – 50:50 joint venture with US Acxiom
Telecommunications		
One.Tel	23.3%	Mobile/long distance telephony, ISP
Production facilities		
Television & Media Services (TMS)	11.46%	

Village Roadshow Organisation		
By revenue		
Austereo radio networks	(44%)	
Theatrical exhibition circuit	(35%)	
Theme parks	(11%)	
Film production	(8%)	
Distribution (film, music, home entertainment)	(2%)	
Production		40 film partnership with Warner Brothers Hoyts partnership
Pay TV channels		Movie Network (equity holder with WB, and Disney) (guaranteed pay TV window for VR films)
FTA		Nine Network output deal with Village Roadshow Distributors Films.

Network Ten		
Small screen		
Network Ten		FTA Broadcaster – 5 metropolitan stations
New media		
SCAPE Entertainment	41.85%	Joint venture with Village Roadshow, online entertainment and leisure based company
Online booking system		
buyten.com.au		
Other		
Eye Corp	60%	Out-of-home advertising company

Austar United Communications		Revenue = US$98.6m (in fiscal 1998)
Small screen		
Austar Entertainment	100%	Pay TV platform
XYZ Entertainment	50%	Foxtel owner/distributor Discovery Channel, Lifestyle Channel, Arena Channel, Nickelodeon Channel, Channel [V]
Weather Channel	100%	Pay TV channel
TVSN	50%	Pay TV network 50:50 with TVSN
Main Event TV	33.3%	Pay-per-view channel
Adults Only Channel	33.3%	
New media and online services		
Austar United Broadband	100%	Interactive TV, ISP, mobile telephony
Austarnet	100%	Website
Telecommunications		
United Wireless	100%	Business & data telecommunications
Saturn (NZ)	50%	Telstra JV Integrated Telephony pay TV/ISP

Telstra Corporation		Revenue = A$19,840b (30 June 2000)
Small screen		
Foxtel	50%	Pay TV platform
New media and online services		
Bigpond services		

Seven Network		
Small screen		
Seven Network		FTA broadcaster – 5 metropolitan stations and 1 regional station
C7 Pay TV Sports Channels	100%	10-yr non-exclusive agreement to supply Optus Television
Australia Television	100%	Satellite broadcaster
RedHeart Productions	50%	Joint venture with Granada Media
Sky News	33%	Pay TV news channel
New media and online services		
I7	100%	Online media venture Channel E
Mymoney group	100%	Online financial services
Telecommunications		
B Digital (formerly MGSM P/L)	100%.	Joint venture – Optus in mobile, long distance, ISP and point to point communication services to complement point to multipoint broadcasting
Other		
Joint venture Colonial Mutual in Melbourne Colonial Stadium.		