Screen Australia

CONVERGENCE 2011:

AUSTRALIAN CONTENT STATE OF PLAY

INFORMING DEBATE

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1 INTRODUCTION

Screen Australia is the national funding agency for screen production charged with the development, support and promotion of a highly creative, innovative and commercially sustainable Australian screen industry.

As part of its development brief, Screen Australia plays an important role in providing authoritative research and strategic analysis of the Australian screen sector. This includes examining factors that influence the production and consumption of Australian content and the impact of Government regulation in ensuring its availability to Australians.

The Government's Convergence Review ('the Review') seeks to examine the regulatory framework of Australia's broadcasting and telecommunications sectors. This regulatory framework currently sets minimum transmission requirements for free-to-air (FTA) and drama expenditure requirements for subscription television (STV) broadcasters. Examination of the ongoing efficacy of that model will be a central focus for the Australian screen sector during the course of the Review.

Whilst the Review has a wide remit, this document is primarily concerned with the production of Australian stories – narrative-based content, whether fiction or fact – on screen. Its purpose is to provide information that will aid consideration of the issues arising for local content production as a consequence of the converging media environment.

The relevant regulatory framework for the broadcast of Australian content is predicated on two central tenets:

- The cultural objectives of the Government in ensuring Australians see their cultures and identities reflected back to them via audiovisual content; and
- The economics of the Australian screen sector and its competitive disadvantages in the marketplace.

The aim of the document is therefore to analyse the current environment to help understand how Australian content is made, what factors stimulate or inhibit that production, and how delivery platforms and audience behaviours are changing.

1.1 Executive summary

Convergence is reshaping the Australian media landscape, with new technologies growing in influence and providing audiences with more choice than ever before, challenging the existing regulatory paradigm as a result.

In the context of these changes it is important to understand which sectors of the industry are investing in Australian screen content – particularly narrative content – and on what basis.

Mapping the media environment

In today's evolving media environment, content and delivery systems can broadly be broken down according to the way they are consumed:

- Scheduled programming or appointment based media captures linear programming (television) and cinema attendance – viewing must be organised around a pre-determined programming schedule – or in the case of television - sometimes augmented by time-shifting through a personal video recorder.
- On-demand programming or stored media enables the audience to view video content from a library of titles accessible through physical or online retailers with rent or buy options.

While high-speed broadband is set to hyperaccelerate the process of convergence, television remains the leading way of viewing screen content, with a participation rate of 96 per cent and viewing across all free-to-air channels up by 14 per cent.

Revenue for commercial free-to-air television stands at $3.5 billion and for subscription TV at $2.8 billion (with 2.3 per cent and 5.1 per cent growth forecast over the next five years respectively).

While many media platforms provide opportunities for viewing Australian content (see below), it is the traditional media sector, dominated by commercial television and feature films, who are the only significant investors in Australian stories at this time. The combination of incentives and government requirements has ensured Australian stories remain on Australian screens. The difficulty, moving forward in a multi-channel, converged environment, is the economics of screen production.

Creating Australian content

Per hour, drama production is generally the most expensive form of television programming to create, followed by children's drama, then documentaries. These forms of content are therefore a riskier proposition, involving significant upfront costs that may or may not be fully met if the content is not successful.

This risk, combined with the fact that they are perceived to be the most culturally valuable programming genres, has been the traditional rationale for government incentives and obligations to ensure that Australian drama, children's drama and documentaries remain available to Australians.

As well as being relatively expensive types of production, Australian drama and documentary must compete with the substantial output of the US industry – the most wide-reaching and economically powerful in the world with a positive trade surplus of US$11.7 billion.

Such high levels of production output from the US and the relative pricing of that content (see below) results in a lopsided marketplace for content whereby it is significantly cheaper to purchase a high-rating US series like *Two and a Half Men*, or a decades old program like *Charlie's Angels, Miami Vice* or *Fantasy Island* than to produce new Australian programs. More than 70 per cent of the commercial free-to-air broadcasters' drama expenditure relates to foreign drama as a result.

Costs for one hour of new release drama: free-to-air TV

	US drama program*	Australian drama program**
Indicative production cost	A$2.5 million – 5 million +	A$400,000–1.8m
Indicative cost to Australian broadcaster	A$100,000–400,000 (licence fee)	A$350,000–1.4m (Aus broadcaster contribution to production, via licence fees, presales, equity investments etc)

*Based on published data on average cost of one-hour US TV drama, http://www.nytimes.com/2008/06/22/magazine/22madmen-t.html
**Based on Australian drama series for adults made over the last 3 years, 6-22 eps, 60 min per ep.

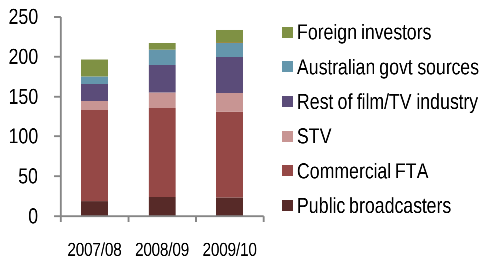
Broadly, finance for narrative content comes from a range of sources: the distribution platform; the producer or production company itself; private equity investment; government (either direct and/or through the Producer Offset); and foreign sources (marketplace and/or equity). Foreign sources are particularly interesting as they provide an indication of production being made in part for export.

Commercial free-to-air broadcasters are still the most significant investor in Australian screen stories.

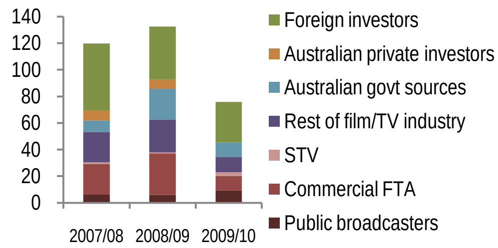
Looking at **TV drama** produced over the last three years, on average just over half of all finance to the adult slate was contributed by commercial free to air television. 10 per cent came from the public free to air broadcasters and 8 per cent from STV. 7 per cent came from foreign sources. Foreign sources play a larger part in the children's TV drama slate.

Contributions to the annual TV drama slate ($m), 2007/08 to 2009/10

Programs for adults



Programs for children



Source: Screen Australia

For the **documentary** slate, the majority of finance came from broadcasters and other industry sources. Foreign sources contributed 9 per cent, and private finance was minimal. Direct government sources were more significant than either the adults' or children's TV drama slate, at 16 per cent.

For **features** with budgets over $1 million, the large variety of contributor combinations illustrates the difficulty producers face in putting finance plans together. The biggest contributors to the feature slate have been the Australian film/TV industry (mainly distribution and production companies and finance added by producers via the Producer Offset), and foreign sources.

Jobs and the economy

Overall, the production of Australian narrative content – drama and documentary – makes a significant contribution to the Australian economy, as well as being culturally valuable. It generated **investment in excess of $700 million** in 2009/10. This includes $124 million in foreign investment that would not otherwise come into the economy.

Economic modelling based on this result indicates that locally produced narrative stories make a net contribution of $330.5 million per annum to Australia's GDP, taking into account the direct and indirect impacts of production activity on the overall economy. Further, if local production ceased, there would be a net loss of **more than 6,000 jobs** or 20 per cent of all people working in the overall audiovisual production sector.

Delivering Australian content

On their main channels, all the **commercial free-to-air networks** screen above the quota of 55 per cent Australian content required by the Australian Content Standard.

However, the standard applies only to the main channels, not to the digital multi-channels introduced in recent years. With no minimum content requirements imposed on them, the multi-channels are currently broadcasting significantly less Australian content. This finding is covered in more detail later in the report.

Share of hours and audience, commercial free-to-air (including multi-channels) 2011

	All content		Drama only	
	% of hours	% of audience	% of hours	% of audience
Australian	35.1%	33.7%	7.8%	9.0%
UK	9.5%	9.1%	9.3%	8.4%
US	51.2%	51.5%	81.7%	81.2%
Other	4.2%	5.7%	1.2%	1.4%

Source: Screen Australia analysis of OzTAM data, 5-city metro consolidated, 6am to midnight; Jan–June 2011

On the **ABC**, Australian content accounted for 60.4 per cent of hours broadcast on ABC and its multi-channels, attracting 56.3 per cent of the ABC audience, in the first six months of 2011. On **SBS**, with its multicultural brief, Australian content accounted for 18.4 per cent of hours and 42.3 per cent of SBS's audience.

On **subscription television**, drama channels are subject to an expenditure requirement rather than a transmission quota. Based on Screen Australia analysis of ratings data, the Australian share overall is much lower than on free-to-air.

Subscription TV snapshot: Australian share of audience and hours broadcast

	Australian share of hours	Australian share of audience
Drama	4.3%	2.9%
Other programs	26.7%	30.4%
All programs	**17.5%**	**16.4%**

Source: Screen Australia analysis of OzTAM data.
Consolidated, National STV.
Dates: Tues: 10/5/11, Wed: 18/5/11, Thurs: 26/5/11, Fri: 03/06/11, Sat: 11/06/11, Sun: 19/06/11, Mon: 27/06/11

In the '**filmed entertainment'** area, Australian titles accounted for 10 per cent of films screening theatrically in 2010, and 4.1 per cent of DVD/Blu-ray releases.

Online video services operated by international companies offering long form commercial content, such as PlayStation Store or iTunes, tend to have a limited amount of Australian content, while catch-up TV services generally reflect their network broadcast schedule. Australian producers of short form user-generated content are active on sites such as YouTube with some achieving considerable success on this platform.

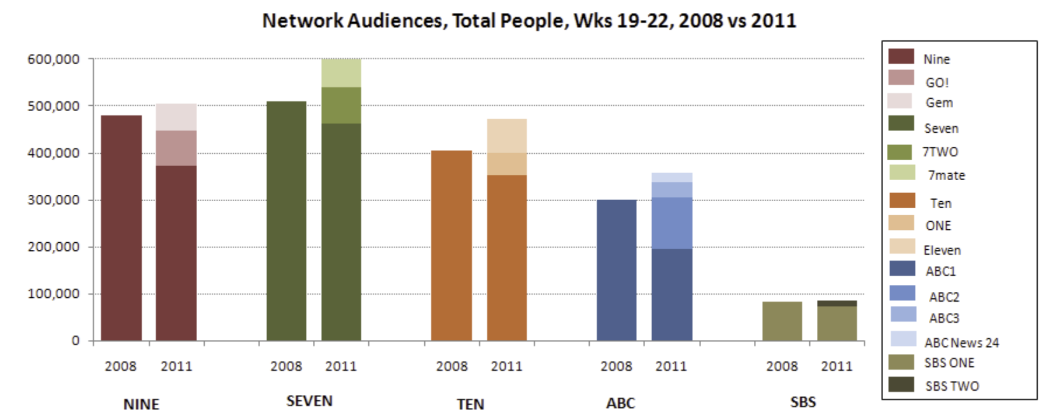
Only a small proportion of **games** sold in Australia incorporate Australian content.

Shifting viewing patterns with free-to-air multi-channelling

Viewing dynamics have changed significantly as a result of the introduction of the multi-channels.

An overall drop in audiences is evident across all the main channels, but this has been more than offset by the audiences achieved by the multi-channels. The result is a net increase of 14 per cent in average audience, confirming the strength of the multi-channel system.

All households

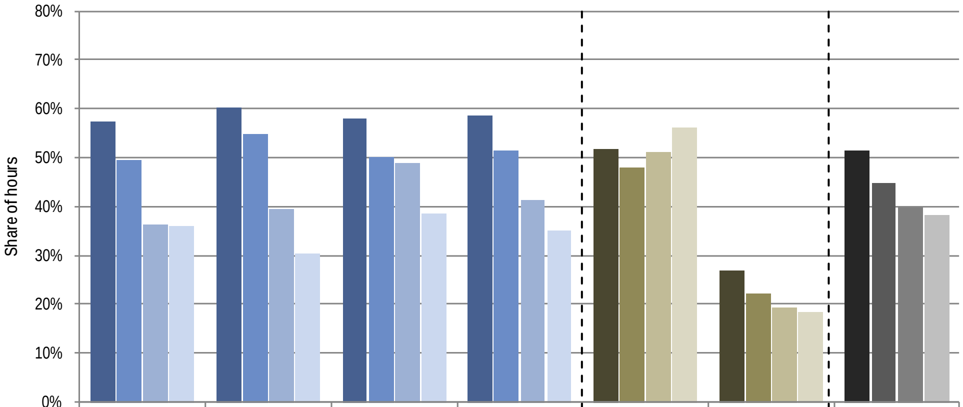


Source: Screen Australia analysis of OzTAM data. 5-city metro, Total households, 6am to midnight, weeks 19-22, 2008 and 2011

However, growth in foreign content has outstripped Australian. Hours of foreign content more than doubled between 2008 and 2011, rising by 154 per cent, while Australian programming increased by only 59 per cent over the same period. Likewise, cumulative audience size for foreign content rose by 23 per cent, while for Australian content it rose by just 2 per cent.

The result is a watering down of local content across free-to-air programming and a fall in share of viewers. The proportion of hours of Australian content screened has fallen across all free-to-air networks from 52 per cent to 38 per cent. In the context of drama, hours have fallen from 13 per cent to 10 per cent (on the commercial networks, drama hours have decreased from 14 per cent to 8 per cent).

Share of hours for Australian content on free-to-air television, 2008–11



	Nine Network	Seven Network	Network Ten	All commercial	ABC	SBS	All
2008	57%	60%	58%	59%	52%	27%	52%
2009	49%	55%	50%	51%	48%	22%	45%
2010	36%	39%	49%	41%	51%	19%	40%
2011	36%	30%	39%	35%	56%	18%	38%

Source: Screen Australia analysis of OzTAM data, 5-city metro consolidated, average audience, 6am to midnight
2011 is based on January to June only

The limited supply of first-release narrative-based content in the multi-channel environment can be attributed to a number of factors including the networks being able to more fully utilise their output deals with US companies. This means that programming already purchased as a packaged bundle can be more readily deployed to fill the programming schedule for little or no extra cost.

Importantly the absence of any Australian content requirements removes the need to commission and screen Australian content which is more expensive to produce than foreign content is to buy.

Children's television

The Children's Television Standards 2009 (CTS) require commercial television licensees to broadcast minimum annual quotas of children's programming, including pre-school (P) programs and children's (C) programs in specified time-bands during the day.

The objectives are to ensure that children have access to a variety of quality television programs made specifically for them, including Australian drama and non-drama programs, and to provide for the protection of children from the possible harmful effects of television.

Although the commercial free-to-air networks are programming above the minimum requirements for Australian drama and Australian content overall, for first-release children's drama only the minimum amount required by the standard tends to be produced.

In the 2003–2005 and 2006–2008 cycles, no network broadcast more than 2 per cent above the level of Australian C drama required, and for Australian P programs, all three networks broadcast the exact minimum of 130 hours.

This suggests that children's drama is largely made only as a product of regulatory intervention and would not be broadcast in the same quantity, if at all, if the regulatory requirements were reduced or removed altogether.

Further, the availability of more channels with the introduction of the multi-channels means that viewing is now spread right across the expanded free-to-air platform, rather than contained within the handful of channels that existed three years ago.

In this environment, the highest audiences for children are occurring during the early evenings, for G-rated content such as *MasterChef*, *Australia's Got Talent* and *Dancing with the Stars*; as well as PG-rated content such as *The Big Bang Theory*, *No Ordinary Family* and *How I Met You Mother*.

Network commissioning strategies, combined with the limited amount of 'C' and 'P' content available for networks to broadcast on the new channels, mean that children do not always have the opportunity to view content specifically created for and targeted to them.

1.2 Mapping the media environment

The screen industry is in transition as distribution mechanisms converge and access points increasingly fragment. Drawing distinctions between distribution points for narrative-based content[1] is increasingly difficult. They were once delineated by in-home and out-of-home experiences with people either gathering around the television or choosing to visit a cinema. These days, mobile devices enable the viewer to consume content at home, school, work, or in transit.

The dominance of terrestrial, satellite and cable broadcasting infrastructure is being challenged by fast broadband as more content providers look to internet-based delivery systems. Furthermore, new media and communications devices are appearing at regular intervals, building on the innovation of smart phones, tablets and connected televisions. This technological change is forcing many broadcasters, aggregators, distributors and creators to rethink their business models.

At the same time the expansion of the digital television offering caused by the switchover from analogue broadcast delivery to digital has affected the market for content by more than doubling the quantity of content being broadcast to Australians.

In the context of these changes it is important to understand which sectors of the industry are investing in Australian screen content – particularly narrative-based content – and on what basis.

Appointment-based media vs stored media

In today's evolving media environment, content and delivery systems can broadly be broken down according to the way they are consumed: as scheduled or on-demand programming.

Scheduled programming, or appointment-based media, encompasses linear broadcasting (television) and cinema attendance. It involves single or repeat screenings of content, but ultimately requires the audience to organise their viewing around a pre-determined programming schedule or risk missing part or all of the content they wish to consume unless augmented by time-shifting through a personal video recorder (PVR).

In contrast, **on-demand programming**, or stored media, enables the audience to view video content[2] when they want it from a library of titles accessible through physical or online retailers with rent or buy options.

Delivery mechanisms

Appointment-based broadcast media has historically been distributed through terrestrial, satellite and cable technology under free-to-air or subscription business models, whereas stored media has been driven by consumer spending on physical video and gaming discs. However, 'over-the-top' (OTT)[3] internet services have illustrated the power of distributing video online, best exemplified by YouTube's streaming and iTunes' downloading interfaces.

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[1] Narrative-based content for the purposes of this report includes fictional drama works and factual documentary works. Some interactive games can also fit this description based on the storytelling component.

[2] 'Video' is defined as the technology of electronically capturing, recording, processing, storing, transmitting, and reconstructing a sequence of still images representing scenes in motion.

[3] 'OTT' is a general term for voice, video and data services that are delivered over a network and are provided by an entity other than the operator of the network. OTT services are delivered "over-the-top" of existing infrastructure and do not require business or technology affiliations with the host ISP or network operator. Examples include Skype and YouTube.

		APPOINTMENT-BASED MEDIA					STORED MEDIA			
		Commercial FTA TV	Public FTA TV	Subscription TV	Community free-to-air TV	Theatrical	Physical video	Online video	Console gaming ❽	Online gaming
DELIVERY	Terrestrial	✓	✓		✓					
	Satellite	✓	✓	✓	✓	✓				
	Cable			✓						
	IPTV / OTT TV/OTT ❶	✓	✓	✓				✓	✓	✓
	Physical					✓	✓		✓	
REVENUE	Ad-supported	✓		✓	✓	✓		✓		✓
	Government allocation		✓		✓					
	Consumer spending			✓	✓	✓	✓	✓	✓	✓
	Revenue / allocation 2010 ❷	$3,513m	$1,124m	$2,779m	n.a.	$1,516m	$2,273m	$124m	$1,059m	$255m
	Compound annual growth rate 2011-2015 ❸	2.3%	n.a.	5.1%	n.a.	5.3%	3.2%	14.1%	5.4%	19.2%
ACCESS	Household penetration ❹	99%	99%	30%	n.a.	n.a.	80%	66%	24%	64%
	Audience participation ❺	94%	94%	19%	n.a.	29%	52%	20%	30%	n.a.
NARRATIVE CONTENT	Broadcasters/distributors investing in narrative content ❻	3	2	7	6	52	122	n.a.	34	n.a.
	Annual expenditure on narrative content ❼	High	Medium	Medium	Negligible	Low	Low	Negl'ble	Negl'ble	Negl'ble

		Commercial FTA TV	Public FTA TV	Subscription TV	Community free-to-air TV
FOCUS ON THE TELEVISION INDUSTRY	Average national daily reach (no. people) ❾	13m	8m	4m	n.a.
	Number of channels	9	6	100+	6
	Channels screening 50% or more Aust. content	3	2	8	6
	Channels regularly screening Aust. drama	3	5	26	0
	Entities financing Aust. drama ❿	3	2	14	0
	Approximate annual expenditure on Aust. drama ❿	$145m	$35m	$30m	0
	Channels regularly screening Aust. doco	3	4	12	6
	Entities financing Aust. doco ❿	3	2	4	0
	Approximate annual expenditure on Aust. doco ❿	$30m	$20m	n.a.	0

Sources:

Screen Australia; Australian Media and Communications Authority (ACMA); Department of Broadband, Communications and the Digital Economy (DBCDE); PricewaterhouseCoopers (PwC); Motion Picture Distributors Association of Australia (MPDAA); GfK Retail and Technology.

All data is based on Screen Australia estimates unless stated in the notes. All data for 2010 unless stated in the notes.

Empty cells indicate that data is not applicable.
n.a. indicates that data was not available.

❶ OTT is a general term for voice, video and data services delivered over a network and provided by an entity other than the operator of the network. OTT services are delivered 'over-the-top' of existing infrastructure and do not require business or technology affiliations with the host ISP or network operator. Examples include Skype and YouTube. OTT TV is defined as video content delivered to a television set and transported via IP unicast over an unmanaged network such as broadband internet, for example BigPond Movies viewed through Telstra T-Box. IPTV is defined as video content delivered to a television set and transported via IP multicast for linear channels and IP unicast for on demand content over an operator-managed network, for example Fetch TV and TransACT's TransTV.

❷ Data on public broadcaster's allocation sourced from DBCDE, all other revenue data is sourced from PwC.

❸ All compound annual growth rate data sourced from PwC.

❹ All data is based on household penetration unless stated. Commercial and public free-to-air is based on the total proportion of television sets in Australian households sourced from OzTAM, as is subscription television. Physical video penetration is sourced from PwC. Console gaming sourced from Roy Morgan data for people aged 14 years and over. Mobile gaming is sourced from ACMA. Online video and online gaming refer to the proportion of the population 14 years and above who have a broadband connection at home sourced from the ACMA.

❺ All data sourced from Screen Australia's analysis of Roy Morgan participation rates for people aged 14 years and above.

❻ Based on Screen Australia estimates, except for cinema, physical video and games. Number of commercial free-to-air networks excludes regional affiliates. Cinema distributors include all companies that distributed content theatrically in 2010 sourced from the MPDAA. Physical video distributors include all companies that distributed DVD and Blu-ray titles through retail stores in 2010 sourced from GfK Retail and Technology. Games publishers include all companies that distributed games through retail stores in 2009 sourced from GfK Retail and Technology.

❼ Screen Australia estimates of annual expenditure: High (>$100 million); Medium ($30-70 million); Low ($5-20 million); and Negligible (<$5 million).

❽ Mobile games account for a further $292 million, with a compound annual growth rate of 13.1 per cent.

❾ OzTAM and RegionalTAM, 1 January to 31 December 2010, 2am to 2am. Average daily reach is calculated at a 5 minute threshold by adding consolidated 5-city metro data from OzTAM with combined aggregate markets from RegionalTAM, excluding spill.

❿ Entities include distributors and channel providers. Expenditure includes all spend on content not just production investment. Screen Australia estimates for public free-to-air drama and documentary spend. Commercial free-to-air drama and documentary spend sourced from ACMA broadcasting financial results for 2008/09. Subscription television drama spend sourced from compliance results from ACMA for 2009/10.

Domestically, many Australian companies have accelerated the launch of hybrid models in 2010, combining appointment-based and stored media features. Catch-up streaming services are now available for all free-to-air television broadcasters, and subscription broadcasters are increasingly exploring internet-protocol television (IPTV)[4] and OTT TV[5] services.

This presents a challenge in a regulated market, with technology blurring previous distinctions between delivery systems. For example, under certain circumstances a viewer may be able to use a single remote to easily navigate between content available on their internet-enabled television, jumping from a program broadcast live by a television network to an on-demand library title without realising that one type of content is regulated and the other isn't.

With appointment-based and stored media viewing options converging, the influence of the various service providers is evolving rapidly. New methods of delivery are reaching critical mass, as evidenced by revenue projections and rates of penetration and participation in platforms such as online and mobile video. Changes as a result of this growth and how the government reacts to their supporting framework will have significant consequences for the production and release of Australian drama and documentary content.

Revenue

Earnings for all forms of media are important as they provide an indication of relative profitability and capacity to pay for various forms of content.

Growth is expected to continue across all appointment-based and stored media sectors in the five years to 2015.[6]

Revenues in 2010 for commercial free-to-air television were $3.5 billion compared to $2.8 billion for subscription television. After rebounding from falls in advertising revenue in 2008 and 2009, commercial free-to-air is forecast to grow by 2.3 per cent in the next five years while subscription television has slightly stronger predictions with a projected 5.1 per cent growth in their advertising and consumer spending revenues.[7] Public broadcasters had total revenues in 2009/10 of $1.5 billion, of which $1.1 billion was allocated from the federal government.[8]

Cinema, physical video and console gaming were the only other sectors to surpass the $1 billion mark in 2010, achieving revenues of $1.5 billion, $2.3 billion and $1.1 billion respectively. Cinema and console gaming are expected to grow around 5.5 per cent by 2015 and growth in physical video is forecast at 3.2 per cent despite signs of slowing in wholesale shipments. [9]

Stored media delivery systems through internet-based technology, like online video and online/mobile gaming, are looking at double-digit growth. However, they are doing so from a much smaller base than mature sectors like commercial free-to-air television, which stands to amass more revenue over the five years than any other sector.[10]

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[4] 'IPTV' (Internet Protocol Television is defined as video content delivered to a TV set and transported via IP multicast for linear channels and IP unicast for on demand content over an operator-managed network, for example Fetch TV and TransACT's TransTV.

[5] OTT TV is defined as video content delivered to a television set and transported via IP unicast over an unmanaged network, such as broadband internet, for example BigPond Movies viewed through Telstra T-Box, 7Plus viewed on a connected TV, PlayStation Store video content delivered to a TV via a PlayStation 3

[6] PricewaterhouseCoopers, 'Outlook: Australian entertainment and media, 2011-15', August 2011 (http://www.pwc.com.au/industry/entertainment-media/publications/outlook/index.htm)

[7] PricewaterhouseCoopers 2011

[8] ABC and SBS annual reports, 2009/10

[9] PricewaterhouseCoopers 2011

[10] Ibid

At $255 million in 2010, online gaming will grow by 19.2 per cent in five years, followed by online video up by 14.1 per cent from $124 million and mobile gaming growing by 13.1 per cent from $292 million. [11]

HIGH-SPEED INTERNET

The rollout of the National Broadband Network ('the NBN') is accelerating the process of making high-speed internet available to consumers and as a consequence the process of convergence. It is the capacity and speed promised by the NBN that will allow the internet to become a platform for content delivery to rival traditional linear broadcast.

The NBN will connect 93 per cent of Australian premises to a high-speed fibre network providing broadband speeds of up to 100 megabits per second, with the capacity to offer speeds of up to 1 gigabits per second.[12] The remaining 7 per cent would be connected via a combination of wireless and satellite technology offering speeds of at least 12 megabits per second.[13]

To place the capacity of the NBN into context, current broadband in Australia takes on average almost six hours to download a two-hour film. When the NBN achieves its goal of providing most Australians with fibre to their homes, it is anticipated that those six hours will become seven minutes.

The construction of the National Broadband Network commenced in July 2009 and will continue over the years to come. In August 2010, the first official NBN services went live to Tasmanian Stage 1 communities.[14]

As of May 2011, over two-thirds of the 6,000km fibre optic rollout under the government's $250 million Regional Backbone Blackspots Program had been completed.[15] Milestones of this program include the Perth to Geraldton Fibre Optic Link[16] and Victor Harbor Fibre Backbone Link[17] completed as of mid March 2011.

In May 2011, the NBN was officially launched for the first time on mainland Australia in Armidale[18] and will continue to roll out in locations around the country for the remainder of the decade, with expectations it will be complete by 2020.

In August 2011, NBN Co released more detail on a multicast product features designed to enable retail service providers to deliver high-quality high-definition video channels over the network.[19]

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[11] PricewaterhouseCoopers 2011

[12] Australian Government 2011, National Broadband Network Progress update, http://www.nbn.gov.au/about-the-nbn/nbn-progress/

[13] ibid

[14] National Broadband Network 2011, http://www.dbcde.gov.au/broadband/national_broadband_network

[15] Australian Government 2011, *National Broadband Network Progress update*, http://www.nbn.gov.au/about-the-nbn/nbn-progress/

[16] 11 March 2011, Perth to Geraldton Fibre Optic Link Now Complete, http://www.minister.dbcde.gov.au/media/media_releases/2011/144

[17] 16 March 2011, Victor Harbor Fibre Backbone Link Complete, http://www.minister.dbcde.gov.au/media/media_releases/2011/146

[18] 18 May 2011, Historic Launch of NBN in Armidale, http://www.minister.dbcde.gov.au/media/media_releases/2011/183

[19] 12 August 2011, 'NBN to deliver quality video and interactivity to consumers'; http://www.nbnco.com.au/news-and-events/news/multicast.html

Access: penetration and participation

Penetration rates (essentially how 'available' a distribution point is to consumers), and participation rates (the proportion of people who actually consume content through that distribution point) reflect the changing ways people are accessing content. They are also important indicators of the relative influence on Australians of various forms of media.

The overwhelming trend of the last five years has been the addition of new screen activities to old ones, with established distribution points proving to be resilient.

Television remains the leading method of viewing screen content at over three hours on average per day. In 2010, 96 per cent of people aged 14 years and above indicated that they had watched either free-to-air or subscription television in the preceding week.[20]

For free-to-air television, access is at saturation point with more than 99 per cent of Australian households having at least one television set and 70 per cent with two or more.[21] Of these, 75 per cent of households have converted their primary set to digital allowing them to access up to 15 free-to-air channels following the roll-out of the digital stations.[22] The participation rate for free-to-air TV in 2010 was 94 per cent.[23]

By comparison the penetration of subscription television is far lower, with approximately 30 per cent of Australian households subscribing,[24] equating to 19 per cent of people aged 14 years and above watching regularly.[25] Nevertheless, subscription households are typically big consumers of television, drawing on over 100 channels to watch more than four hours extra per week than the average viewer.

Amid a growing number of channels on free-to-air and subscription services, the consumption of content has become ever easier with the proliferation of PVRs. In 2007, PVR penetration was around 5 per cent of households.[26] As of May 2011, the PVR rate in Sydney, Melbourne, Brisbane, Adelaide and Perth was 42 per cent, up from 30 per cent the same time last year.[27] In regional east coast areas of Australia penetration was 34 per cent.[28]

In the last five years cinema participation has grown slightly, with the proportion of people attending in the preceding four weeks rising by almost 2 percentage points to 29 per cent in 2010.[29] Console gaming also grew during this time, with those ever playing a console up by 4 percentage points to 30 per cent from a household penetration of 24 per cent.[30]

Watching video on DVD or Blu-ray remains an activity regularly undertaken by the majority of the population with household penetration rates of 80 per cent,[31] but it is the only access point to record a decline in the last five years. The proportion of people renting or purchasing

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[20] Screen Australia, 'Beyond the Box Office: Understanding audiences in a multi-screen world', April 2011 (http://www.screenaustralia.gov.au/research/beyond_box_office.aspx)

[21] OzTAM, 'Universe estimates, Q4 2010', December 2010 (http://www.oztam.com.au/television-ratings-guide.aspx)

[22] FreeTV Australia, 'Year in review: 2010', January 2011 (http://www.thinktv.com.au/content_common/pg-television-year-in-review-2010.seo)

[23] Screen Australia, 'Beyond the Box Office: Understanding audiences in a multi-screen world', April 2011

[24] OzTAM, 'Universe estimates, Q4 2010', December 2010 (http://www.oztam.com.au/television-ratings-guide.aspx)

[25] Screen Australia, 'Beyond the Box Office: Understanding audiences in a multi-screen world', April 2011)

[26] FreeTV Australia, 'Year in review: 2007', January 2008

[27] OzTAM, 'Percentage of Household Estimates Metropolitan 5 City, July 2011 (http://oztam.com.au/Documents/2011/PercentageOfHouseholdEstimates2011p6.pdf)

[28] Regional TAM 2011, Personal Video Recorder (PVR) Household Estimates 2011' June 2011 (http://www.agbnielsen.net/Uploads/Australia/DTTandPVREstimates2.pdf)

[29] Screen Australia, 'Beyond the Box Office: Understanding audiences in a multi-screen world', April 2011

[30] Roy Morgan, 'Single Source Australia: April 2009-March 2010', June 2010 (http://www.roymorganonlinestore.com/News/1105---Wii-ownership-greater-than-Xbox-360-and-PS3.aspx)

[31] PricewaterhouseCoopers, 'Outlook: Australian entertainment and media, 2011-15', August 2011 (http://www.pwc.com.au/industry/entertainment-media/publications/outlook/index.htm)

physical video in the preceding three months has fallen gradually by 5 percentage points to 52 per cent.[32]

However, the dominance of traditional forms of access should not be taken for granted, with 66 per cent of people aged 14 years or more having a broadband connection at home.[33] Social media is emerging as a new way of engaging with screen content, with Facebook and YouTube at the forefront. At current growth rates, by the end of 2011 more than 50 per cent of Australians will be engaging with Facebook at least once every four weeks, and more than 30 per cent with YouTube.[34]

This has contributed to the increasing number of people who have downloaded or streamed video online, doubling in just three years. In 2010, 20 per cent of people had used a computer to watch video online and 2 per cent had done so using a mobile.[35]

PIRACY

Piracy poses economic threats not just domestically but to the screen sector worldwide.

From an Australian perspective, the faster download times facilitated by the NBN will place pressure on regulatory frameworks and the infrastructural innovation that will inevitably be required to effectively mitigate the cost of piracy.

2011 analysis of audience behaviours by Screen Australia found that 5 per cent of all viewings for the surveyed movies occurred via online video, with just 1 in 20 of those viewings paid for.[36]

An independent economic study also released in 2011 identified the financial and employment cost of piracy to the Australian economy through digital downloading, streaming and digital transfer of pirated movies as well as the consumption of physical counterfeit movies.

It found the employment cost to be 6,100 full time equivalent jobs across the entire economy including 2,300 within the screen sector.[37] In terms of financial impact on the national economy, the report found $1,370 million lost in gross outputs, representing a $551 million loss in gross domestic product and a $193 million tax shortfall for the government.[38]

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[32] Screen Australia, 'Beyond the Box Office: Understanding audiences in a multi-screen world', April 2011 (http://www.screenaustralia.gov.au/research/beyond_box_office.aspx)

[33] ACMA, 'Australia in the Digital Economy', November 2010 (http://www.acma.gov.au/WEB/STANDARD..PC/pc=PC_312357)

[34] Screen Australia, 'Beyond the Box Office: Understanding audiences in a multi-screen world', April 2011

[35] ibid

[36] ibid

[37] *Economic Consequences of movie piracy: Australia*, by Ipsos and Oxford Economics on behalf of Australian Federation Against Copyright Theft, January 2011

[38] ibid

Australian content

The range of platforms providing Australian content is profiled in section 3. Of these, only television broadcasters and channels as well as a handful of video or film distributors contribute significantly to financing new Australian narrative-based content. Stored media categories do not provide any finance of any significance in Australian content.

Commercial free-to-air television networks regularly broadcast Australian drama and documentary content on their three regulated channels. As a consequence they contribute significantly to financing such content. In 2008/09, their total expenditure on programming was $145 million on drama and $27 million on documentary in 2008/09.[39]

There are 26 subscription television channels that screen more than 50 per cent drama annually, these channels are required to spend at least 10 per cent of all drama expenditure on new Australian content. In 2009/10 this contributed $35 million to new Australian drama.[40] In addition, a further 12 channels regularly screen Australian documentaries,[41] but are under no obligation to finance original programming

Public free-to-air networks broadcast Australian drama and documentary content across four channels, and finance large amounts of drama and documentary programming annually.

Community broadcasters do not generally financially contribute to original programming, although they all typically show more than 50 per cent Australian content and some regularly show new Australian documentaries.[42]

By comparison, only low levels of Australian content investment occur in other sectors. Of the 52 distributors that released feature films in 2010, 17 were involved in financing Australian drama and three were involved in documentaries.[43]

Online video is generally amateur or 'user generated' content, with professionally produced content tending to be material originally screened in cinemas, on DVD or television. It is dominated by content from Hollywood studios, although there are a growing number of Australian programs made specifically for the internet (*Italian Spiderman*, for example), as well as extensions of content that originates or co-exists on other platforms. The local games industry is also making more narrative-based content but reliable estimates to the levels of activity are not available.

It is vital to the long-term health of the local production sector, and the content it creates, that the industry acknowledge the ramifications of moving towards internet-based delivery systems, particularly the challenges of continuing to finance sustainable levels of Australian content amid the growing number of globally-focussed OTT services.

At the same time, however, it is clear that the influence of Australia's television broadcasting sector is unlikely to change in the near future. Television remains the dominant source of locally-produced content and is central to the continued engagement by the Australian public with drama, documentary and children's programming.

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[39] ACMA, 'Broadcasting Financial Results, 2008-09', July 2010 (http://www.acma.gov.au/WEB/STANDARD/pc=PC_300385#bfr). Includes all program-related costs, not just investment in new programs.

[40] ACMA, 'The new eligible drama expenditure scheme results - 2009-10', accessed August 2011 (http://www.acma.gov.au/WEB/STANDARD/pc=PC_310687) Includes development and production investment in featuyres and TV drama, as well as support of events such as Flickerfest and Tropfest.

[41] Screen Australia estimates, based analysis of program schedules.

[42] Based on Screen Australia conversations with community television broadcasters.

[43] Screen Australia estimates based on data from the Motion Picture Distributors Association of Australia (http://www.mpdaa.org.au)

DIGITAL TELEVISION MIGRATION

Digital television began broadcasting in metropolitan areas of Australia in 2001, subsequently rolling out across regional Australia.

The 'digital switchover' refers to the time when the analogue signal, which has been broadcasting simultaneously with the digital signal since 2001, is switched off and free-to-air television broadcasting will be digital only. The US completed its digital switchover in 2009, the UK is scheduled to switch off its analogue signal by the end of 2012 and in Australia it is forecast to conclude by the end of 2013.[44]

The Victorian town of Mildura and its surrounding region became the first area in Australia to switch off the analogue signal on June 30 2010. Now only those in that region with digital televisions or a digital set-top box can receive terrestrial television signals.

In addition to improved picture and sound quality, the most visible impact of the digital television migration has been the launch of the free-to-air multi-channels, which now comprise the digital television service known as Freeview.

Freeview offers the existing free-to-air channels of Seven, Nine, Ten, the ABC and the SBS as well as the multi-channels ABCNews24, ABC2, ABC3, SBSTWO, 7Mate, 7Two, Gem, Go!, Eleven and One, and community TV channels. Freeview also offers an Electronic Program Guide (EPG) which provides program schedules and makes the recording of programs easier for the viewer.

The switchover to digital has further significant benefits that are yet to be realised. The digital signal uses less spectrum than an analogue signal and once the migration concludes, the freed up spectrum will be auctioned by the Australian Government for use by other communications services.

This 'digital dividend', as it is known, presents opportunities for a range of service providers including 4G wireless technology, which, alongside high-speed internet, will be a key source of internet-based broadcasting and communications services in the future.

As an indication of what sort of revenue may be generated by a spectrum auction, a 2008 spectrum auction in the US of a similar frequency range to Australia's forthcoming auction following its digital switchover generated US$19 billion in revenue for the US Government.[45] In 2010 a competitive auction for 3G cell phone spectrum in India generated $14.6 billion for the government.[46]

Regulation

The Australian Government's regulatory intervention in the Australian screen sector is founded on two distinct yet interconnected strands. The first is a cultural objective which, in order to be achieved, necessitates the second strand, a regulated response to alleviate market pressures that would otherwise impede the delivery of the cultural goal.

Australia has for generations viewed the provision of local content as an intrinsic role of the television system. This is predicated on the public interest obligation arising from privately owned organisations receiving access to valuable, publicly owned spectrum.[47] This *quid pro quo* has historically been further solidified by the protection from competition provided by the Broadcasting Services Act's prohibition on a fourth commercial free-to-air network and the anti-siphoning list.

[44] http://www.dbcde.gov.au/consultation_and_submissions/digital_dividend/digital_dividend_green_paper_html#1.5

[45] Auction 73, 700 MHz Band, Federal Communications Commission

[46] "India's 3G spectrum auction raises $14.6 billion" Bloomberg Business Week, May 20, 2010.

[47] For example, Seven Media Group/West Aust Newspapers has valued its Australian television licences at $1.8 billion. See http://www.aspecthuntley.com.au/asxdata/20110308/pdf/01159724.pdf, p 57.

The Australian Content Standard represents the regulatory response to the disproportionate commercial power of the US industry and the means by which the Australian industry can ensure the provision of local, culturally relevant content to local audiences where they consume it most – on linear broadcast television.

Whilst the level of overall Australian content, including news, lifestyle, variety and entertainment programming, is important, a key driver of the Government's cultural objective is the production of high-quality, narrative-based screen content. The delivery of quality drama, documentary and children's programming is seen as essential to the health and vitality of Australia's cultural life.

The primary commissioners and broadcasters of narrative-based content are commercial free-to-air television, the public broadcasters and subscription television and each is subject to Australian content requirements either through regulation or, in the case of the public broadcasters, their establishing legislation.

Creating and delivering Australian content

The following sections look in more detail at the economics of screen content production in Australia including how Australian content gets made, as well as the range of delivery platforms with a particular focus on their role in content production.

2 CREATING AUSTRALIAN CONTENT

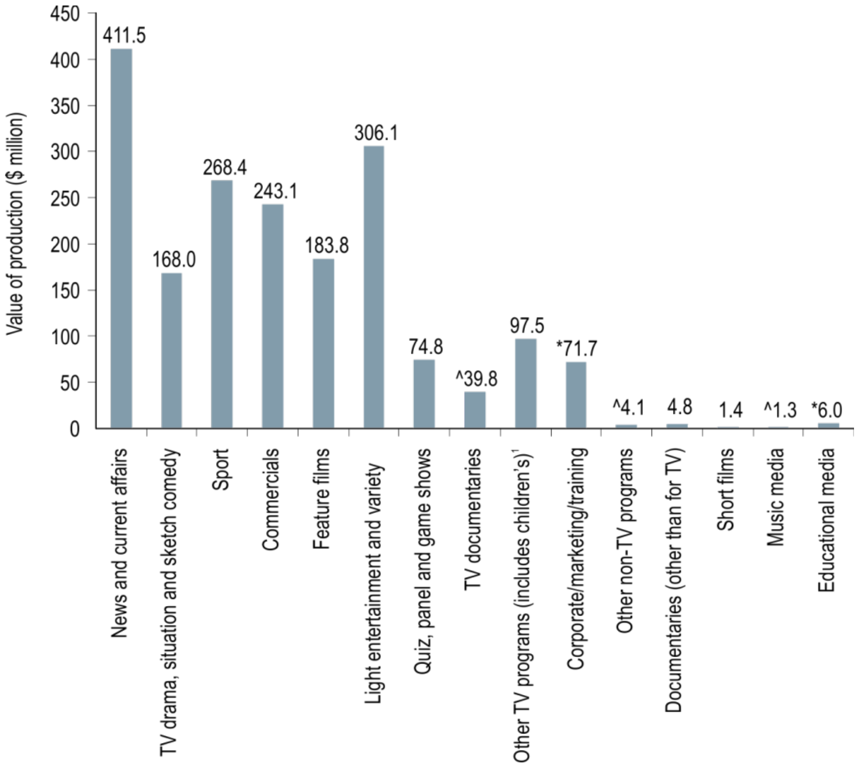
2.1 The economics of screen content production

Value of production activity

The latest ABS data on total screen content production in Australia is for 2006/07. It puts the total value of audiovisual production activity in Australia in that year at $1.9 billion. This is estimated from production costs incurred by film and video production and post-production services businesses, television broadcasters (both free-to-air and subscription) and subscription television channel providers. It includes television programs and commercials as well as feature films, short films, documentaries, corporate videos, educational programs, music videos and other types of production.

News and current affairs was the top category of production activity (as for the previous three surveys), accounting for 22 per cent of all production costs. Light entertainment/variety and sport followed. Narrative content (feature films, documentaries and TV drama) together accounted for 24 per cent.

Value and share of production activity by production type, 2006/07



Source: Australian Bureau of Statistics (ABS), Television, Film and Video Production and Post-production Services, 2006/07 (cat. no. 8679.0).
^ Estimate has a relative standard error of 10–25 per cent and should be used with caution.
* Estimate has a relative standard error of 25–50 per cent and should be used with caution.

Who's paying?

Depending on the type of program, screen content production in Australia is characterised by investment from combinations of media platforms, individual producers, direct government investment, tax incentives and a degree of foreign investment. The more expensive and risky the content is to monetise, or the more complex it is to make, the more investing partners are needed.

While many platforms may provide opportunities for viewing Australian content, only some invest in the production of Australian programs. This is because the cost to create the content can be significantly higher than purchasing completed programs, and involves greater risk. However, investment at production stage will often determine ownership and control of the content, including any future earnings.

Investments in programs can be via outright ownership, or a combination of equity and licence to communicate (via the payment of a licence fee). There are various motivating factors, such as the need for collaboration to create certain forms of content or the desire for creative control. Equity ownership is seen as particularly relevant to the media platforms that have greater difficulty in monetising content through one single broadcast or communication. Unlike licence fees, equity provides platforms with access to potential future income.

More details of how Australian content is financed are set out in section 2.2.

Program decision-making and risk

Media platforms distributing screen content make commercial decisions about the type of content they will provide to audiences based on aspects such as cost, competition, potential audience, future growth and ability to monetise the content. Additional potential revenue streams for the content such as merchandise sales may also be relevant.

The main factors driving decisions around purchasing or investing in content include:

- the potential of the content to generate revenue for the platform via the sale of advertising, at a price usually related to the number of views the content is anticipated to receive;
- the potential to build interest in the programming adjacent or linked to that piece of content;
- the potential of the content to promote the platform on which it is being offered, and generate or retain subscribers;
- the need to fulfil licence obligations in regard to content quotas or expenditure requirements.

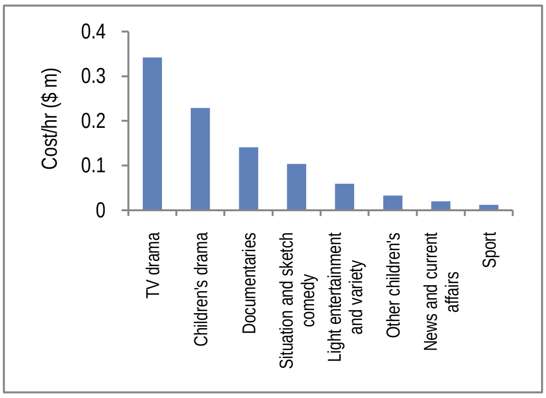
All but the last consideration relate directly to the content being attractive to viewers.

There are also different ways to monetise content that impact on its attractiveness as an investment. Many sporting matches, for example, are readily monetised given the nature of the interest in the event and its subsequent 'built in' audience. Other forms of content require additional significant investments in marketing and promotion to create an audience.

New programs are risky, as the ability to forecast outcomes is limited. The risk can be mitigated by, for example, scheduling a return season of an established series, which has already proved its ratings potential. However, this must be balanced with the need to provide audiences with new and fresh content. Many of the foreign programs screened in Australia have already been tested in their domestic market, which can provide some evidence of potential audience levels here. New Australian content is therefore among the riskiest programming for broadcasters.

However, Australian programs are popular with Australian audiences, regularly topping the ratings across all genres.

Program costs



Cost is arguably the most significant risk factor in program decision-making around narrative content.

Per hour, drama production is generally the most expensive form of television programming to create, followed by children's drama, then documentaries.[48] These forms of content are therefore a riskier proposition, involving significant upfront costs that may or may not be fully met if the content is not successful.

This risk, combined with the fact that they are perceived to be the most culturally valuable programming genres, has been the traditional rationale for government incentives and obligations to ensure that Australian drama, children's drama and documentaries are available to Australians.

Sport, news/current affairs and light entertainment have the lowest production cost per hour.

In terms of costs to the broadcaster, the high levels of production output from the US and the relative pricing of that content (see below) results in a lopsided marketplace for content whereby it is significantly cheaper to purchase a high-rating US series like *Two and a Half Men*, or a decades old program like *Charlie's Angels, Miami Vice* or *Fantasy Island* than to produce new Australian programs. More than 70 per cent of the commercial free-to-air broadcasters' drama expenditure relates to foreign drama as a result.

Typical production costs for new release US drama programs are A$2 million to over A$5 million per hour. Recent examples include A$2.3 million per hour for *Mad Men*[49] and an average of $5 million per hour for *Boardwalk Empire* (with the pilot costing over $13 million per hour).[50] These costs are generally covered in the domestic US television market. In addition, some of these programs can generate the same amount again in sales around the world.

By comparison an Australian drama series with similar production values might cost A$400,000 to A$1.8 million per hour, which must be covered in getting the program to air in Australia, through a combination of finance from broadcasters, government and other industry sources (see section 2.2, page 27). Foreign presales play very little part in financing TV drama, other than children's programs, and subsequent sales of Australian TV drama to foreign territories, while sometimes numerous, do not often generate high significant revenue.

The table below compares the typical production costs of Australian and international (US) drama, and the relative costs to Australian broadcasters to screen them.

[48] Australian Bureau of Statistics (ABS), Television, Film and Video Production and Post-production Services, 2006/07 (cat. no. 8679.0).

[49] http://www.nytimes.com/2008/06/22/magazine/22madmen-t.html

[50] http://www.variety.com/article/VR1118022673?refCatId=14

Costs for one hour of new release drama: free-to-air TV

	US drama program*	Australian drama program**
Indicative production cost	A$2.5 million – 5 million +	A$400,000–1.8m
Indicative cost to Australian broadcaster	A$100,000–400,000 (licence fee)	A$350,000–1.4m (Aus broadcaster contribution to production, via licence fees, presales, equity investments etc)

*Based on published data on average cost of one-hour US TV drama, http://www.nytimes.com/2008/06/22/magazine/22madmen-t.html
**Based on Australian drama series for adults made over the last 3 years, 6-22 eps, 60 min per ep.

Much of the new release US programming is purchased through output agreements between Australian broadcasters and US audiovisual companies, at costs ranging from A$100,000 to A$400,000 per hour. Prices per hour are even lower if the programs are being acquired for Australian subscription television or the free-to-air multi-channels. These output agreements often lead to the acquisition of packages of programming that include material not desired by the broadcasters, but is recognised as a cost of acquiring the most attractive material.

Given that the cost to the networks in bringing Australian drama to the screen is higher relative to the purchase of US drama, it follows that ratings for Australian programs would need to be higher in order to generate an equivalent advertising revenue return.

The successful Australian series *Sea Patrol* drew an average audience of 1.9 million in 2009, similar to the US series *Two and Half Men* with 1.7 million the same year.[51] In purely economic terms, where a cheaper US program can achieve similar ratings to a more expensive Australian program, there is little incentive to invest in the Australian. Hence, a series like *Sea Patrol* would lose its attractiveness to the network, underscoring the challenges likely to face Australian content producers in a liberalised regulatory environment.

The international content market

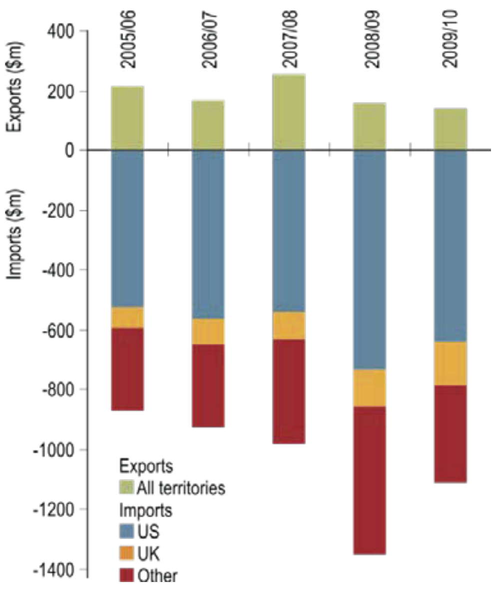
ABS balance of payments data on imports and exports of Australian cinema, television, video and multimedia releases indicates that Australia does not have a strong export market for its audiovisual products, with an annual deficit in audiovisual trade every year since 1991/92, apart from the year of the Sydney Olympics. The overall trade deficit in 2009/10 was A$966 million.

The US is the primary source of all imported audiovisual content, accounting for more than half of imports since 2005/06.

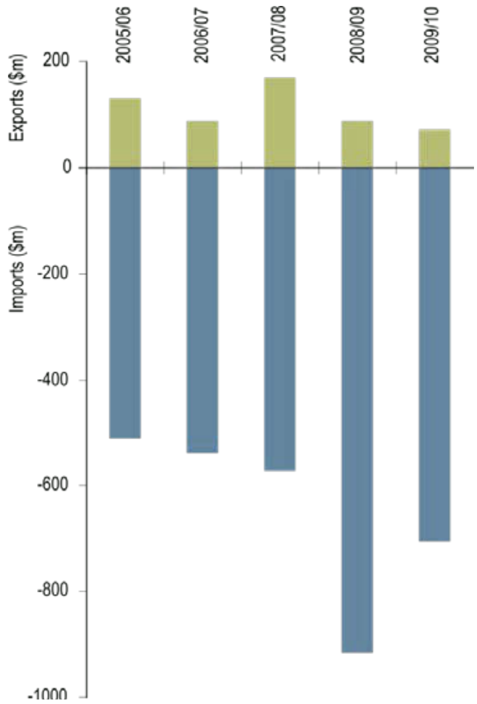
Exports of Australian content tend to fluctuate. The UK is the strongest market for our content overall, accounting for 21 per cent of export value over the last five years, slightly ahead of the US at 19 per cent since 2005/06. Television is by far the biggest player in terms of both imports and exports. (Note that the figures include features sold for television screening, as well as sales of program formats where foreign territories purchase the rights to produce their own versions of programs.)

[51] Screen Australia analysis of OzTAM and RegionalTAM data, 5 City Metro, Combined Aggregate Markets, 2009. Metro and regional audiences have been added together to form a combined total. Analysis is based on the average performance of first run episodes only.

Total value of trade in cinema, video, TV and multimedia releases



Value of trade in television releases

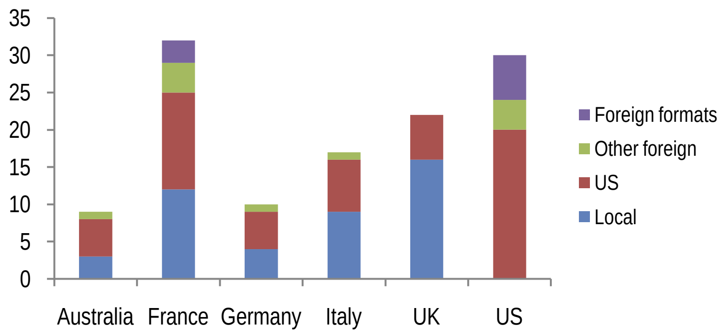


Source: Unpublished data from Australian Bureau of Statistics (ABS), *Balance of Payments and International Investment Position* (cat. no. 5302.0).

Since 2005/06, only 4 per cent of Australian television exports have been to the US market while 26 per cent were to the UK. This contrasts starkly with imports, with 52 per cent from the US and 13 per cent from the UK.[52]

The robustness of the export market for the US industry is underlined by recent data on the volume of new television programs launched around the world. The NOTA International TV Trends Report indicates that US TV drama in particular has a wide market both domestically and internationally, with US productions making up more than 50 per cent of new fiction titles released in Australia and Germany in the first quarter of 2011, and more than 40 per cent of titles launched in France and Italy, as well as the majority in its home market.

Number of new fiction titles launched in select territories, 3 January – 3 April 2011



Source: Mediametrie, NOTA – International TV Trends Season 2010/2011 Volume II

[52] Unpublished data from Australian Bureau of Statistics (ABS), *Balance of Payments and International Investment Position* (cat. no. 5302.0).

US MARKET DOMINANCE

The US screen industry is the most wide-reaching and economically powerful in the world, supporting 2.4 million jobs and paying over US$140 billion in total wages.[53] It generates US$15.7 billion in public revenues amounting to US$13.6 billion in audiovisual services exports in 2008, recording a positive trade surplus of US$11.7 billion.

To put that into perspective, the motion picture and television services surplus in the US was larger than the surpluses of the US telecommunications, management and consulting, legal, medical, computer and insurance services sectors.[54]

The sheer scale of the US in terms of geographical breadth and population size facilitates a powerful and commercial broadcasting sector. Whereas the Australian television industry is centralised, with three commercial broadcasters, two public broadcasters and a small network of regional affiliates that largely mirror the transmission of the commercial broadcasters, the US industry is far more complex in its composition.

In the US a large network of independent affiliates means that syndication – the sale of rights to broadcast a television program – can be a significant source of revenue. As a result, domestic sales combined with advertising revenue make US television production commercially viable within the domestic market without need for government incentive or investment. The only incentives offered in the US tend to be state-based incentives designed not to stimulate production but to lure it to those states for the wider benefits they bring to state economies.

With production costs more likely to be fully recouped domestically, US programs can then be offered on the export market for licence fees substantially lower than the cost of production.

[53] "The Economic Contribution of the Motion Picture & Television Industry to the United States" supplementary report, April 2010 p 2

[54] "The Economic Contribution of the Motion Picture & Television Industry to the United States" supplementary report, April 2010 p 5

INDIGENOUS CONTENT

Indigenous screen content encompasses:

- productions which are of Indigenous origin in that they are written and directed by Indigenous Australians, such as Cannes Camera d'Or winner *Samson and Delilah*, written and directed by Warwick Thornton; and
- productions which have Indigenous content but are not creatively controlled by Indigenous practitioners, such as *Rabbit Proof Fence*, written by Christine Olsen and directed by Phillip Noyce.

Productions conceived and created by Indigenous practitioners have not historically found support in the commercial marketplace. For many years a nascent industry, with a few notable exceptions it is only in very recent times that Indigenous film and television has properly begun to enter the mainstream.

As a result, Indigenous productions are almost entirely dependent on government support for their existence, through the direct funding provided by Screen Australia and the state screen agencies as well as through the support of the public broadcasters, the ABC and the SBS, and the funding of NITV (see section 3.1, page 50).

This support is, in part, recognition that Indigenous content has a unique cultural role in informing, educating and entertaining local and international audiences. Indigenous screen content has a unique and essential voice and its evolution and growing status within the Australian industry underscores the role that Government can play in mitigating commercial challenges to ensure that Australian content of significant cultural value is produced not only for Australian audiences but for a global market.

More than that, in the 2010 Review of Australian Government Investment in the Indigenous Broadcasting and Media Sector ("the Indigenous Broadcasting Review"), the sector was found to have an important role to play in improving the wellbeing of Aboriginal and Torres Strait Islander peoples by building pride and a sense of identity for Indigenous Australians.

The Indigenous Broadcasting Review also found the sector to provide an "essential service to all Aboriginal and Torres Strait Islander peoples whether they live in urban, regional or remote locations."[55] It also contributes to broader Government policies such as Closing the Gap by providing employment and training opportunities to Indigenous people.

Although there have been recent instances of private investment tentatively entering the Indigenous production sector, film and television created and conceived by Indigenous Australians will continue to be dependent on government support for some time to come and the significant role it plays both from a cultural perspective and from an educational, skills, training and employment perspective, continue to justify that investment.

[55] Review of Australian Government Investment in the Indigenous Broadcasting and Media Sector 2010. p 1

2.2 How Australian narrative content gets made

The production of narrative screen content requires both skilled practitioners and access to finance. Australia is well endowed with the former, punching well above its weight on the world stage in terms of filmmaking talent and experience. Screen Australia has therefore focused in this section on the financial underpinnings of the process.

Broadly, finance for narrative content comes from a range of sources: the distribution platform; the producer or production company itself; private equity investment; government (either direct and/or through the Producer Offset); and foreign sources (marketplace and/or equity). Foreign sources are particularly interesting as they provide an indication of production being made in part for export.

TV drama for adults

Australian television drama producers utilise various combinations of finance to cashflow production. Some programs are fully funded by a single broadcaster, while others require combinations of government, industry and foreign finance. These combinations vary depending on the type of program.

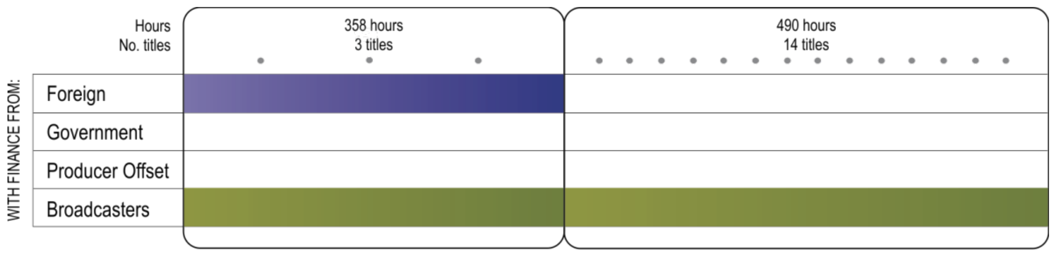
Financing methods for the whole TV drama slate, covering the three years since the Producer Offset came into operation (2007/08 to 2009/10), have been analysed below. Programs made for free-to-air (commercial and public) and subscription television are included. (Note that at time of production, cashflow for the Producer Offset is raised in various ways by producers.)

The analysis considers programs with budgets under and over $500,000 per hour separately, which is useful in identifying the different financing methods for Offset-eligible and non-eligible programs.[56]

There are other sources that aren't broken out in the analysis:

- Film/TV industry finance other than broadcasters – this is generally production companies and distributors.
- Private – there is very little private finance in the TV drama slate.

Finance profile: TV drama proejcts under $500,000 per hour (2008–2010)

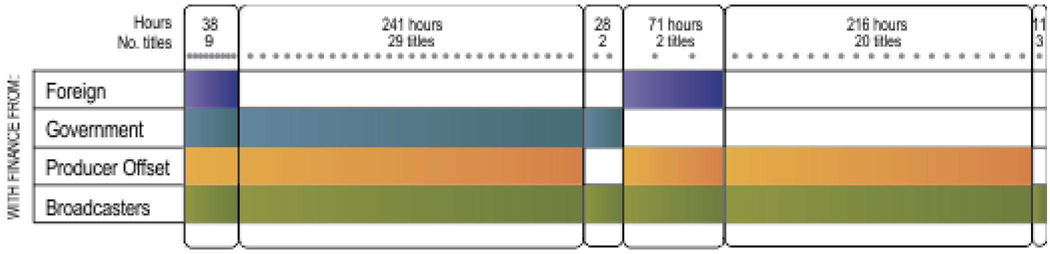


Source: Screen Australia

While the programs under $500,000 per hour accounted for 21 per cent of total titles, they made up 58 per cent of total hours, due to long-running serials (*Neighbours* and *Home and Away*). These lower-costing programs tended to be fully funded by the broadcasters (sometimes in conjunction with other industry sources such as production companies or distributors). No titles under $500,000 per hour accessed direct government finance.

[56] In order to be eligible for the Producer Offset, drama series must have QAPE (qualifying Australian production expenditure) per hour of at least $500,000. While this is not exactly the same as cost per hour, in most cases it is roughly equivalent.

Finance profile: TV drama projects over $500,000 per hour (2008–2010)



Source: Screen Australia

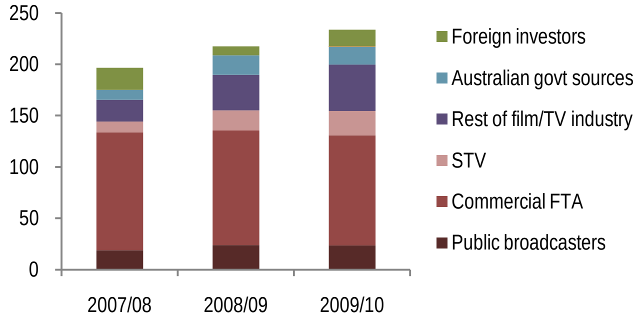
The largest proportion of programs with budgets over $500,000 per hour was financed with a combination of government, broadcaster and Producer Offset sources. This combination also made up the highest proportion of hours in this budget range. The next most common financing method was the combination of broadcaster and Offset sources. A much smaller proportion included foreign sources in their finance plans.

(Note that the very small number of titles without Producer Offset in the over-$500,000 range may be ineligible for the Offset because of factors such as exceeding the total episode cap or receiving FFC or AFC funding prior to 1 July 2007. Some may be eligible but may not have applied for Offset certification yet.)

In terms of amounts contributed, broadcasters provided the majority of finance for the slate, with the overall contribution of the commercial free-to-air broadcasters remaining steady over the last three years. Finance from subscription TV has grown since 2007/08, and was equal with the public broadcasters (ABC and SBS) in 2009/10. Contributions from the rest of the film/TV industry (including the Producer Offset, cashflowed in various ways) have helped to grow the overall slate over this period.

Only 7 per cent of the adult drama slate came from foreign sources.

Contributions to the annual TV drama slate, programs for adults ($m), 2007/08 to 2009/10



Source: Screen Australia

Screen Australia slate

Screen Australia's role in television production (TV drama for adults and children, as well as documentaries) is in supporting the ongoing creation of quality, innovative content that resonates with audiences but which may not otherwise be produced due to cost or lack of commercial viability.

This includes both premium content of national significance, and content aimed at stimulating the development of new forms of narrative and new talent. As a result, Screen Australia funding is present across all budget ranges.

Within the adult TV drama slate, Screen Australia invests in telemovies and mini-series, generally requiring a local presale for Australian free-to-air or subscription television rights, with a minimum licence fee (currently $440,000 per broadcast hour). Innovative low-budget projects are also supported under a separate fund.

The finance profiles in the previous section are based on titles produced between 2007/08 and 2009/10, and as such include a mix of programs with funding from Screen Australia and its predecessor agencies. Since its inception in 2008, Screen Australia itself has funded 10 adult television drama projects with total production budgets of $68.2 million. Agency investment accounted for 19 per cent of the financing structure, with other local and foreign sources contributing 77 per cent and 4 per cent respectively.

Almost half the financing for the slate was raised through presales of television rights – $31.5 million in total, comprising presales to local free-to-air ($28.3 million) and subscription ($3.2 million) broadcasters. Other forms of investment by broadcasters, like equity contributions and distribution advances which may include rights for home entertainment etc, contributed less financially, with a combined value of just $3.4 million. Some foreign money was raised for these projects but not in the form of presales.

Local subscription TV providers made an additional investment of $300,000. When combined with presales, this can be used to acquit their regulatory requirements for drama expenditure.

Post-financing revenues via international sales, local rebroadcasting rights and home entertainment rights not sold prior to completion do not generally yield much revenue, despite being sold in some cases to many territories.

Contributions to the Screen Australia TV drama slate 2008–2010

10 PROJECTS		
- Production budgets	$68.2m	
Contribution to total budgets		
- Screen Australia	$13.2m	19%
- B'casters & other local	$52.2m	77%
- Foreign sources	$3.0m	4%

Free-to-air presales	$28.3m	41%
Free-to-air other*	$3.1m	5%
Subscription presales	$3.2m	5%
Subscription other*	$0.3m	<1%
Other local**	$17.3m	25%
Foreign presales	$0.0	0%
Foreign other*	$3.0m	4%

Source: Screen Australia
* 'Other' may be equity, distribution advance, etc
** 'Other local' includes producer and other private equity cash-flowing arrangements.

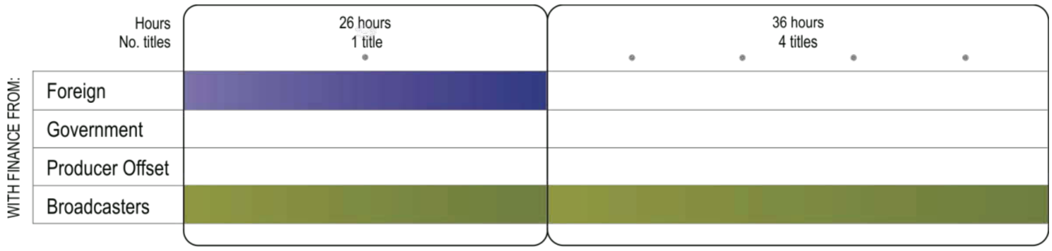
Children's TV drama

Like programs for adults, children's television drama producers utilise various combinations of finance to cashflow production. However, foreign finance featured much more strongly for children's drama than adults'.

This is partly due to the high incidence of official co-productions, whereas no adult TV dramas have been made as official co-productions since 2005/06. However, unlike adults' drama, most domestic children's drama titles also had foreign finance in their production budgets. Not only did more titles include foreign finance, but it also accounted for a greater proportion of total budgets for children's programs than it did for adults' drama. 37 per cent of total finance to the full children's drama slate came from foreign sources (26 per cent for domestic programs only).

Generally, series had a total running time of 13 hours, and it's rare in practice for children's drama to exceed that level. So, without the long-running serials we see in adults' drama (such as *Home and Away* and *Neighbours*), the relationship between number of titles and total hours is much closer for children's drama.

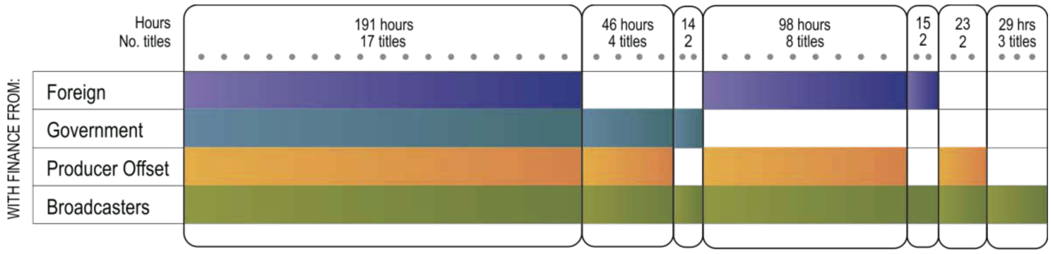
Finance profile: Children's TV drama under $500,000 per hour (2008–2010)



Source: Screen Australia

Only a very small proportion of children's drama programs had budgets under $500,000 per hour. These were mainly broadcaster-funded, some with the addition of foreign finance. As was the case for adults', none of these accessed direct government finance.

Finance profile: Children's TV drama over $500,000 per hour (2008–2010)

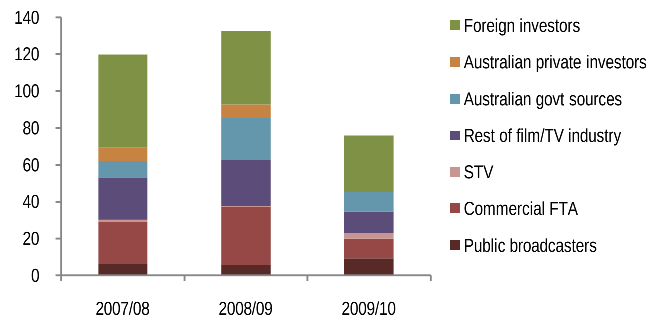


Source: Screen Australia

Most programs with budgets over $500,000 per hour combined government, broadcaster, Producer Offset and foreign sources. This was followed by the broadcaster/Offset/foreign combination.

In terms of amounts contributed, broadcasters, in particular the commercial free-to-air networks, accounted for the largest proportion. However the public broadcasters (ABC and SBS) contributed a similar amount in 2009/10.

Contributions to the annual TV drama slate, programs for children ($m), 2007/08 to 2009/10



Source: Screen Australia

Screen Australia slate

As mentioned above, Screen Australia invests in TV drama throughout the budget ranges of the slate, with its role in supporting both premium content of national significance, and content aimed at stimulating the development of new forms of narrative and new talent.

Within the children's drama slate, Screen Australia-supported projects can be telemovies and series up to 26 broadcast hours, either animation or live action. Of the 12 co-productions made in the last three years, one was financed by Screen Australia and one by the predecessor organisation, the Film Finance Corporation. Minimum licence fees generally apply (currently $100,000 per broadcast half hour for initial television rights and at least $15,000 per broadcast half hour for any secondary window).

The general production data in the previous section is based on titles produced between 2007/08 and 2009/10, including a mix of programs funded by Screen Australia and its predecessor agencies. Since its inception, Screen Australia itself has funded seven children's television drama projects with total production budgets of $68.4 million. Agency investment accounted for 24 per cent of the financing structure, with other local and foreign sources contributing 48 per cent and 27 per cent respectively.

When compared to adult drama, Screen Australia has slightly more at stake, with local broadcasters contributing far less proportionally, offset by significantly more foreign investment.

More than a third of finance was raised through the presale of television rights. In total, there was $25.9 million in presales sold to free-to-air ($15.6 million), subscription ($0.8 million) and foreign ($9.5 million) broadcasters. This is in stark contrast to adult drama that achieved no international presales.

Other local broadcaster investments are negligible. Again, foreign territories did better in this regard, achieving $9.2 million in other investments.

Contributions to the Screen Australia children's TV drama slate 2008–2010

7 PROJECTS		
- Production budgets	$68.4m	
Contribution to total budgets		
- Screen Australia	$16.7m	24%
- B'casters & other local	$32.7m	48%
- Foreign sources	$18.7m	27%

Free-to-air presales	$15.6m	23%
Free-to-air other*	$0.1m	<1%
Subscription presales	$0.8m	1%
Subscription other*	$0.0	0%
Other local**	$16.3m	24%
Foreign presales	$9.5m	14%
Foreign other*	$9.2m	13%

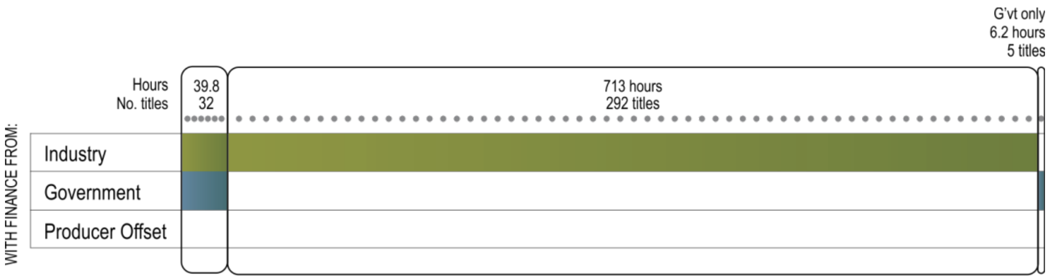
Source: Screen Australia
* 'Other' may be equity, distribution advance, etc
** 'Other local' includes producer and other private equity cash-flowing arrangements

Documentaries

Australian documentary producers also utilise various combinations of finance sources to cashflow production of their programs, and the financing methods for the documentary slate has been analysed similarly to TV drama above. Documentaries made by Australian production companies and inhouse by the broadcasters are included.

The budget ranges are split differently from TV drama as the expenditure threshold for Producer Offset–eligible documentaries is $250,000 per hour. Details of foreign and private finance in the annual documentary slate are limited, as are details breaking down industry finance into broadcasters, production companies and distributors. So the various combinations of direct government, Producer Offset and industry sources (incorporating all sources of Australian and foreign industry finance) are shown. However, it's safe to say that the majority of the 'industry' category relates to the Australian broadcasters (commercial free-to-air, public and subscription). As with TV drama, there is very little private finance in the documentary slate (see below for private finance in 2009/10).

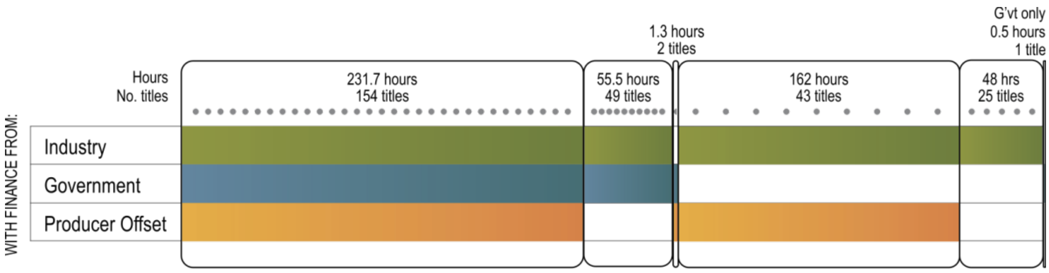
Finance profile: Documentaries under $500,000 per hour (2008–2010)



Source: Screen Australia; includes inhouse productions

A large number of documentaries under $250,000 per hour drew on neither direct government funding nor the Producer Offset. Many of these were made inhouse by the broadcasters.

Finance profile: Documentaries over $500,000 per hour (2008–2010)

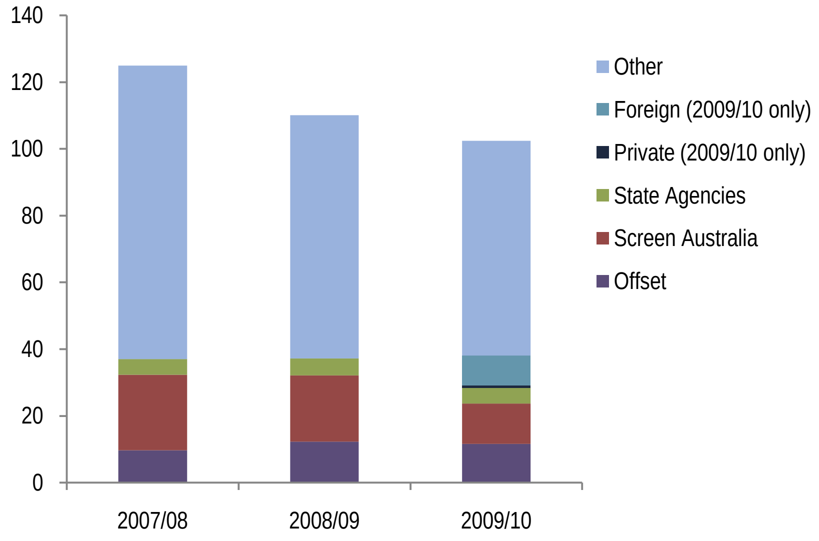


Source: Screen Australia; includes inhouse productions

Amongst the Offset-eligible titles (over $250,000 per hour) the largest proportion combined direct government, Producer Offset and industry sources.

In terms of amounts contributed, while the industry (mainly broadcasters) provides the majority of finance – 66 per cent across the last three years – government funding underpins annual documentary activity, with Screen Australia contributing 18 per cent of finance, the state agencies 5 per cent and the Offset, cashflowed in various ways, 11 per cent.

Contributions to the annual Australian documentary slate ($m), 2007/08 to 2009/10



Source: Screen Australia

A more detailed breakdown of overall finance sources is available for the 2009/10 documentary slate, where contributions from foreign and private sources have been identified. That year, foreign sources contributed 9 per cent of finance to the slate, a similar level to TV drama over the last three years. Private finance was minimal. Direct government sources were more significant than either the adults' or children's TV drama slate, at 16 per cent.

The majority of finance came from 'other' Australian film and television sources, which includes some contributions from production companies but predominantly relates to the broadcasters.

Screen Australia slate

Screen Australia supports both one-off documentaries and documentary series up to 26 hours, generally in conjunction with a broadcaster. Minimum licence fees generally range from $120,000 to $150,000 per hour, except in the case of the Special Documentary Fund (now the 'Signature' program), which does not require broadcaster attachment. Again, Screen Australia funding is widely present across documentary budget ranges in the annual production slate.

The documentary data in the previous section is based on titles produced between 2007/08 and 2009/10, which include a mix of programs funded by Screen Australia and its predecessor agencies. Since its inception in 2008, Screen Australia itself has funded 45 documentary projects, with total production budgets of $45.4 million. Agency investment in these projects accounted for 36 per cent of the financing structure, with other local and foreign sources contributing 57 per cent and 7 per cent respectively.

The majority of non-government investment is made through presales of television rights: a total of $12.4 million to free-to-air ($11.7 million), subscription ($0.7 million) and foreign ($2 million) broadcasters.

Other types of investment from local free-to-air and subscription broadcasters contribute to a lesser degree.

Contributions to the Screen Australia documentary slate 2008–2010

45 PROJECTS		
- Production budgets	$45.4m	
Contribution to total budgets		
- Screen Australia	$16.2m	36%
- B'casters & other local	$26.0m	57%
- Foreign sources	$3.3m	7%

Free-to-air presales	$11.7m	26%
Free-to-air other*	$1.7m	4%
Subscription presales	$0.7m	2%
Subscription other*	$0.1m	<1%
Other local**	$11.9m	26%
Foreign presales	$2.0m	4%
Foreign other*	$1.3m	3%

Source: Screen Australia
* 'Other' may be equity, distribution advance, etc
** 'Other local' includes producer and other private equity cash-flowing arrangements

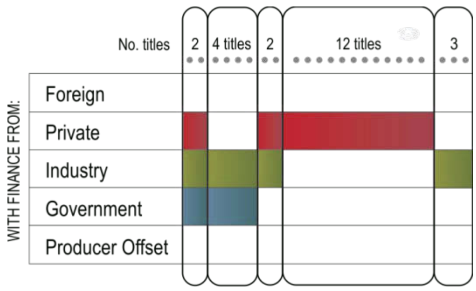
Features

Methods for financing the production of Australian features have evolved over the last four decades, as systems of direct and indirect funding have developed and changed. Direct government funding was available via the Australian Film Commission, NSW Film Corporation, South Australian Film Corporation and Victorian Film Corporation from the 1970s, the Film Finance Corporation in the 1990s and Screen Australia since 2008. The state film agencies (which now exist in all states and territories) also continue to contribute to feature production funding.

In the 1980s, almost all features were funded using private and largely 'non-industry' finance raised under the 10BA tax incentive system, with 'top-up' finance provided by government film agencies, until 1988 when the tax deduction was reduced to 100 per cent. Since that date, private finance played a much smaller role in funding features, with the exception of the early 2000s when the pilot Film Licensed Investment Company (FLIC) scheme was introduced.

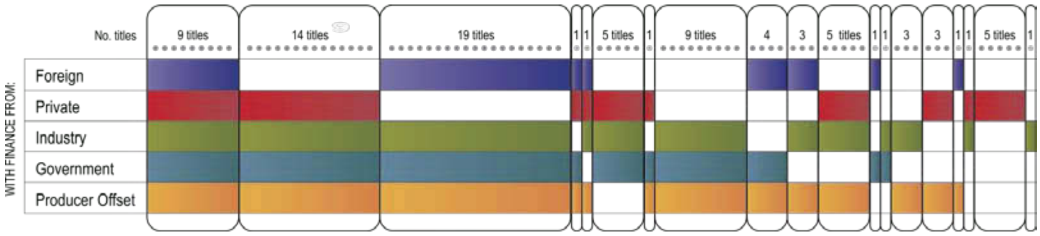
The Producer Offset replaced 10BA in 2007, and its contribution to finance (cashflowed by producers in various ways) has grown in the three years of feature production activity since then.

Finance profiles:
Features with budgets under $1 million (2008-2010)



Under $1 million, which is the threshold for Producer Offset eligibility, most features were privately financed.

Features with budgets over $1 million (2008-2010)

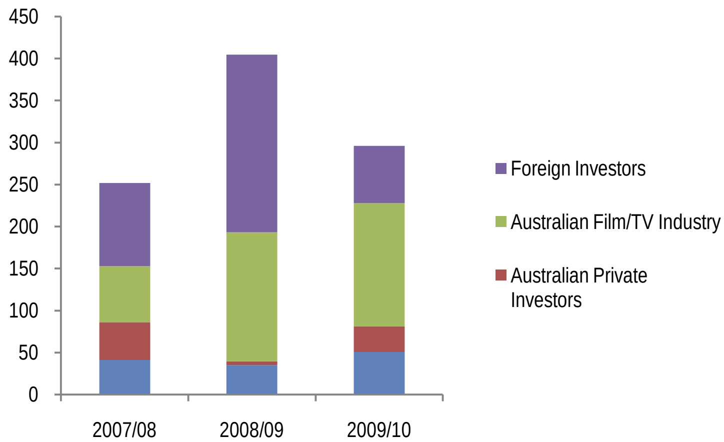


Over $1 million, the large variety of contributor combinations illustrates the difficulty producers face in putting finance plans together for Australian features. The most common configuration was Producer Offset, government, industry (distributors and the production companies themselves) and foreign, followed by Offset, government, industry and private investors.

In terms of amounts contributed, currently the biggest contributors to the feature slate have been the Australian film/TV industry (which includes finance added by producers via the Producer Offset), and foreign sources. In the former category, distribution and production companies are the main sources, although broadcasters and subscription TV channels also contribute to the financing of some feature films.

The majority of foreign finance in the feature slate generally relates either to co-productions, which, by definition, require a foreign production partner, or to the small number of individual high-budget films which have been financed principally by overseas sources.

Contributions to the annual Australian feature slate (domestic and co-production), $m 2007/08 to 2009/10



Source: Screen Australia

Screen Australia slate

Screen Australia funding is available to films of any budget range, including low-budget non-Offset projects, ie films with QAPE below the threshold of $1 million, as well as to Offset-eligible projects. Screen Australia titles are therefore present across most of the budget ranges in the data above. Screen Australia does not generally invest more than $2.5 million in a single feature film.

The feature production data in the previous section is based on titles produced between 2007/08 and 2009/10, including a mix of programs funded by Screen Australia and its predecessor agencies, the Film Finance Corporation and the Australian Film Commission. Since its inception in 2008, Screen Australia itself has funded 36 feature film projects with total production budgets of $258.6 million. Agency investment accounted for 25 per cent of the financing structure, with other local and foreign sources contributing 61 per cent and 14 per cent respectively.

The majority of non-government investment occurs through the sales of rights to distribution companies. In many cases, 'all rights' are bundled together, covering theatrical release, home entertainment, online, in-flight, etc. However, in some cases, television broadcasters are involved during financing, with local free-to-air and subscription broadcasters contributing $2.1 million and foreign broadcasters $4.9 million.

As with television drama, the $0.5 million in presales and other investment made by local subscription television providers can be used to contribute to meeting their program expenditure requirements under the regulatory framework.

Contributions to the Screen Australia feature slate 2008–2010

36 PROJECTS		
- Production budgets	$258.6m	
Contribution to total budgets		
- Screen Australia	$64.9m	25%
- B'casters & other local	$158.5m	61%
- Foreign sources	$35.2m	14%

Free-to-air presales	$2.0m	1%
Free-to-air other*	$0.3m	<1%
Subscription presales	$0.1m	<1%
Subscription other*	$0.4m	<1%
Other local**	$155.7m	60%
Foreign presales	$4.9m	2%
Foreign other*	$30.3m	12%

Source: Screen Australia
* 'Other' may be equity, distribution advance, etc
** 'Other local' includes distributors, producer and other private equity cashflowing arrangements, state agencies

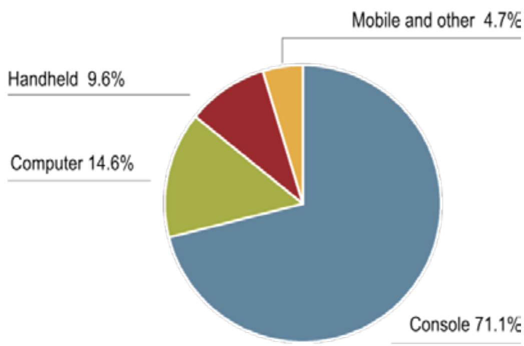
Online video and games

This production activity encompasses digital games (console, computer, handheld and mobile), and the growing field of interactive web content, webisodes and smartphone applications. As with film and television production, Screen Australia's focus in this area is on narrative-based content.

Content can be single-platform; cross-platform (where the same piece of content is distributed via multiple streams, such as a webisode delivered online and via a mobile device); multi-platform (where content is delivered in different forms via different platforms, such as an online game associated with a feature or TV program); or transmedia (where the user's experience of the content is impacted by their actions across multiple platforms, such as reaching a high score in an online game to unlock the next mobile episode).

Very little up-to-date and aggregated information is currently available on the costs and financing structures of this type of activity.

In digital games development, ABS data shows that in 2006/07 the industry operated mainly on a fee-for-service basis, with 85 per cent of income ($116.9 million) coming from the provision of services to other businesses. Nearly all of this (93 per cent) came from overseas sources, and most of it related to console games.



More broadly, there is also a growing incidence of self-funded digital projects with no marketplace finance attached. While some developers and producers may secure distribution guarantees to help finance production, in many cases distributors, exhibitors and/or hosts do not contribute to the budget but rather offer a revenue sharing deal once the project is created. See section 3.5 and 3.6 for information on the range of revenue models applicable to these content forms.

Some direct government funding has been available for digital games development and interactive media production over at least the last decade, with federal assistance programs offered by the Australia Council for the Arts and Screen Australia (and previously the AFC). Various state governments, in particular Victoria and Queensland, have been providing direct and indirect funding mainly through their film and arts agencies. In 2010 Industry & Investment NSW launched a $4.5 million fund to support innovative digital media content projects.

Other general Government initiatives available to game development businesses include Export Market Development Grants and Commercialisation Australia funding. Commercialisation Australia is an Australian Government initiative that offers a range of funding options to help researchers, individuals and innovative companies commercialise their intellectual property.

ABS data shows that government funding contributed $1.7 million, or 1.2 per cent of the total income of digital games development businesses, in 2006/07[57].

A new federal R&D Tax Credit, replacing the R&D Tax Concession from 1 July 2011, will provide a targeted tax offset designed to encourage more companies to engage in research and development in Australia. The offset will be 45 per cent (equivalent to a deduction of 150 per cent) for small companies with an annual turnover of less than $20 million, and 40 per cent (equivalent to a deduction of 133 per cent) for companies with an annual turnover of $20 million or more. The digital games industry expects that the R&D Tax Credit will result in an increase in investment interest from publishers that have established development studios in Australia, and potentially far greater investment in the intellectual properties being developed within local game development studios.[58]

While aggregated figures are not available, anecdotal evidence suggests some broad indicative production costings for internet/mobile/games projects as follows:

- around $5,000 per minute for professional webisodes (in line with a relatively low-budget Australian TV drama series)
- mobile games and smartphone applications anywhere between $5,000 and $200,000 depending on complexity, sophistication and affiliation with international properties
- websites associated with other films or programs from around $80,000.

Screen Australia slate

Screen Australia has supported online video, content rich websites and games projects through its Innovation Program, which was replaced by the new All Media Programs in May 2011. The Innovation Program was aimed at encouraging innovation in form and content in screen-based media, supporting projects that were cutting edge and visionary, exploring new platforms and methodologies.

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[57] Australian Bureau of Statistics (ABS), *Digital Game Development Services Australia 2006/07* (cat. no. 8515.0)

[58] http://gdaa.com.au/game-developers-association-welcomes-rd-tax-credit-support

Thirty projects were funded by the Innovation Program. Agency funding totalled $2.8 million. Other investment partners included the state film agencies, ABC, SBS, the production companies and some private and investors.

In addition to the Innovation program, some games and online projects have been supported through other Screen Australia programs, via the Documentary, Indigenous and Marketing departments.

DIVERSITY OF SCREEN PRODUCTION AND BUSINESS SUSTAINABILITY

Screen Australia's 2010 Business Survey indicated that film and TV production businesses that combined a range of different types of production were proportionally more likely to demonstrate the two identified indicators of sustainability: consistent production activity over the previous three years and business profitability in at least one of the previous two years. They were also more likely to have earned higher levels of income.

Although the survey was focused on businesses that produced narrative programs (feature films, TV drama for adults and children and documentaries), many had other program types in production at the time of the survey – 19 per cent on corporate/marketing, 13 per cent on TV commercials (TVCs) and 12 per cent on 'other' TV. Around 18 per cent of respondents had some involvement in new media (such as interactive media, games or mobile content).

For the companies that undertook them, these other activities appeared to be a significant source of income in many cases. For businesses reporting income from producing TVCs, that activity accounted for half of total producer fees earned. Similarly, 'other' TV programs accounted for 40 per cent of producer fees for those businesses.

In addition, 84 per cent of respondents engaged in income-generating activities other than film and video production. Around half the businesses reported engaging in providing production services, almost a third in providing PDV services. And the vast majority of businesses (89 per cent) generated income from combinations of sources, predominantly producer fees, royalties, development fees and provision of production services. Just over half reported three to four sources of income.

All of this points to an industry reliant on producers' abilities to combine income-generating activities across the various sectors within the audiovisual industries. While the 2010 Business Survey was based on companies engaged in drama and documentary production, the latest ABS data on the broader audiovisual industries (*Television, Film and Video Production and Post-production Services*, 2006/07), reinforces this, with businesses in the film and video production and post-production services industry generating 44 per cent of their income from activities other than content production, ie providing production and PDV services to other businesses.

2.3 Value to the economy of narrative content production

Based on Screen Australia's production data, Australian narrative content – feature films, TV drama, situation and sketch comedy, TV drama for children, and documentaries – generated $709 million worth of investment in 2009/10. Another Australian industry with a comparable level of annual investment is primary metal and metal product manufacturing ($703 million).

This $709 million includes $124 million in overseas finance that would not otherwise be coming into the Australian economy.

Economic modelling[59] indicates that this level of investment in drama and documentary production positively contributes $330.5 million to the Australian economy via gross domestic product (GDP)[60] annually, taking into account the direct[61] and indirect[62] impacts of production activity on the overall economy.

So while direct government funding plays a key role in supporting production of Australian narrative content, the industry is able to convert nearly half of total annual investment from all sources into a positive contribution to GDP, due in part to the foreign finance that such activity attracts into the Australian economy.

Drama and documentary production investment of $709 million annually also results in a net benefit of more than 6,000 jobs to the Australian employment market. The modelling assumes that some workers would find employment in other industries if local drama and documentary production ceased. However, after redeployment of workers to other industries (as well as to other sectors within the audiovisual industries), there would be a net loss of 6,035 jobs from the Australian economy. This translates to over 20 per cent of total people employed in the overall film and television production industries.[63]

The modelling is restricted to local drama and documentary production only and does not take into account foreign production and PDV work undertaken within the infrastructure of the Australian film and television industry. Ausfilm has estimated the economic and employment impacts of foreign and PDV production using similar modelling.[64]

The analysis of the economic impact associated with drama and documentary production expenditure employs the Monash Multi-Regional Forecasting (MMRF) model. MMRF is a general equilibrium model, developed by the Centre of Policy Studies (CoPS) at Monash University, to quantify the economy-wide impact of projects or policy changes. In this case, MMRF is used to assess the economy-wide impact of removing the industry from the Australian economy (i.e. a deprival methodology).

59 PwC report on the economic impact of drama and documentary production expenditure on the Australian economy, prepared for Screen Australia, August 2011.

60 Gross domestic product (GDP) refers to the market value of all final goods and services produced in a country in a given period. GDP is a measure of a country's income, and GDP per capita is often considered an indicator of a country's standard of living.

61 Employment and activity in the industry itself. This includes all stages of production (pre-production, production and post-production) which physically takes place in Australia

62 Employment and activity supported down the supply chain to the core industry, as a result of production companies purchasing goods and services from Australian suppliers. This includes, for example, jobs supported by the manufacture of production equipment sold to production companies; the manufacture of goods sold at cinemas; the spending of film crews in hotels, restaurants etc; business expenditure on television, radio and other advertising; and a wide variety of activity in the business services sector (legal, accountancy, IT etc)

63 Based on ABS 29,978 people working in film and video production and post production services, and television services (public and private) and public radio, in 2006/07, ABS *Television, Film and Video Production and Post-production Services, 2006/07* (cat. no. 8679.0)

64 Ausfilm submission to the Federal Government's 2010 Review of the Independent Production Sector.

This is a conservative modelling approach because, while it acknowledges that if the industry ceased to exist some of the overseas investment into Australia would be lost, resources (labour, capital and land) deployed to the industry would be redeployed to their next best use, rather than being lost to the Australian economy. This means that the deprival value of the industry is likely lower than the direct and indirect contribution of the current industry.

The analysis is based on the direct and indirect impacts of production only. It does not include the induced impacts[65] of the $709 million investment in drama and documentary industry, nor does it take into account any of the measurable flow-on impacts which result from the wider role of the industry in Australia, such as skills and labour supply, tourism, culture, merchandising and promotion and trade.

[65] Employment and activity supported by those directly or indirectly employed in the industry spending their incomes on goods and services in the wider Australian economy. Induced impacts help support jobs in the industries that supply these purchases, and induce jobs in retail outlines, companies producing consumer goods and in a range of service industries.

3 DELIVERING AUSTRALIAN CONTENT

3.1 Commercial free-to-air television

Who are the main players?

The commercial free-to-air (FTA) industry has three major players (Seven, Nine and Ten), each broadcasting a main channel and two digital multi-channels. There is also a range of smaller regional networks and affiliates.

Each network has been allocated a commercial television broadcasting licence, which provides access to the Australian public via free-to-air television, and the right to sell that access to advertisers. In return for the licence, the networks are required to pay an annual licence fee (which is based on overall revenue), and to comply with certain content requirements.

Where do they get their revenue?

The business model of the commercial FTAs is built on earning revenue through advertising. In 2008/09, advertising comprised 92 per cent of FTA revenue, underscoring the importance of achieving the highest possible ratings[66] – audience size having the most significant bearing on the amount that can be charged for advertising space within a given program.

The most lucrative advertising revenue is generated during primetime evening slots that keep this time period the most competitive programming environment; ratings performance in one year has a direct bearing on the advertising revenue that can be negotiated by the broadcaster in the following year.

Commercial free-to-air broadcasters, revenue and earnings, 2008–2010

Network	Advertising revenue			EBITDA[1]		
	2008	2009	2010	2008	2009	2010
Network Seven	$1218.m	$1158.8m	$1,388.5m[2]	$336.0m	$234.0m	$288.0m
Network Nine	$845.4m	$788.8m	$1,185.5m[2]	N/A	N/A	N/A
Network Ten	$876.2m	$746.9m	$1,074.0m[2]	$209.0m	$142.1m	$194.2m

Source: FreeTV Australia

1 Earnings before interest, taxes, depreciation and amortisation (EBITDA)
2 Free TV Australia, Advertising revenue for commercial television networks 2009/10

Initially the networks expressed concern about the potential for multi-channels to fragment viewers and have a negative impact on ratings, and thus on advertising revenues. However, the advertising market for FTA has proved resilient.

In their early stages of development, the networks were using digital channels to offset falling numbers on their main channel by offering additional advertising slots to clients as a

[66] ACMA Broadcasting Financial Results 2008/09

form of compensation. But aggregated data on advertising expenditure[67] is showing that new money is being injected into the sector.

In fact, while audiences on the main free-to-air channels may have declined, viewing across each group of channels has seen a net increase (see section 4, page 61, for details). Importantly for the networks, advertising revenue seems to be following suit. According to figures from January to May 2011,[68] there has been slight decline in monthly advertising revenue for the main channels of Seven and Nine and an increase for Ten. However, the addition of revenue for the digital channels resulted in overall growth for the networks.[69] Nine's Go!, followed by Ten's Eleven and Seven's 7mate lead the revenue takings across the digital channels.

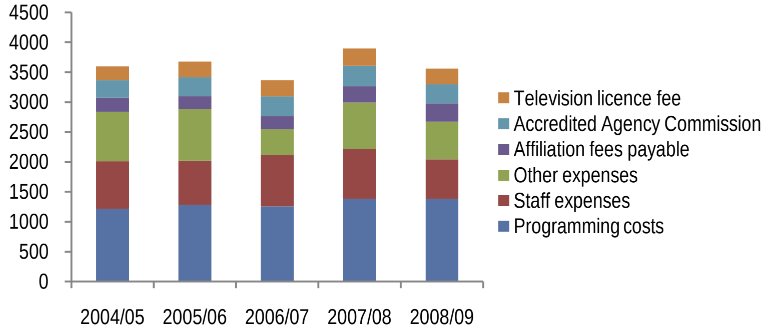
Chief Executive of Nine Entertainment, David Gyngell, stated that 'the SMI data shows TV is picking up revenue share from other media'. Adding, 'the [digital channels] have given us a new lease of life in terms of advertising revenue and are pulling dollars into free-to-air television out of other media such as newspapers and magazine. They are reaching niche audiences compared with the main channels'. This is further supported by Chief Executive of media buyer UM, Mat Baxter, who said 'the digital channels are cheaper than main channels, they are drawing companies that haven't run television advertising before.'[70]

JPMorgan estimate that the digital channels have added about $110 million in new revenue during 2010.[71] Free TV figures released in August 2011 showed that total advertising revenue for the six months to June 30 was $1.8billion, representing a 0.9 per cent increase on the same period in 2010 but falling below the $2.2 billion earned in the second half of 2010.[72] The result can be attributed to a number of factors including weak retail confidence; however, overall it can be said that the free-to-air networks are in good fiscal health and are holding on to their advertising revenues in a challenging climate.

What are they spending their money on?

According to ACMA's *Broadcasting Financial results* (BFR), program spending is the largest expenditure item for the commercial free-to-air broadcasters, accounting for around 38 per cent of their total operating costs over the nine years to 2008/09 (excluding depreciation, amortisation and interest).

Expenditure by commercial free-to-air broadcasters, $m, 2004/05–2008/09



Source: ACMA Broadcasting Financial Results 2008/09

67 Standard Media Index (SMI) financial booking data on Australia's major media buying industries http://www.smi-mediaindex.com/smi/default.aspx

68 "Ad dilemma as digital TV takes off", Australian Financial Review, 26 June 2011

69 SMI reports that ad revenue for Seven and Nine across their channels was up 3.9 per cent and 5.6 per cent respectively in the first five months of 2011; Ten's revenue though had declined by 1.4%.

70 "Ad dilemma as digital TV takes off", Australian Financial Review, 26 June 2011

71 Ibid

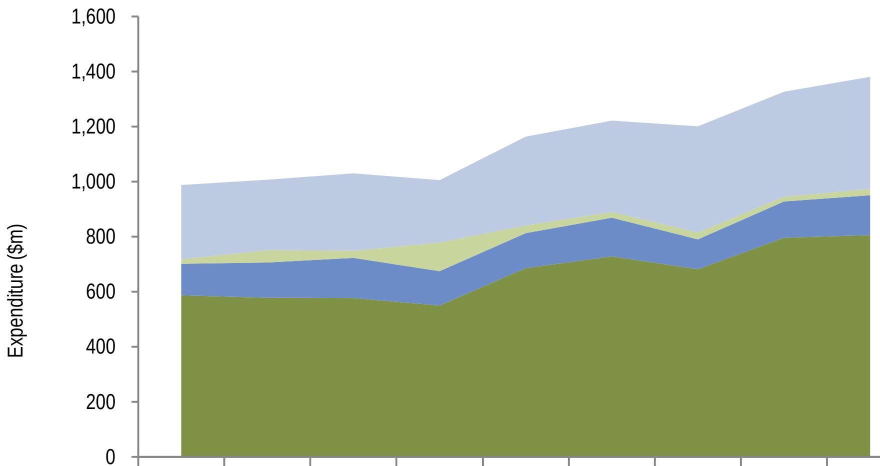
72 "Free to air ad market worth $1.8bn" James Chessell, The Australian, 12 August 2011

Overall, 70 per cent of total program expenditure went to Australian programming over the five years to 2008/09 and 30 per cent to imported programs. However, when it comes to drama, the proportions are reversed, with Australian drama (adults' and children's combined) accounting for only 30 per cent of total drama spending and imported drama for 70 per cent on. So spend on Australian programs predominantly relates to non-drama programs while spend on foreign programs predominantly relates to foreign drama.

Overall, the networks spend more on non-drama (Australian and foreign combined) than on drama.

The majority of foreign programming purchased by the commercial networks originates from the US. These programs are able to substantially recover their cost in their local domestic market, and are then sold in Australia (and other territories) at a fraction of their production cost and well below what it would cost to produce an equivalent program in Australia. See section 2.1, page 22.

Program expenditure by commercial free-to-air broadcasters, 2009/01–2008/09



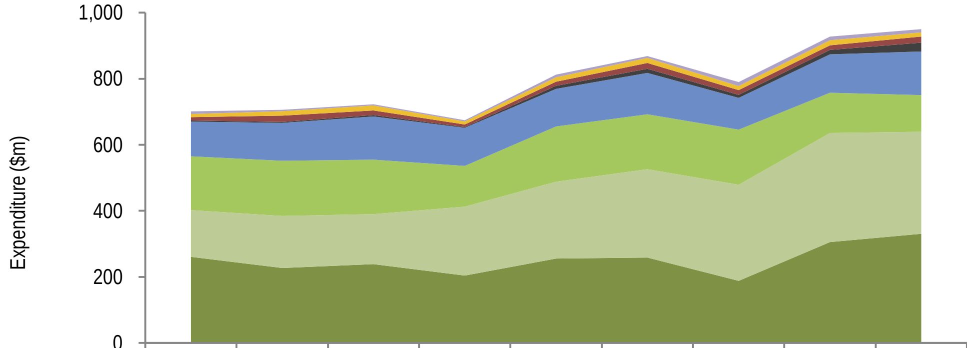
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Imported drama	270.2	255.9	281.3	226.7	322.7	332	385.9	381.4	407.8
Imported other	16.2	44.8	25.9	104.1	27.9	20.7	24.8	17.3	22.5
Australian drama	114.5	128.2	145.9	124.7	127.2	140.6	108.5	131.8	144.8
Australian other	587.00	578.10	577.10	550.00	685.70	728.40	681.80	796.20	805.80

Source: ACMA Broadcasting Financial Results 2008/09

Spend on Australian programs: The top three categories of expenditure on Australian content over the nine years to 2008/09 were sport, light entertainment (including variety) and news/current affairs. Sport has accounted for over 30 per cent of total Australian program spend over the last nine years. Light entertainment (including variety) has been growing since 2003/04, accounting for over 20 per cent of production since then. Simultaneously, but less markedly, expenditure on news/current affairs has been falling.

Spend on Australian programs since 2000/01 has been lowest for drama, children's programs (drama and other) and documentaries. Australian drama for adults averaged 15 per cent. Children's drama and documentaries averaged less than two per cent each. It is partly for this reason, and because they are perceived to be the most culturally valuable programming genres, that there are specific sub-quota requirements for these program types. The fact that expenditure on these program types was relatively consistent compared to the others suggests that the sub-quotas are playing a role in maintaining the levels of expenditure.

Expenditure on Australian programs by commercial free-to-air broadcasters, 2000/01–2008/09



	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Children's non-drama	8.0	4.2	3.6	3.6	8.1	5.6	12.1	11.0	9.8
Children's drama	9.5	13.5	15.1	9.3	13.4	15.3	12.3	15.5	12.7
Other	10.1	19.0	13.8	7.8	12.5	17.7	14.4	13.8	18.5
Documentaries	3.4	2.9	4.4	2.2	9.2	12.4	9.0	13.4	26.7
Drama	105.0	114.7	130.8	115.4	113.8	125.3	96.2	116.3	132.1
News & current affairs	163.0	167.1	164.9	123.3	167.3	166.2	166.9	121.9	111.0
Light ent/variety	141.5	157.7	151.5	208.8	232.8	267.7	291.1	330.4	309.0
Sport	261.0	227.2	238.9	204.3	255.8	258.8	188.3	305.7	330.8

Source: ACMA Broadcasting Financial Results 2008/09

What regulation to create content do they have?

Acknowledging the impact and influence of the commercial FTA broadcasters, Australian content on free-to-air television is regulated via the Broadcasting Services (Australian Content) Standard 2005 ('ACS'). The aim is to promote Australian identity, culture and cultural diversity by supporting access to television programs produced under Australian creative control.

The primary pieces of legislation are the *Australian Broadcasting Services (Australian Content) Act 2005*, the Children's Television Standards 2009 and the Television Program Standard for Australian Content in Advertising (TPS 23).

The main requirement of the Australian Content Standard is that all commercial free-to-air television licensees must broadcast an annual minimum transmission quota of 55 per cent Australian programming between 6am and midnight. In addition there are specific minimum annual sub-quotas for Australian (adult) drama, documentary and children's programs.[73]

Australian content requirements for commercial broadcasters also include specific transmission quotas for individual genres. Genre sub-quotas apply to broadcaster licensees for drama, children's and documentary programs (see appendix 2, page 74). Drama and children's drama quotas can be accrued over a three-year period, which has an effect on the supply and demand for Australian content over that timeframe.

[73] ACS

Minimum annual requirements

Australian Content Standard	At least 55% of transmission be devoted to Australian programming between 6am and midnight.
First release drama sub-quota	250 points between 5pm and 11:30pm totalling 860 points over a three-year period.
First-release documentary sub-quota	20 hours
Children's sub-quota	390 hours: 130 hours of pre-school programs and 260 hours of children's programs) Within the 260 hours there is a required 130 hours of first release Australian children's programs with a minimum sub-quota of 25 hours of first release Australian children's drama screened annually, totalling 96 hours over a three-year period
Television Program Standard for Australian Content in Advertising	80% of advertising between 6am and midnight to be Australian advertisements.

How do they contribute to production?

The commercial broadcasters provide finance to TV drama for adults and children, documentaries, and a smaller amount to features, via presales, licence fees and equity investments. Some programs are made inhouse.

Average contributions to the annual TV drama slate over the last three years were:

- $111 million to TV drama for adults; accounting for 51 per cent of total finance to the slate
- $22 million to children's TV drama; accounting for 20 per cent of total finance to the slate.

What Australian content are they providing?

On their main channels, all the networks screen above the quota of 55 per cent Australian content required by the Australian Content Standard.

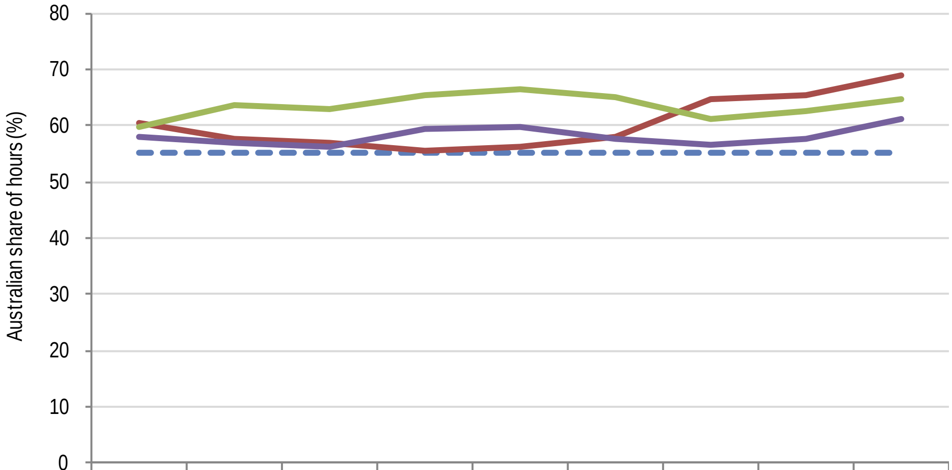
In 2010, they exceeded the annual quota of 20 hours for first release Australian documentaries, with Seven broadcasting more than 107 hours, Nine 45 hours, and Ten 36 hours.

For drama, the networks exceeded the triennial requirement of 860 points for airing first release Australian drama programs over the 2008-2010 period. Seven Network licensees achieved 918 points, Nine Network licensees achieved 876 points while Network Ten licensees achieved 878 points.

The metropolitan networks also met the quota requirements for adult drama and children's programs in 2010.

However, it's important to note that the standard applies only to the main channels, not to the digital multi-channels introduced in recent years. With no minimum content requirements imposed on them, the multi-channels are currently broadcasting significantly less Australian content. See section 4, page 61, for more information about the impact of the expanded free-to-air environment on Australian content.

Compliance with Australian Content Standard transmission quota, 2002–2010
(main channels only)



	2002	2003	2004	2005	2006	2007	2008	2009	2010
Minimum	55	55	55	55	55	55	55	55	55
Seven	60.5	57.5	56.8	55.5	56.1	58.1	64.6	65.3	69.1
Nine	59.9	63.6	63.0	65.3	66.6	65.0	61.1	62.7	64.8
Ten	57.9	57.0	56.3	59.3	59.7	57.6	56.4	57.6	61.0

Source ACMA

Share of hours and audience, commercial free-to-air (including multi-channels) 2011

	All content		Drama only	
	% of hours	% of audience	% of hours	% of audience
Australian	35.1%	33.7%	7.8%	9.0%
UK	9.5%	9.1%	9.3%	8.4%
US	51.2%	51.5%	81.7%	81.2%
Other	4.2%	5.7%	1.2%	1.4%

Source: Screen Australia analysis of OzTAM data, 5-city metro consolidated, 6am to midnight; Jan–June 2011

3.2 Public free-to-air television

The Australian national broadcasters, the ABC and the SBS, are not subject to the content requirements that apply to the commercial FTAs but are required to air significant amounts of local content pursuant to their respective charter obligations.

Who are the main players?

ABC and SBS, together accounting for six free-to-air channels: ABC1, ABC2, ABC3 and ABCNews24; SBS ONE, SBS TWO.

Where do they get their revenue?

The ABC derives almost all of its revenue from its Government appropriation which in 2010/11 was $956.07 million. It also receives money from other activities, such as ABC Commercial, which amounted to $185.4 million in 2009/10.[74] In May 2009, the ABC secured a boost in its appropriation of $167 million over three years – $67 million of which was to be spent on developing the children's channel (including content for it) and $70 million on Australian drama.[75]

The SBS also derives most of its revenue from Government appropriation ($216.5 million in 2010/11) but generates additional revenue from advertising and sponsorship ($77.5 million in 2009/10).[76] The broadcaster has faced increased competition for advertising sales from the free-to-air multi channels, which are now doing larger volume deals in order to fill advertising space on their additional channels. In direct response to this, SBS will split the current national broadcast signal for SBS TWO so that it can accommodate more state-based advertisers in an effort to shore up its advertising revenues.[77]

Content sales is another source of revenue for SBS, amounting to $6.5 million in 2009/10, a 35 per cent increase on its previous year results.

What are they spending their money on?

79 per cent of Government funding to the ABC was allocated to content-related activities in 2009/10, including 50 per cent related to television, and 2 per cent to online.[78] $150 million was spent on Australian content (excluding news) in 2010/11.[79]

SBS spent $87.7 million on employees and $215.8 million on suppliers in 2009/10.[80] It reportedly spent $20-25 million on Australian content (excluding sport and news) in 2010/11[81]

What regulation to create content do they have?

The ABC charter contains the functions of the Corporation which include:

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74 ABC Annual Report 2009/10

75 Sydney Morning Herald, http://www.smh.com.au/entertainment/tv-and-radio/its-not-as-easy-as-abc-20110817-1iwr9.html#ixzz1VIU899sW

76 SBS Annual Report 2009/10

77 www.bandt.com.au/news/sbs-ad-revenues-flat-three-tour-sponsors-signed

78 ABC Annual Report 2009/10

79 Kim Dalton speaking at Content Crisis & Convergence Roundtable 8/8/11

80 SBS Annual Report 200i9/10

81 Kim Dalton speaking at Content Crisis & Convergence Roundtable 8/8/11

(a) to provide within Australia innovative and comprehensive broadcasting services of a high standard as part of the Australian broadcasting system consisting of national, commercial and community sectors and, without limiting the generality of the foregoing, to provide:

(i) broadcasting programs that contribute to a sense of national identity and inform and entertain, and reflect the cultural diversity of, the Australian community; and

(b) to transmit to countries outside Australia broadcasting programs of news, current affairs, entertainment and cultural enrichment that will:

(i) encourage awareness of Australia and an international understanding of Australian attitudes on world affairs; and

(ii) enable Australian citizens living or travelling outside Australia to obtain information about Australian affairs and Australian attitudes on world affairs; and

(c) to encourage and promote the musical, dramatic and other performing arts in Australia.

The SBS charter lists the broadcaster functions, as follows:

1. The principal function of SBS is to provide multilingual and multicultural radio and television services that inform, educate and entertain all Australians and, in doing so, reflect Australia's multicultural society.
2. SBS, in performing its principal function, must:

   (i) contribute to meeting the communications needs of Australia's multicultural society, including ethnic, Aboriginal and Torres Strait Islander communities; and

   (ii) increase awareness of the contribution of a diversity of cultures to the continuing development of Australian society; and

   (iii) promote understanding and acceptance of the cultural, linguistic and ethnic diversity of the Australian people; and

   (iv) contribute to the retention and continuing development of language and other cultural skills; and

   (v) as far as practicable, inform, educate and entertain Australians in their preferred languages; and

   (vi) make use of Australia's diverse creative resources; and

   (vii) contribute to the overall diversity of Australian television and radio services, particularly taking into account the contribution of the Australian Broadcasting Corporation and the community broadcasting sector; and

   (viii) contribute to extending the range of Australian television and radio services, and reflect the changing nature of Australian society, by presenting many points of view and using innovative forms of expression.[82]

How do they contribute to production?

The public broadcasters provide finance to TV drama for adults and children, documentaries, and a smaller amount to features, via presales, licence fees and equity investments. Some programs are made inhouse.

Average annual contributions to TV drama over the last three years were:

- $22 million to TV drama for adults; 10 per cent of total finance to the slate
- $7 million to children's TV drama; 7 per cent of total finance to the slate

[82] Special Broadcasting Services Act 1991. Section 6.

What Australian content are they providing?

Overall, Australian content accounted for 60.4 per cent of hours broadcast on ABC and its multi-channels, attracting 56.3 per cent of audiences, in the first six months of 2011. ABC1 screened the largest proportion of Australian hours followed by the dedicated children's channel ABC3.

ABC: all content

		ABC1	ABC2	ABC3	ABC News 24	Total
Australian	% hours	60.4%	26.3%	34.3%	100.0%	**56.3%**
	% of audience	63.4%	29.3%	38.5%	100.0%	**47.4%**
UK	% hours	25.1%	41.8%	26.8%	0.0%	**31.2%**
	% of audience	26.2%	42.1%	17.9%	0.0%	**31.2%**
US	% hours	6.2%	15.0%	8.9%	0.0%	**7.5%**
	% of audience	3.9%	7.1%	9.8%	0.0%	**5.8%**
Other	% hours	8.3%	16.9%	29.9%	0.0%	**12.8%**
	% of audience	6.5%	21.5%	33.8%	0.0%	**15.7%**

Source: Screen Australia analysis of OzTAM data, 5-city metro consolidated, 6am to midnight; Jan–June 2011

Pursuant to its charter obligations, which do not require specific levels of Australia drama programming, the ABC broadcast 11.6 per cent of Australian drama on ABC1 in the first six months of 2011, with 11.8 per cent on ABC2 and 25.6 per cent on ABC3. The majority of drama content on ABC1 originates from the UK (52.7 per cent) with a further 13.5 per cent from the US.

ABC: drama only

		ABC1	ABC2	ABC3	Total
Australian	% hours	11.6%	11.8%	25.6%	**16.6%**
	% of audience	15.2%	10.7%	24.7%	**13.9%**
UK	% hours	52.7%	51.6%	22.8%	**41.7%**
	% of audience	63.0%	56.2%	17.5%	**52.0%**
US	% hours	13.5%	13.9%	13.0%	**13.5%**
	% of audience	8.3%	6.4%	13.4%	**7.9%**
Other	% hours	22.2%	22.7%	38.6%	**28.2%**
	% of audience	13.4%	26.7%	44.4%	**26.3%**

Source: Screen Australia analysis of OzTAM data, 5-city metro consolidated, 6am to midnight; ; Jan–June 2011

SBS's charter obligations do not require Australian content but rather content that reflects Australia's multicultural society, including language-specific programming where possible. Overall, Australian content accounted for 18.4 per cent of hours and 42.3 per cent of audience. Local programming comprised 26.8 per cent of hours broadcast on SBS ONE and 9.9 per cent on SBS TWO. The figure for SBS ONE is consistent with levels of Australian programming broadcast in 2008, which was prior to the introduction of the multi-channels..

SBS: all content

		SBS ONE	SBS TWO	Total
Australian	% hours	26.8%	9.9%	**18.4%**
	% of audience	46.2%	15.2%	**42.3%**
UK	% hours	6.4%	5.6%	**6.0%**
	% of audience	17.6%	20.9%	**18.0%**
US	% hours	8.7%	1.3%	**5.1%**
	% of audience	11.8%	3.8%	**10.8%**
Other	% hours	58.1%	83.2%	**70.5%**
	% of audience	24.4%	60.2%	**28.8%**

Source: Screen Australia analysis of OzTAM data, 5-city metro consolidated, 6am to midnight; ; Jan–June 2011

In terms of drama, 87.5 per cent of drama hours broadcast originates from countries other than Australia, the UK or the US, with a 75.8 per cent share on SBS ONE and rising to 97.6 per cent on SBS TWO. The latter carries a significant amount of foreign language programming.

SBS: drama content

		SBS ONE	SBS TWO	Total
Australian	% hours	4.8%	0.9%	**2.8%**
	% of audience	11.8%	3.4%	**10.3%**
UK	% hours	5.0%	0.4%	**2.6%**
	% of audience	6.0%	0.4%	**4.9%**
US	% hours	14.4%	1.1%	**7.5%**
	% of audience	22.1%	1.2%	**18.3%**
Other	% hours	75.8%	97.6%	**87.1%**
	% of audience	60.1%	94.9%	**66.5%**

Source: Screen Australia analysis of OzTAM data, 5-city metro consolidated, 6am to midnight; Jan–June 2011

NATIONAL INDIGENOUS TELEVISION (NITV)

In 2005 the Government announced $48.5million in funding for National Indigenous Television (NITV) in order to secure a channel devoted entirely to Indigenous programming and broadcast; NITV went on air in 2007.

NITV is a not for profit public company that provides a nationwide broadcasting service comprised primarily of content commissioned or acquired from the Indigenous production sector. It is currently available as a subscription channel in most regions and as a free-to-air service in select regional and remote locations. However, the 2010 Government Review of Australian Government Investment in the Indigenous Broadcasting and Media Sector recommended that it would be in the interests of all Australians for NITV to ultimately have more widespread free-to-air carriage, potentially achieved through the allocation of spectrum made available as a result of the digital dividend.[83]

NITV is not subject to Australian content quotas but it has a fundamental commitment to the acquisition and commissioning of a range of programming reflective of the diversity of Aboriginal and Torres Strait Islander cultures and identities. This commitment ensures NITV has an important and unique cultural role in telling Australian stories that historically have not established a meaningful presence on commercial television.

[83] Review of the Australian Government Investment in the Indigenous Broadcasting and Media Sector 2010.Office for the Arts, Department of the Prime Minister and Cabinet. P4.

3.3 Subscription television

Who are the main players?

There are two types of businesses in the subscription television market: subscription television platforms and subscription television channels or channel providers.

Of the subscription television platforms, FOXTEL and AUSTAR comprise over 80 per cent of the national market, with other platforms operating in smaller geographic regions and largely wholesaling channels directly from FOXTEL.

There are generally three types of channels:

- owned and operated by the platform (for example FOXTEL's owned and operated channels which include FOX8, Bio and The History Channel)
- part owned but not operated by the platform (for example FOX Sports or XYZnetworks which is part owned through FOXTEL's ownership structure; and
- independent (for example, the Disney Channel).

Where do they get their revenue?

Income is generated through a range of business models including the per-subscriber revenue model whereby the platform makes payments to the channel effectively based on the attractiveness of its content to the platform and its subscriber acquisition and retention strategies, through to channels that pay to appear on the platform.

Unlike the commercial FTA broadcasters, subscription service providers are not dependent on advertising revenue although it is a component of earnings. STV generates the bulk of its revenue (86 per cent in 2010)[84] through the sale of subscriptions. Government regulation restricts advertising to 50 per cent of overall revenue.

FOXTEL has also achieved success by offering a broader range of premium services such as high-definition services and its IQ video recording product, which enable the company to charge subscribers higher fees. This has seen FOXTEL increase revenues by 17 per cent in the 6 months to 31 December 2010 even though subscription levels increased by just 2.4 per cent in the same period.[85]

The table below indicates that STV has remained buoyant, with subscription revenues rising year-on-year.

Revenue and earnings for subscription television providers, 2008–2010

	2008	2009	2010
Advertising	$317m	$333m	$381m
Subscriptions	$2,126m	$2,328m	$2,398m

Source: PricewaterhouseCoopers

84 PricewaterhouseCoopers, 'Outlook: Australian entertainment and media, 2011-15', August 2011 (http://www.pwc.com.au/industry/entertainment-media/publications/outlook/index.htm)

85 www.foxtel.com.au/about-foxtel/communications/foxtel-delivers-solid-earnings-growth-despite-difficult-cons-114911.htm

FOXTEL recently launched a $1.9 billion takeover bid for AUSTAR which would result in one of the largest media companies in Australia and create a 'virtual monopoly' in the STV market.[86] The ACCC released a statement of issues on 22 July 2011.

What regulation to create content do they have?

Subscription television in Australia is regulated pursuant to the *Broadcasting Services Act 1992*, administered by ACMA.

The main provision is a 10 per cent Australian drama expenditure requirement on subscription television licences that broadcast drama channels, as classified by ACMA, or provide drama channel packages.

The scheme requires annual reporting to ACMA in which the channel providers indicate which expenditure is being used to acquit their obligations. It is an accrual system where any obligations not met in a given year must be satisfied in the subsequent year. Channels can also nominate which portion of their unmet obligations, if any, are to be carried forward to the next year.

Not all expenditure must be on direct investment in drama production, with investment in project development and film festivals such as Tropfest and Flickerfest accepted as a means of satisfying the drama expenditure obligations.[87]

What are they spending their money on?

The latest data from the Australian Bureau of Statistics (*Television, Film and Video Production and Post-production Services, 2006/07*, cat. no. 8679.0), cites expenditure of $843.6 million, or 34 per cent of the subscription broadcasters' total costs in 2006/07, as payments to channel providers.

According to a survey of its members by the Australian Subscription Television and Radio Association (ASTRA), the sector invested $541 million in local production in 2009.[88]

Out of a total program expenditure of $278.8 million by drama channels for 2009/10, expenditure on new eligible drama was $35.28 million.

Expenditure by subscription TV drama services on new Australian drama, $m

	2007/08	2008/09	2009/10
New eligible drama expenditure requirement (equals 10 per cent of all drama program expenditure)	$ 23.10	$ 25.98	$ 27.88
Expenditure on new eligible drama	$ 20.06	$ 28.47	$ 35.28
Expenditure nominated to acquit previous year's remaining obligation	$ 10.47*	$ 13.90#	$ 11.18
Expenditure toward current year's 10 per cent requirement	$ 9.16	$ 14.67	$ 15.66
Obligation to be met in the next financial year	$ 13.94	$ 11.18^	$ 12.22

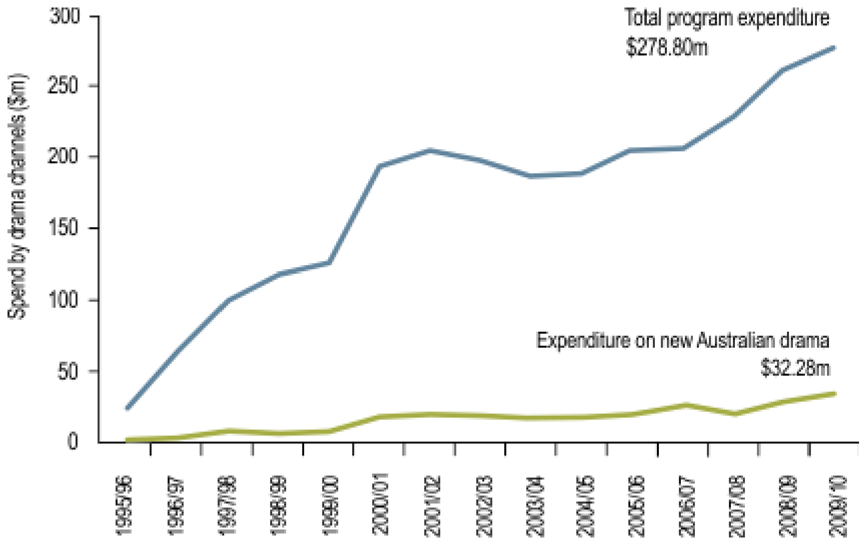
Source: Australian Communications and Media Authority (ACMA).
* Licensees failed to acquit $22,300 of the 2006-07 obligations within the prescribed timeframe, the licensees remedied this in 2008-09.
# A licensee failed to acquit $40,000 of the 2007-08 obligation, the licensee remedied this in 2009-10.
^ A late amendment reduced this figure from $11.30 million reported previously.

86 "Statement of Issues – FOXTEL– proposed acquisition of AUSTAR United Communications Limited" Australian Competition and Consumer Commission, 22 July 2011

87 http://www.acma.gov.au/WEB/STANDARD/pc=PC_310687

88 Quoted in An Investment to Watch: AUSTAR Shareholder Review 2010, page 8.

Aggregate expenditure by subscription TV drama services on new Australian drama, 1995/96–2009/10



Source: Australian Communications and Media Authority (ACMA).

How do they contribute to production?

The subscription broadcasters provide finance to TV drama for adults and children, documentaries, and a smaller amount to features, via presales, licence fees and equity investments, as well as script development of drama and sponsorship of events such as Tropfest etc. Occasionally programs are made inhouse.

Average annual contributions to TV drama over the last three years were:

- $18 million to TV drama for adults; accounting for 8 per cent of total finance to the slate
- $2 million to children's TV drama; accounting for 1 per cent of total finance to the slate

What Australian content are they providing?

Whereas commercial free-to-air television has a minimum percentage of Australian drama content that must be screened, subscription television's requirement does not translate into minimum levels of Australian drama content but rather a drama spend.

In 2009/10 the channels and providers subject to the drama spend requirement reported expenditure of $35.26 million on 67 Australian and/or New Zealand drama productions and co-productions, including *Arctic Blast* and *Cloudstreet*, as well as a large number of drama series including *30 Seconds*, *As the Bell Rings*, *The Jesters* (Season 2), *Offspring*, *Packed to the Rafters*, *Penelope K by the Way*, *Rake*, *Satisfaction* (Season 3), *Sea Patrol*, *Slide*, *Small Time Gangsters*, *Spirited* and *Tangle* (Season 2).

To get a sense of how much Australian content was being broadcast and what size audience it was capturing, Screen Australia analysed ratings data for subscription television to assign country of origin and genre classifications for a random sample of seven days over seven weeks in May and June 2011. This information is not currently collected by OzTAM.

Of 94 channels examined, drama programs were screened on 48 channels over the sample period, with Australian drama screened on 28 of those. Whilst 4.4 per cent of drama broadcast was Australian, it captured only 2.9 per cent of the drama audience.

Australian content other than drama fared better, accounting for nearly 27 per cent of hours of non-drama content and just over 30 per cent of the non-drama audience.

Overall, local content on subscription television in the Screen Australia sample accounted for 17.5 per cent of hours and 16.4 per cent of audience.

Subscription TV snapshot: Australian share of audience and hours broadcast

	Australian share of hours	Australian share of audience
Drama	4.3%	2.9%
Other programs	26.7%	30.4%
All programs	**17.5%**	**16.4%**

Source: Screen Australia analysis of OzTAM data.
Consolidated, National STV.
Dates: Tues: 10/5/11, Wed: 18/5/11, Thurs: 26/5/11, Fri: 03/06/11, Sat: 11/06/11, Sun: 19/06/11, Mon: 27/06/11

3.4 Theatrical and home entertainment distribution

Who are the main players?

A distributor shepherds a film into cinemas. The most active distributors in Australia are subsidiaries of foreign companies, and have automatic access to the films made by or involving the US studios. These six companies (Fox, Paramount, Sony, Universal, Walt Disney and Warner Bros) are represented in Australia by the Motion Picture Distributors Association.

Roadshow is the largest locally owned distributor. It maintains a long-standing arrangement to distribute films made by Warner Bros, of which many are produced as part of a joint production venture between Warner Bros and Village Roadshow Ltd. In 2010, the total gross box office was $1,132.8 million,[89] of which Roadshow/Warner Bros titles accounted for 24 per cent.[90] Other local independent distributers include Icon, Hopscotch, Madman, Hoyts and Palace.

In Australia, the home entertainment market remains largely an ancillary release platform for content either released theatrically or from television, although a higher volume of documentaries are released straight-to-video.

The Australian Home Entertainment Distributors Association represents each of the major theatrical distributors as well as key local companies like Madman, who began in the home sector before moving into theatrical release. Its members shipped over 76 million wholesale titles worth $1,288.4 million in 2010.[91]

In some cases broadcasters distribute home entertainment directly, through their online sites or retail outlets in the case of ABC. However, most physical DVD and Blu-ray titles are distributed in partnership with subsidiaries of theatrical distributors or specialist home entertainment distributors like Magna Home Entertainment, Umbrella Entertainment or Beyond Home Entertainment, among others.

There are 10 major exhibitor chains screening theatrical releases, along with many independent cinemas, operating in Australia. Three of these chains together accounted for more than 1,000 screens or over half the national total in 2010. These chains are Greater Union and its subsidiary Birch Carroll & Coyle (which operates mainly in Queensland), Hoyts

[89] Screen Australia, 'Number of Australian cinema admissions and gross box office, 1976–2010', accessed August 2011 (http://www.screenaustralia.gov.au/research/statistics/wcboadmission.asp)
[90] Screen Australia, 'Distributors' market share of the Australian box office, 2003–2010', accessed August 2011 (http://www.screenaustralia.gov.au/research/statistics/wcbodistshare.asp)
[91] Australian Home Entertainment Distributors Association, 'Statistics All', (http://www.avsda.com.au/statistics)

and Village. Other chains include Reading, Palace and Wallis Theatres. Independents account for 30 per cent of screens.[92]In some cases distributors and exhibitors are vertically integrated; examples include Hoyts, Palace and IMAX.

The physical market for home entertainment is broken into retail, or sell-through, and rental sectors. Together they account for more than 3,000 outlets.[93] Big W, Kmart, Target, David Jones, JB Hi-Fi, ABC Shops and Dick Smith account for some of the major retailing chains and key rental groups include Video Ezy, Network Video, Blockbuster, Leading Edge Video and Civic Video.

Where do they get their revenue?

Income to theatrical distributors is tied to gross box office through the hire, or rental, of films to exhibitors. Distributors earn a larger proportion of the gross box office in the early weeks of release, typically receiving 35-40 per cent of the gross over the title's entire theatrical run. In return, the exhibitors guarantee that the titles are shown for a minimum number of day and night sessions.

In contrast, returns to home entertainment distributors from the sell-through and rental of physical product are generated from the wholesale sales. Distributors do not access additional revenue based on either the retail mark-ups or in instances where the same title is rented multiple times.

However, the online market is changing this, with distributors now able to enter into revenue sharing arrangements based on each transaction through the likes of iTunes and Bigpond Movies.

What are they spending their money on?

Most of the expenditure from theatrical distributors goes to acquiring and marketing feature films. Marketing activities include costs associated with making available the prints of a film and advertising campaigns, generally referred to as P&A. In turn, exhibitors spend their money paying the film hire on releases as well as infrastructure costs, notably staff.

Home entertainment distributors and retailers are involved in similar activities.

What regulation to create content do they have?

None.

How do they contribute to Australian production?

Australian films generally have a theatrical distributor attached before going into production, with their distribution guarantee accounted for in the financing plan.

Often the home entertainment rights are bundled together with all rights, but there are also instances of discrete deals at point of financing.

What Australian content are they providing?

The number of films screening theatrically in Australia has remained relatively consistent for many years. In 2010, there were 403 films that reported box office. The majority of these

[92] Screen Australia, 'Number and proportion of cinema screens by exhibitor, 1998–2010', accessed August 2011 (http://www.screenaustralia.gov.au/research/statistics/wcstxexhibit.asp)

[93] Screen Australia, 'Australian content: video sales: about the data', accessed August 2011 (http://www.screenaustralia.gov.au/research/statistics/mrvideoabout.asp); and, Australian Video Rental Retailers Association, 'Industry Paper: Video stores in Australia', November 2009.

titles were from the US, which accounted for 177 films while Australia achieved the second largest proportion at 41 or 10 per cent.[94]

The number of Australian DVD and Blu-ray titles released rose significantly in 2010, to 242, the highest number of annual releases in over a decade. At 4.1 per cent this also represented the highest share for domestic releases on record.[95]

3.5 Online video

Who are the main players?

Delivery to computers and connected mobile devices

The dominant content aggregators providing online video services for viewing on a computer or connected mobile device are Google's YouTube, the free-to-air broadcasters, Apple's iTunes and Telstra's BigPond Movies.

YouTube is the dominant platform for uploading and viewing short form user generated videos online. Other notable user generated video sites include Vimeo, Blip.tv and DailyMotion. YouTube is increasingly providing commercial content through partnerships with other organisations, for example YouTube and SBS partnered in 2010 to provide additional Tour de France content via a dedicated YouTube channel.[96]

The free-to-air broadcasters offer long form, commercial content via their catch-up TV services, which can be streamed for free (apart from bandwidth costs) from their websites. Some short form content eg webisode extensions of TV programs are also offered via the broadcaster websites. Unmetered arrangements may exist for customers who are connected through specific internet service producers, for example iiNet customers have unmetered access to ABC iView.

UK public broadcaster BBC has launched an international, subscription iPad app version of its catch-up service iPlayer, which will be available in Australia by the end of 2011.[97]

iTunes and BigPond Movies operate under a transactional model, which encompasses Electronic Sell Through (Download to Own) and Internet Video On Demand (Streaming/Digital Rental). Both services have ISP partnerships to offer unmetered content; iTunes is unmetered for iiNet customers and BigPond Movies is unmetered for BigPond Broadband customers.

Delivery to television sets

The business models for the delivery of video content via Internet Protocol to a television set are more complicated, with partnerships forming between content aggregators, hardware manufacturers and ISPs. In some cases, such as Telstra, these three aspects are vertically integrated within the one company.

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[94] Screen Australia, 'Australian films at the local box office in 2010', accessed August 2011 (http://www.screenaustralia.gov.au/news_and_events/2011/mr_110120_boxoffice.aspx)

[95] Screen Australia, 'Number of video releases (DVD, VHS and Blu-ray) and Australian share, 2000–2010', accessed August 2011 (http://www.screenaustralia.gov.au/research/statistics/mrstvideoshare.asp)

[96] Screen Australia, 'Beyond the Box Office: Understanding audiences in a multi-screen world', April 2011 (http://www.screenaustralia.gov.au/research/beyond_box_office.aspx)

[97] The Guardian, BBC iPlayer goes global with iPad app launch in 11 countries, July 2011 available at http://www.guardian.co.uk/technology/appsblog/2011/jul/28/bbc-iplayer-global-ipad-launch

The major content aggregators in the OTT TV space are Sony's PlayStation Store, Microsoft's Zune, Telstra's BigPond Movies and BigPond TV, ABC iView and FOXTEL's FOXTEL On Demand and FOXTEL on Xbox360.

Quickflix, whose core business is currently physical DVDs and Blu-ray rentals, will enter the OTT TV market in late 2011 with the launch of a movie streaming service. This service will place Quickflix in direct competition with Telstra BigPond Movies. In July 2011 Quickflix formed a device partnership with Sony Australia to embed its streaming services on Sony HDTVs, Blu-ray players and computers.[98]

Some examples of the content aggregator, hardware manufacturer and ISP partnerships formed in order to bring online video services to television sets are outlined in the table below. This table does not include IPTV services such as Fetch or TransACT, which are licensed as subscription TV.

Content aggregator	Business model	Hardware	ISP Partnership
Telstra BigPond Movies, Telstra BigPond TV	Pay per view	Telstra T-Box, connected LG TVs and Blu-Ray players, connected Samsung TVs and Blu-Ray Players	Unmetered for Telstra BigPond Broadband Customers
FOXTEL on Xbox360	Monthly subscription (35 Channels) and On Demand	Microsoft Xbox360	Unmetered for Telstra BigPond Broadband Customers
FOXTEL On Demand	Pay per view	Xbox360, iQ	Unmetered for Telstra BigPond Broadband Customers
Sony PlayStation Store	Pay per view	PlayStation3	No ISP partnerships
Microsoft Zune	Pay per view	Xbox360	No ISP partnerships
ABC iView	Free (Government supported)	Internet connected Sony Bravia devices, PlayStation3	No ISP partnerships[99]
Hybrid TV CASPA	Pay per view and advertising supported	TiVo set top box	Unmetered for iiNet, Internode, iPrimus and 6 other ISPs
YouTube	Advertising supported	Telstra T-Box, Samsung connected TVs and Blu-ray players, LG connected TVs and Blu-ray players, Sony connected TVs and Blu-ray players	No ISP partnerships
Mubi	Subscription or pay per view	Playstation 3	No ISP partnerships

Where do they get their revenue?

Content revenues on the Internet are primarily derived in one of four ways:

- advertising supported
- subscription
- electronic sell through (download-to-own)
- video on demand (rental).

The catch-up TV services offered by the commercial networks are advertising-supported.

YouTube is advertising-supported but it has signalled its intention to become a player in transactional online video space with the launch of a Beta version of YouTube Rentals in the

98 Source: Screen Digest, *Australian Online Rental Consolidates*, August 2011, Issue 479, p. 227

99 ABC iView is metered on connected TVs regardless of the ISP because ABC servers are only able to provide unmetering via Flash streaming servers.

US. YouTube has a 50/50 revenue share arrangement with YouTube Partner Program producers. YouTube also shares advertising revenue with the copyright owners of commercial content, where the copyrighted content is uploaded by users. Such content is identified using YouTube's Content ID system that scans videos and compares them to material provided by copyright owners. YouTube does not disclose its gross advertising revenue.

FOXTEL on Xbox360 is an example of a subscription online video service, as is Mubi. Mubi offers independent, classic and foreign films for a monthly subscription or on a pay per view basis and is accessed via PlayStation 3. Mubi content can also be accessed via PCs. There are no other significant internet video services in Australia operating under a subscription model; however, prominent US examples include Hulu and Netflix.

Itunes is the dominant player in the Australian electronic sell through (EST) market, although growth in EST transactions is slowing significantly. Following the launch of iTunes in the Australian market in 2008, EST transactions increased 619 per cent in 2009, dropping to 132 per cent growth in 2010. *Screen Digest* predicts that growth in EST transactions will decline further in 2011 to 44 per cent.[100]

Internet video on demand (iVOD) is growing consistently across a range of international markets and it likely to be the strongest of the two online transactional video revenue models into the future.[101] The continued take up of connected living room devices, such as Internet enabled TVs and Blu-Ray players, set top boxes and game consoles will drive the expansion of the iVOD market.

What regulation to create content do they have?

None.

How do they contribute to production?

There is no aggregated data available on financial contributions of content aggregators to the production of Australian online video content. Models currently include commissioning of content and inhouse production by the broadcasters, and revenue sharing such as YouTube's 50/50 revenue share arrangement with YouTube Partner Program producers, as mentioned above.

What Australian content are they providing?

Internet video services operated by international companies offering long form commercial content, such as PlayStation Store or iTunes, tend to have a limited amount of Australian content. Movies available via internet video services tend to reflect the theatrical release schedule and as such are comprised predominantly of films from major Hollywood studios, including films available via Telstra BigPond Movies.

Australian catch-up TV services generally reflect their network broadcast schedule.

In terms of short form user-generated content, Australian producers of such content are active on sites such as YouTube with some producers achieving considerable success on this platform. YouTube has been actively involved in the production and dissemination of Australian content through partnerships with Australian organisations such as Screen Australia and through its YouTube Partners Program.

[100] Screen Digest, Online Movies in International Market, June 2011

[101] Ibid

3.6 Games

Who are the main players?

The Australian physical retail market for console, handheld and PC games is dominated by releases from major international publishers including Ubisoft, THQ, Electronic Arts, Activision, Sony, Nintendo, Sega, Microsoft and Codemasters. Although 93 publishers released at least one game into the Australian marketplace in 2009, the top six publishers accounted for approximately a third of all releases.[102]

There are a number of online platforms for self-publishing games, with revenue split between the platform provider and the developer.

The three game console hardware manufacturers, Sony, Microsoft and Nintendo, all offer online distribution platforms that are utilised by publishers and by developers self-publishing their games. The platforms are Playstation Network, Xbox Live Arcade and WiiWare.

The dominant distribution platforms for connected mobile devices such as smartphones and tablets are Apple's iTunes and Google's Android App Market.

Steam is a popular online distribution platform for PCs, which is utilised by major publishers to digitally distribute games as well as enabling developers to self-publish their games. Games can be distributed via Steam on a download-to-own basis or by selling subscriptions to 'massively multiplayer online games'. Publishers/developers can also generate revenue via Steam through in-game purchases such as access to levels or virtual goods.

Facebook is the dominant platform for casual social games.

Where do they get their revenue?

Publishers earn revenue from physical retail sales as well as digital sales. Publishers can also generate revenue from in-game advertising and product placement, although this is a comparatively minor revenue stream. In 2010 physical retail generated $1.7 billion of revenue in Australia, with over 20 million games sold.[103]

Publishers either develop games inhouse or commission a third party developer to produce a title. Third party developers are usually commissioned to produce a game based on a prototype. The revenue share between the developer and the publisher is dependent on the amount each party contributes to the cost of completing the game.

In the case of physical retail product, hardware manufacturers charge publishers a licence fee to publish games for their platforms. Hardware manufacturers take a cut of the revenue for games sold via their online distribution platforms.

In addition to physical retail and download-to-own sales, digital distribution allows developers/publishers alternative models to generate revenue via micro-transactions, subscription or 'freemium' models.[104] For example Zngya, a US company which develops social games such as Farmville for the Facebook platform, allows players free access to their games, and relies on players making small purchases (less than $1) within the game to generate revenue. Zynga generated US$850 million in its third year of operation using this

[102] GfK data
[103] GfK data.
[104] Freemium operates by allowing limited access to the game for free with the option of paying to access the complete game.

business model. Facebook takes 30 per cent of all revenue earned through games operating through Facebook.

Online and digital distribution platforms typically take a 30 per cent revenue cut, although this can vary.

What regulation to create content do they have?

There is no regulation to create content.

How do they contribute to production?

Game publishers contribute to production of Australian games by developing titles inhouse as well as commissioning developers to produce games.

Many online games are self-funded by developers, in some cases with a distribution guarantee from the platform provider, but more often with revenue share deal in place of up-front finance.

As for online video above, aggregated data on annual contributions to the financing of Australian games is not yet available.

What Australian content are they providing?

Only a small proportion of physical games sold in Australia incorporate Australian content. Sport games based on local football codes are a rare example of console games developed specifically for the Australian market. For example, Big Ant Studios and Wicked Witch Software have developed several console and handheld games based on AFL and Ruby League, which have been published by Australian company Tru Blu Entertainment.

While it is common for Hollywood blockbuster films to be accompanied by the release of a tie-in console game, only a few Australian feature films have such tie-ins. These include *Happy Feet* 1 & 2 and *Legend of the Guardians: The Owls of Ga'Hoole*. The original Happy Feet game was developed in Canada, while the sequel and *Legend of Guardians* video game were developed by local companies. A tie-in console game to accompany the next instalment in the Mad Max franchise, *Fury Road*, is currently being developed locally.

There are notable standalone, narrative console games developed by local studios. Team Bondi's *LA Noire*, which has been praised for breaking new ground in interactive storytelling, is a recent example. With the exception of Krome Studio's Ty the Tasmanian Tiger series published by Electronic Arts, these games generally do not feature Australian settings or characters.

There are examples of online or digitally distributed games that accompany television drama or documentary series. These include the refugee simulation game that accompanied SBS's *Go Back to Where You Came From* as well as iPhone game companions to series such as *The Gradual Demise of Phillipa Finch* and *Bondi Rescue*. Brawsome's point-and-click adventure game *Jolly Rover* is an example of a digitally distributed standalone narrative game.

Many of the most successful digitally distributed Australian games such as *Fruit Ninja* and *Flight Control* do not incorporate narrative elements.

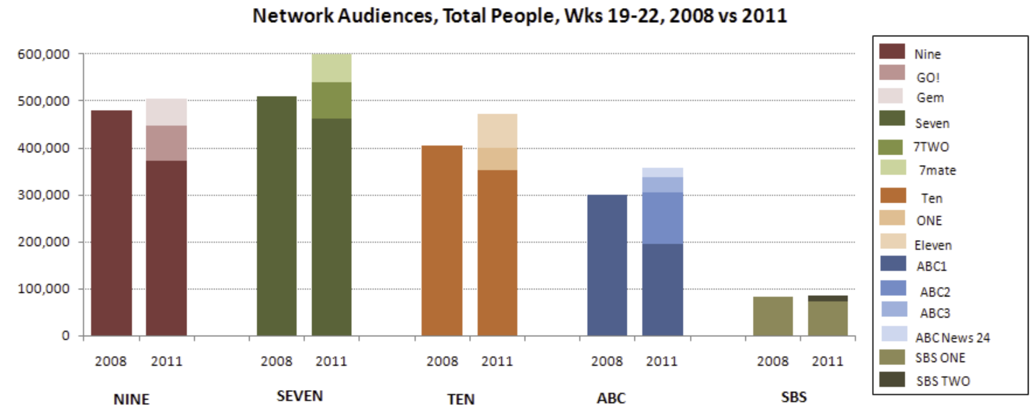
4 SHIFTING VIEWING PATTERNS WITH FREE-TO-AIR MULTI-CHANNELLING

Analysis of audience data for free-to-air television over the last four years shows that viewing dynamics have been significantly altered as a result of the introduction of the multi-channels.

The chart below shows audience patterns across the free-to-air networks for a period in May 2011 compared to the same period in 2008. An overall drop in audiences is evident across all free-to-air main channels. However, this drop has been more than offset by the audiences achieved by the multi-channels, resulting in a net increase of 14 per cent in average audience and confirming the strength of the multi-channel system.

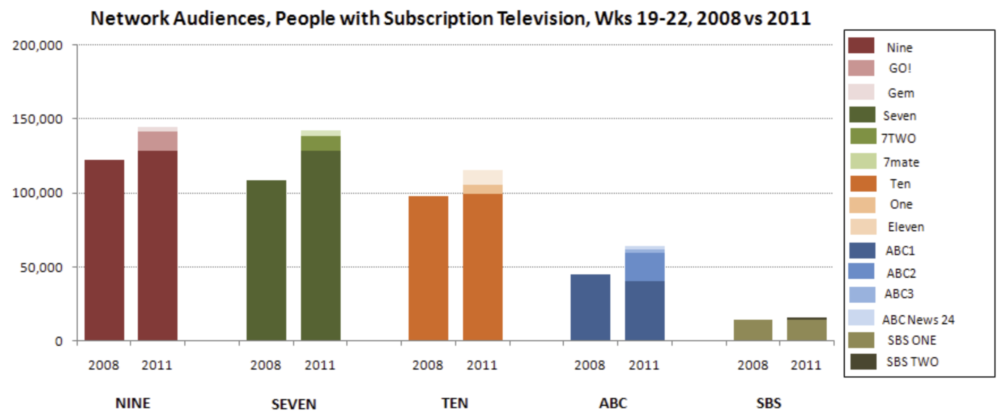
This increase occurred even in subscription television households. Interestingly, for all networks except the ABC, it was actually the main free-to-air channel which saw increased viewing in subscription television households. While this does not necessarily indicate a move away from subscription services by these people, it does highlight the continued influence of free-to-air channels within high-consumption households even when competing against more programming alternatives.

All households



Source: Screen Australia analysis of OzTAM data. 5-city metro, Total households, 6am to midnight, weeks 19-22, 2008 and 2011

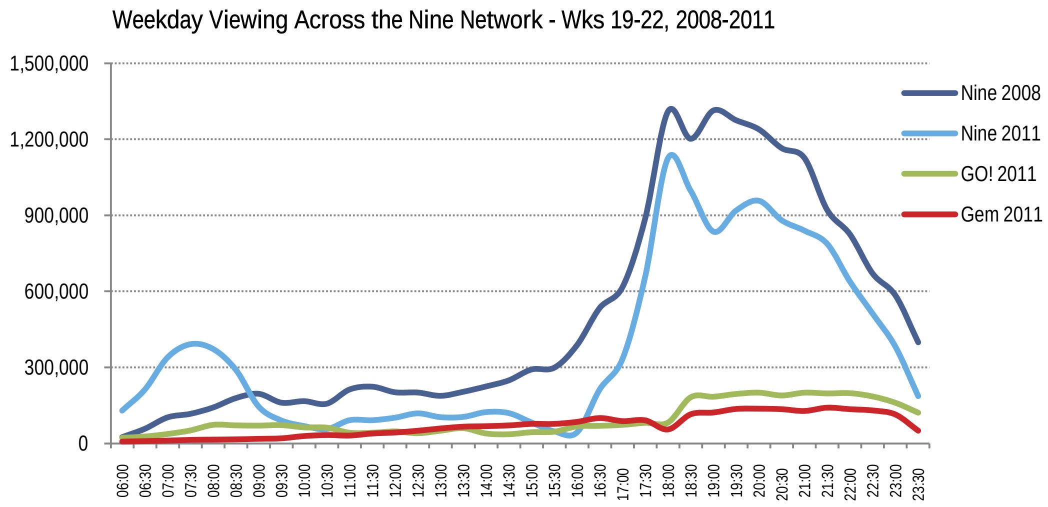
Subscription television households



Source: Screen Australia analysis of OzTAM data. 5-city metro, STV households, 6am to midnight, weeks 19-22, 2008 and 2011

Network comparisons

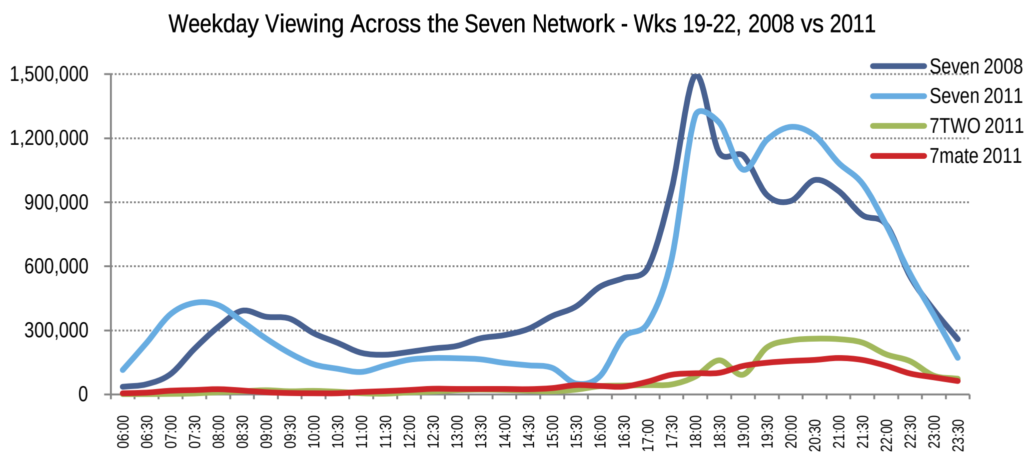
Focus on Nine Network



Source: Screen Australia analysis of OzTAM data. 5-city metro, average audience, 6am to midnight, Weekdays

The Nine Network actually saw a substantial increase in people watching the main channel during weekday mornings in 2011, with its breakfast news program, *Today*, much stronger than it was at the same time in 2008. After this, however, the main channel falls well below its 2008 numbers, with *Kitchen Whiz* at 4.00pm proving less popular with audiences than children's program *The Shak* in 2008. 7.00pm saw another significant fall, with *The Big Bang Theory* weaker than 2008's *Two and a Half Men* in the same timeslot. *The Big Bang Theory*, however, has also been subject to frequent repeats on GO!, an issue not faced by *Two and a Half Men* in 2008. While not completely making up for the fall, audiences on GO! and Gem are adding between 150,000 and 200,000 viewers to the total Nine Network group during the weekday evening period, with programs such as *Survivor*, *The Big Bang Theory*, *Top Gear*, *Friends* and *The Zoo* performing well.

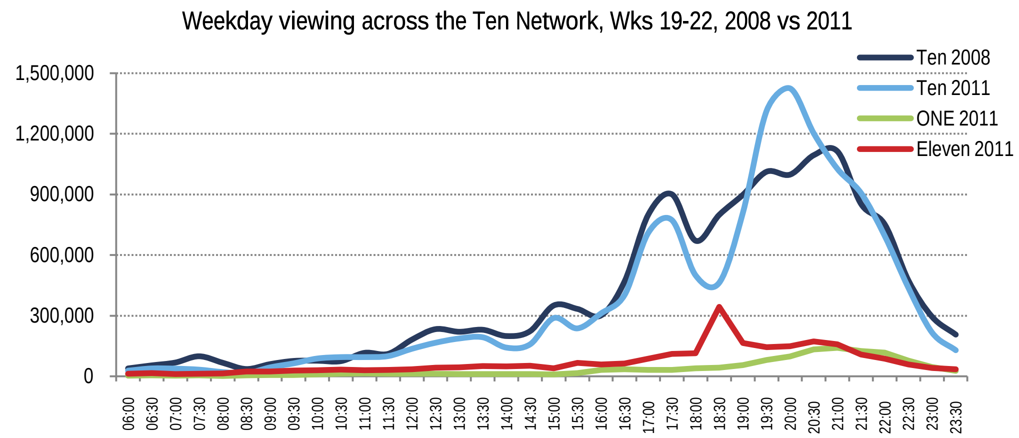
Focus on Seven Network



Source: Screen Australia analysis of OzTAM data. 5-city metro, average audience, 6am to midnight, Weekdays

The Seven Network group also saw an increase in people watching the main channel during weekday mornings in 2011 with their breakfast news program, *Sunrise*, stronger than it was in 2008. From here, however, Seven begins to fall, with a significant drop at 3.30pm during children's program *Toy Box*, down on 2008's adult-skewed *Jury Duty*. Evenings on the main channel fared better, with audiences running either slightly above or below 2008 numbers until 7.30pm when the 2011 audience stormed ahead during programs such as *Australia's Got Talent*. 7TWO is adding close to 300,000 viewers between 7.30pm and 9.30pm with its line-up of classic British-themed programs such *Doc Martin, Heartbeat* and *Jonathan Creek* proving popular with audiences.

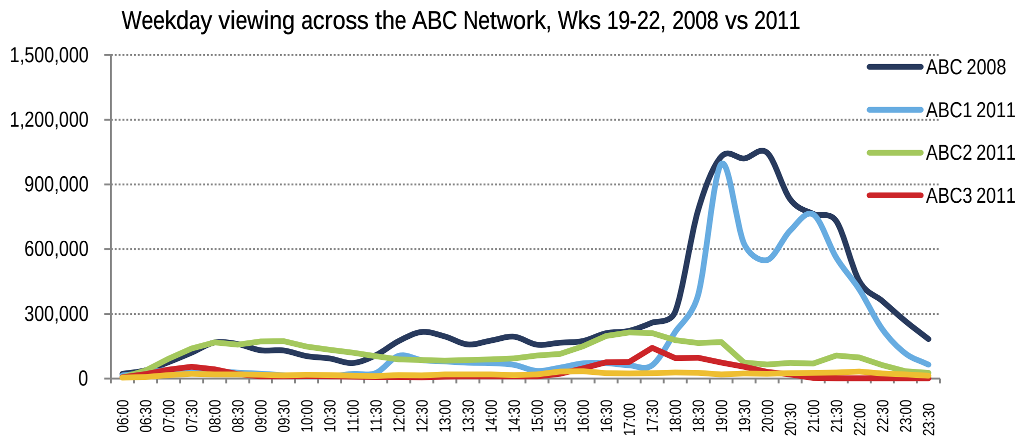
Focus on Network Ten



Source: Screen Australia analysis of OzTAM data. 5-city metro, average audience, 6am to midnight, Weekdays

Network Ten's audience during weekday mornings remained very small due to their focus on children's programs such as *Toasted TV*, rather than breakfast news. Audiences remained just below the 2008 period during daytime and afternoons, with a significant drop in the early evening at 6.30pm. Audiences for the newly scheduled *6.30pm with George Negus* fell well below the performance of *Neighbours* in the same timeslot in 2008. It is not until 7.00pm that audiences begin to rise, remaining above 2008 until the completion of *MasterChef* around 9.00pm. Also clearly visible is the 6.30pm peak on Eleven during *Neighbours*, with audiences falling just short of the numbers being achieved by *6.30pm with George Negus* on the main channel. *Neighbours* is one of the few Australian series currently running on the commercial multi-channels and it is one of the networks biggest success stories.

Focus on the ABC

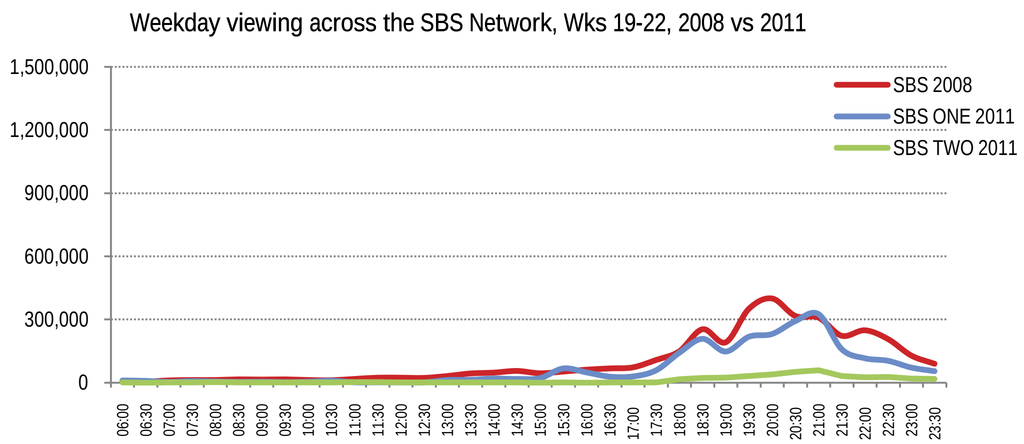


Source: Screen Australia analysis of OzTAM data. 5-city metro, average audience, 6am to midnight, Weekdays

Morning and daytime audience numbers on ABC1 are down substantially on the same period in 2008. With a total of four channels now under the ABC umbrella, including both a dedicated children's channel (plus the additional transfer of preschool programs to ABC2) and a 24-hour news channel, daytime and afternoon viewing is being spread across all four channels.

Early evenings on the main channel were also down, with only the 7.00pm (ABC News) and 9.00pm timeslots able to remain close to 2008 audience numbers. This drop in main channel audience during evenings is the result of a combination of factors including increased competition across the free-to-air landscape, strong competition from popular competitor programs such as *MasterChef* and *Australia's Got Talent* and a fall in audiences for previously strong ABC performers such as *Spicks and Specks*, *The Gruen Transfer* and *Four Corners*.

Focus on SBS



Source: Screen Australia analysis of OzTAM data. 5-city metro, average audience, 6am to midnight, Weekdays

SBS audiences remained fairly flat across the day, consistent with the same period in 2008. This is not surprising given the highly targeted nature of SBS. With foreign language news programs making up the bulk of its schedule across the day, opportunities for audience growth during this time will always be limited. The evening period, however, saw drops from 7.30 to 8.30pm, and again from 9.30pm, with programs such as *Mythbusters*, *Food Safari* and *Insight* performing below 2008 levels. SBS saw an audience decrease of 12 per cent on the main channel, but could only achieve a 2 per cent increase in audience when adding SBS TWO to the mix.

How are Australian content levels affected?

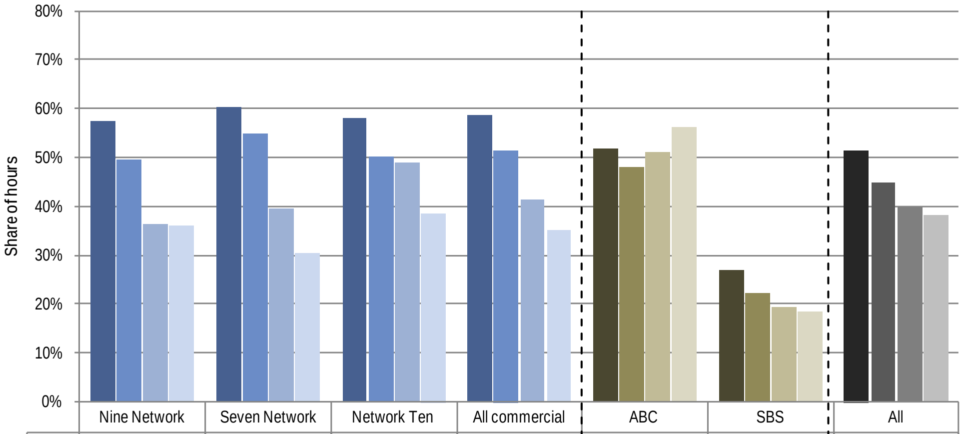
The net increase in audience across the expanded free-to-air channels has seen greater numbers of viewers watching both local and foreign content on free-to-air television. However, growth in foreign content has outstripped Australian.

Hours of foreign content more than doubled between 2008 and 2011, rising by 154 per cent, while Australian programming increased by only 59 per cent over the same period. Likewise, cumulative audience size for foreign content rose by 23 per cent, while for Australian content it rose by just 2 per cent.

The result is a watering down of local content across free-to-air programming and a fall in share of viewers.

Australian content accounted for just 38 per cent of total hours broadcast in the first six months of 2011, down from 52 per cent in 2008. This fall occurred on all networks with the exception of ABC, where News24's fully local programming boosted the Australian share. The most significant decrease was for Network Seven, where the proportion of Australian content fell from 60 per cent to 30 per cent, followed by Network Nine down from 57 per cent to 36 per cent. For commercial free-to-air as a whole, Australian content accounted for 35 per cent in 2011, down from 59 per cent three years ago.

Share of hours for Australian content on free-to-air television, 2008–11

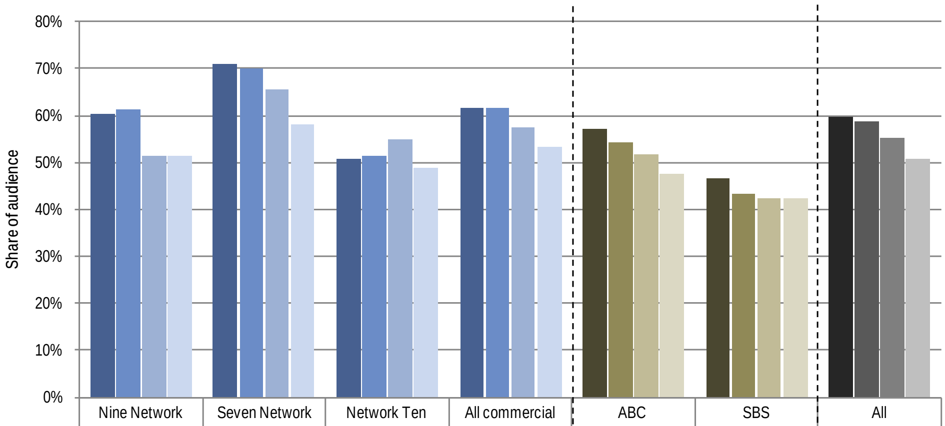


	Nine Network	Seven Network	Network Ten	All commercial	ABC	SBS	All
2008	57%	60%	58%	59%	52%	27%	52%
2009	49%	55%	50%	51%	48%	22%	45%
2010	36%	39%	49%	41%	51%	19%	40%
2011	36%	30%	39%	35%	56%	18%	38%

Source: Screen Australia analysis of OzTAM data, 5-city metro consolidated, average audience, 6am to midnight
2011 is based on January to June only

In terms of viewers, Australian content's share has also shrunk, although not quite as steeply as its share of hours broadcast. Overall, the share of audience tuning in to Australian content has fallen year on year from 60 per cent in 2008 to 51 per cent in 2011. For commercial broadcasters, the Australian share has dropped from 62 per cent to 53 per cent. The fall has generally occurred for all networks, with Network Ten only feeling the effect in 2011.

Share of audience for Australian content on free-to-air televis ion, 2008–11



	Nine Network	Seven Network	Network Ten	All commercial	ABC	SBS	All
2008	60%	71%	51%	62%	57%	46%	60%
2009	61%	70%	51%	62%	54%	43%	59%
2010	51%	66%	55%	58%	52%	42%	55%
2011	51%	58%	49%	53%	47%	42%	51%

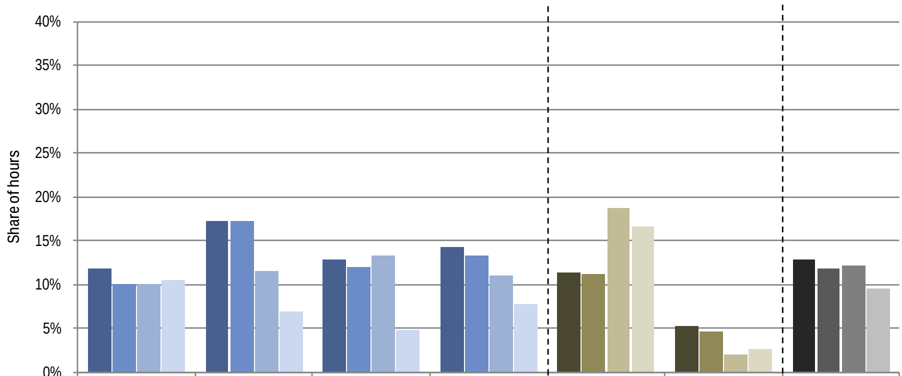
Source: Screen Australia analysis of OzTAM data, 5-city metro consolidated, average audience, 6am to midnight
Audience expressed as a proportion of sum of average audiences.
2011 is based on January to June only

For drama, the pattern is more complex, due to the range of programming strategies for the new digital channels. From 2008 to 2010, for example, the amount of drama broadcast on Network Ten remained largely unchanged as Channel ONE was dedicated to sports, while Channel Eleven was only launched in 2011. On the other hand, drama on Seven recorded a significant drop in

Australian share, down from 17 per cent in 2008 to 7 per cent in 2010. Overall, the Australian share of drama broadcast on the commercial networks has fallen from 14 per cent in 2008 to 8 per cent in 2011.

On the ABC channels, the increased amount of Australian children's drama available on ABC3 resulted in a net increase in the percentage of hours of Australian drama from 11 per cent in 2008 to 17 per cent in 2011.

Drama: share of hours of Australian drama on free-to-air television, 2008–11

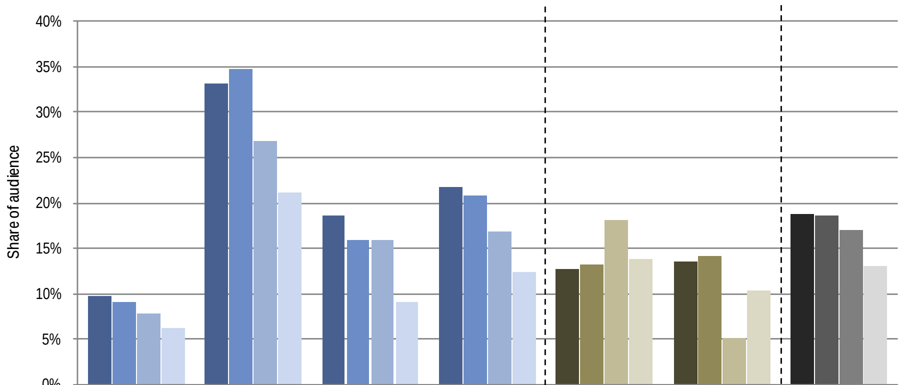


	Nine Network	Seven Network	Network Ten	All commercial	ABC	SBS	All
2008	12%	17%	13%	14%	11%	5%	13%
2009	10%	17%	12%	13%	11%	5%	12%
2010	10%	11%	13%	11%	19%	2%	12%
2011	11%	7%	5%	8%	17%	3%	10%

Source: Screen Australia analysis of OzTAM data, 5-city metro consolidated, average audience, 6am to midnight. 2011 is based on January to June only

Similarly the share of audience watching Australian drama has fallen year on year, from 19 per cent in 2008 to 13 per cent in 2011. For commercial broadcasters, it has dropped from 22 per cent to 12 per cent. Seven's audience share is significantly higher than for the other networks, reflecting the popularity of drama series such as *Packed to the Rafters*; it too is decreasing, however. Audience share for drama on the ABC grew in 2010, mirroring the increase in children's drama, and SBS saw a rise in 2011 bolstered by the final series of *East West 101*.

Drama: share of audience for Australian drama on free-to-air television, 2008–11



	Nine Network	Seven Network	Network Ten	All commercial	ABC	SBS	All
2008	10%	33%	19%	22%	13%	14%	19%
2009	9%	35%	16%	21%	13%	14%	19%
2010	8%	27%	16%	17%	18%	5%	17%
2011	6%	21%	9%	12%	14%	10%	13%

Source: Screen Australia analysis of OzTAM data, 5-city metro consolidated, average audience, 6am to midnight Audience expressed as a proportion of sum of average audiences. 2011 is based on January to June only

The limited supply of first-release narrative-based content in the multi-channel environment can be attributed to a number of factors including the networks being able to more fully utilise their output deals with US companies. This means that programming already purchased as a packaged bundle can be more readily deployed to fill the programming schedule for little or no extra cost.

Importantly the absence of any Australian content requirements removes the need to commission and screen Australian content which is more expensive to produce than foreign content is to buy.

5 CHILDREN'S TELEVISON

Regulation

The Children's Television Standards 2009 (CTS) require commercial television licensees to broadcast minimum annual quotas of children's programming, including pre-school (P) programs and children's (C) programs in specified time-bands during the day.

The objectives are to ensure that children have access to a variety of quality television programs made specifically for them, including Australian drama and non-drama programs, and to provide for the protection of children from the possible harmful effects of television.

C and P classified programs are different from material produced for a family audience. They are not simply 'suitable for' or even 'primarily designed' for children; they deal with stories, concepts and ideas that are of interest to children and present them in a manner appropriate for the child audience (i.e. from the child's perspective or through the use of age-appropriate themes).

C and P program classification is based on criteria contained in the CTS and the Australian Content Standard 2005. They state that a children's program is one which meets all of the following criteria:

- is made specifically for children or groups of children
- is entertaining
- is well produced using sufficient resources to ensure a high standard of script, cast direction, editing, shooting, sound and other production elements
- enhances a child's understanding and experience
- is appropriate for Australian children.

The CTS set out the specific times that a free-to-air commercial television licensee can broadcast C or P programs. Licensees must broadcast:

- 260 hours of C material each year within a designated C period, which the licensee can nominate within the following time-bands: 7am-8.30am Monday to Friday; 4pm-8.30pm Monday to Friday; or 7am to 8.30pm Saturday and Sunday.
- 130 hours of Australian P material in the P band (7am to 4.30pm Monday to Friday) for a minimum continuous period of 30 minutes every weekday.[105]

Within the 260 hours of C programming, licensees must broadcast at least 25 hours of first-release Australian children's drama per year, and at least 96 hours over a three-year period.

Advertising restrictions during designated C and P periods make it difficult for the free-to-air networks to monetise children's programming thereby diminishing the commercial appeal of children's television production. The result is that although C programs may be broadcast until 8.30pm at night, the advertising restrictions mean it is highly unlikely a commercial broadcaster would broadcast C programs in prime time despite the fact this is a period when a lot of children are watching television.

[105] ACMA, Children's Television Standards 2009 (CTS), Australian Content Standard 2005

Australian content

Although the commercial free-to-air networks are programming above the minimum requirements for Australian drama and Australian content overall, for first-release children's drama only the minimum amount required by the standard tends to be produced.

In the 2003–2005 and 2006–2008 cycles, no network broadcast more than 2 per cent above the level of Australian C drama required, and for Australian P programs, all three networks broadcast the exact minimum of 130 hours.

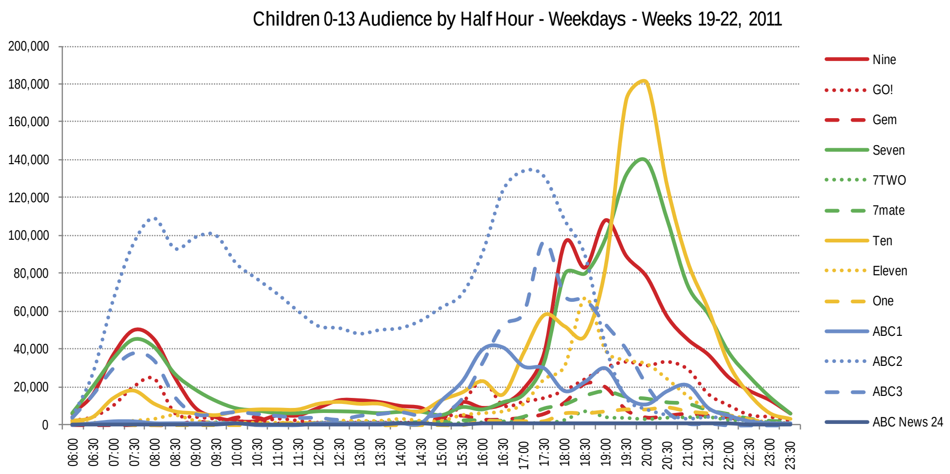
This suggests that children's drama is largely made only as a product of regulatory intervention and would not be broadcast in the same quantity, if at all, if the regulatory requirements were reduced or removed altogether.

What are children actually watching?

The time bands in which C and P programs can be shown are intended to reflect periods when children will tend to be watching television, and this is reflected in actual patterns of viewing across the day. There is a definite peak in children's viewing across most channels during mornings and afternoons.

However, the highest audiences for children are occurring during the early evening, a time when audiences of all ages are at their peak and programming strategies are geared towards appealing to the largest number of people, not specifically to children. This in itself is not a new concept; however, the fact remains that large numbers of children are watching during this time and while the majority of this viewing is 'family friendly', unless they are watching ABC3, they are not viewing content specifically targeted for them.

The biggest evening peaks are occurring on the main channels during G-rated content such as *MasterChef*, *Australia's Got Talent* and *Dancing with the Stars*; however, a lot of viewing and co-viewing is occurring during PG-rated content such as *The Big Bang Theory*, *No Ordinary Family* and *How I Met You Mother*. Similarly, there are solid numbers of children viewing across the new channels in the evening during programs such as *Friends*, *Neighbours*, *The Simpsons* and *That 70's Show*.



Source: OzTAM, 5-City-Metro, Average Audience across weekdays, 6am to midnight, Children 0-13, Weeks 19-22 2011, Consolidated.

Even in the traditional morning and afternoon timeslots, where C and P programs may be available, children can also be watching the likes of *Kitchen Whiz* and *Hot Seat* on Nine, *The Bold and the Beautiful* on Ten; and *Deal or No Deal* on Seven.

And on the new digital channels, solid groups of children are watching weekday afternoon programs like *Hercules*, *The Drew Carey Show* and *According to Jim* on 7mate; *Here's Lucy*, *I Dream of Jeannie* and *Bewitched* on GO!; *As Times Goes By* and *The Ellen Degeneres Show* on Gem; and *Mork & Mindy* and *Happy Days* on Eleven.

For younger children, aged 0–4, the bulk of weekday viewing is currently going to ABC2. However, it is also clear that up to 60,000 kids aged 0–4 are watching Network Ten at 7.30pm during programs such as *MasterChef*, rather than tuning in to ABC3 for programs specifically targeted for them. And on the weekends, over 50,000 kids 0-4 are watching Nine's main channel at 7.00pm during programs such as *Australia's Funniest Home Videos* and *In Their Footsteps*.

It's worth noting that the availability of more channels with the introduction of the multi-channels means that viewing is now spread right across the expanded free-to-air platform, rather than contained within the handful of channels that existed three years ago.

Network commissioning strategies, combined with the limited amount of 'C' and 'P' content available for networks to broadcast on the new channels, mean that children do not always have the opportunity to view content specifically created for and targeted to them.

Children's audiences: Weekday afternoons

Channel	Kids 0-13	Kids 0-4	Kids 5-13
ABC1	30,400	8,000	23,000
ABC2	112,700	91,300	25,000
ABC3	62,600	7,000	55,800
ABC News 24	890	700	370
Seven	38,100	17,100	22,000
7TWO	2,400	700	1,800
7mate	7,300	2,200	5,200
Nine	42,700	20,500	23,500
GO!	16,900	4,000	12,900
Gem	8,400	5,000	3,500
Ten	38,900	20,100	19,700
One	3,300	880	2,500
Eleven	24,300	6,600	18,000
SBS ONE	2,700	1,600	1,200
SBS TWO	370	230	140
Total commercial	275,100	93,100	187,700
Total free-to-air	**239,300**	**118,600**	**125,000**

Source: OzTAM, 5 City Metro, Average Audience, May 1-28 2011, 4pm-7pm, M-F, Consolidated

Children's audiences: Evenings

Channel	Kids 0-13	Kids 0-4	Kids 5-13
ABC1	14,700	4,700	10,300
ABC2	21,000	16,700	4,800
ABC3	18,300	1,500	16,900
ABC News 24	800	400	500
Seven	71,200	24,000	48,700
7TWO	3,500	900	2,800
7mate	9,600	2,700	7,100
Nine	57,500	21,100	37,700
GO!	19,700	6,500	13,500
Gem	6,300	2,900	3,500
Ten	70,600	24,300	48,000
One	6,200	2,200	4,100
Eleven	19,300	5,400	14,100
SBS ONE	7,100	2,700	4,500
SBS TWO	1,200	400	900
Total commercial	275,100	93,100	187,700
Total free-to-air	**338,500**	**119,400**	**225,800**

Source: OzTAM, 5 City Metro, Average Audience, May 1-28 2011, 6pm-midnight, Consolidated

APPENDIX 1.
TIMELINE: REGULATION AND AUSTRALIAN CONTENT

Key dates in Australian broadcasting legislation and production support

1948	The *Broadcasting Act 1948* prohibits the granting of commercial television licenses
1953	Menzies government amends *Broadcasting Act 1948* to allow for the granting of commercial television licenses
1955	First commercial television licenses granted
1956	5% of Melbourne households and 1% of Sydney households own a TV set
1960	Australian content quota introduced: 40% overall plus 4 hrs peak time every 28 days
1961	First regional TV services began in Gippsland, Victoria
1962	Australian content quota increased to 45% overall
1963	Between 1956 and 1963, almost all content screened on Australian television was sourced from overseas. Of this, 83 percent was American, with the rest from Britain. Senate Select Committee on the Encouragement of Australian Productions for Television (Vincent Committee) argued for increased amounts of Australian drama on television, noting the effects on employment opportunities for actors; first steps towards national networking.
1964	*Television Licence Fees Act, 1964* in place
1965	Australian content quota increased to 50% overall
1966	95% of households in Sydney and Melbourne owned a TV set
1968	United Nations Educational, Scientific and Cultural Organization (UNESCO) recommends film industry support
1970	Australian Film Development Corporation (AFDC) established; The Experimental Film and Television Fund (EFTF) established
1971	Prime time requirements of 45 % Australian content overall and 6 hours of drama every 28 days. Also 4 hours of children's every 28 days at suitable times
1972	Prime time Aus content 50% overall; The Government announces that all Australian TV stations will convert to colour on 1 March 1975
1973	Film Australia (FAL) launched; Australian Film and Television School (AFTS) established; Aus content points system introduced and first release drama quota (6 hours per 28 days)
1975	Colour television; Australian Film Commission (AFC) established (replacing AFDC)
1977	Special Broadcasting Service (SBS) established; Australian Broadcasting Tribunal (ABT) established
1978	10B introduced
1979	Children's broadcasting standards introduced (including 'C' classification)
1981	10BA introduced AT 150%
1982	Australian Children's Television Foundation (ACTF) established
1984	Arrival of VHS; Children's broadcasting (P and C) standards clarified and extended and Australian sub-quota introduced
1986	First subscriber TV services introduced to pubs and clubs
1988	Film Finance Corporation (FFC) established; 10BA reduced to 100%; Office of Film and Literature Classification (OFLC) replaces the Film Censorship Board

1989	Aggregation of regional television commences
1990	TV networks in financial turmoil - 7 and 10 in receivership, Bond sells 9 back to Packer at loss; Australian content, drama sub-quota and Children's Television Standard (CTS) in place
1991	SBS introduces advertising between programs
1992	Australian Broadcasting Authority (ABA) established; *Broadcasting Services Act 1992* (incorporating anti-siphoning) and *Television Program Standard for Australian Content in Advertising* in place
1994	SBS Independent (SBSi) launched; Commercial Television Production Fund (CTPF) established for 3 year period
1995	Satellite and cable subscription television (STV) services launched
1996	Quota for broadcast of Australian documentaries introduced (10 hours)
1997	Ban on ads on STV lifted; Gonski report delivered; first Film Licensed Investment Company (FLIC) scheme launched
1999	STV local drama expenditure quota introduced; DVD introduced; new Australian content standard for commercial TV - doco quota increased to 20 hours
2001	Digital TV introduced; Refundable Film Tax Offset (RFTO) introduced; ABC Kids first digital multi-channel channel launched
2003	ABA invites applications for licencees to operate community TV channels in Sydney, Melbourne, Brisbane and Perth
2004	Local content obligations for regional commercial television broadcasters introduced
2005	Australian Communications and Media Authority (ACMA) established (replacing ABA)
2005	*Broadcasting Services (Australian Content) Standard 2005;* second FLIC scheme
2006	SBS spreads ads throughout programs
2007	Producer Offset, PDV Offset and Location Offset introduced (replacing 10B,10BA and RFTO); Australia's first commercial high-definition, digital multi-channel (7HD) launched; National Indigenous Television (NITV) launched
2008	Screen Australia established (replacing AFC, FFC and FAL); local content conditions for regional broadcasters expanded
2009	NBN Co. established to deliver and operate the National Broadband Network (NBN); Commercial television stations permitted to open a second standard-definition digital channel
2009	Children's Television Standards reviewed; main obligations commenced 1 January 2010.
2010	Digital switchover commenced; broadcaster licence fee rebates introduced in *Television Licence Fees Amendment Regulations 2010;* proposed reforms to anti-siphoning scheme; test transmissions in 3D commence; NBN trial rollout in Tasmania
2011	Convergence Review; *National Broadband Network Companies Act 2011* passed; first release of NBN and second release sites announced
2013	Expected shutdown of analogue TV broadcast

Sources:

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ACMA *Commercial Television Industry Financial Trends 1978-79 to 2005-06,* http://www.acma.gov.au/WEB/STANDARD/pc=PC_311324

APPENDIX 2: REGULATION OF AUSTRALIAN TELEVISION

Television broadcasters have the primary responsibility for ensuring that the material they broadcast reflects community standards. Most program requirements are governed by a code of practice, determined through industry and community consultation, which for free-to-air broadcasters is published on the FreeTV website, and for subscription broadcasters is published on the Australian Subscription Television and Radio Association website.

However, some aspects of programming on free-to-air and subscription television are regulated by the Australian Communications and Media Authority (ACMA). This federal government statutory authority was established on 1 July 2005 by the merger of the Australian Broadcasting Authority and the Australian Communications Authority.

FREE-TO-AIR

The areas covered by ACMA's free-to-air television regulation address minimum levels of Australian content, children's programming, local content, Australian content in advertising and the anti-siphoning of sport, which are summarised below, as well as additional schemes covering sponsorship of community television, political material and anti-terrorism. For more information, see the ACMA website.

Australian content

Australian content requirements date back to 1961. The current standard – *Broadcasting Services (Australian Content) Standard 2005* – commenced on 30 December 2005, as part of the *Broadcasting Services Act 1992*.

The object of the standard is to promote the role of commercial television services in developing and reflecting a sense of Australian identity, character and cultural diversity by supporting the community's continued access to television programs produced under Australian creative control.

The standard requires all commercial free-to-air television licensees to broadcast an annual minimum transmission quota of 55 per cent Australian programming between 6 am and midnight. In addition, there are specific minimum annual sub-quotas for first-run Australian adult drama, documentary and children's programs.

Australian programs are defined by creative control and the origin of key creative personnel. For the purposes of compliance, the standard recognises Australian official co-productions and New Zealand programs equally with Australian programs. New Zealand programs are recognised so as to be consistent with the Protocol on Trade in Services to the Australia New Zealand Closer Economic Relations Trade Agreement of 1988.

Adult drama sub-quota

An Australian drama program is defined as one that incorporates scripted elements of character, theme and plot as part of a narrative structure. This may include actors delivering improvised dialogue based on a written outline. Sketch comedy and dramatised documentary are included.

Each broadcaster must achieve a score of at least 250 points for first-release Australian adult drama per year and a three-year score of 860 points. The score is calculated by multiplying a 'format factor' by the duration of the program. The format factor is a scale based on a combination of program type (serial or series, feature film, telemovie, mini-series or stand-alone drama of less than 90 minutes) and/or the level of licence fee paid.

The current three-year score was increased from 830 points in 2005. The annual score was increased from 225 points in 2003. This reflects adjustments to the format factors, with the aim of encouraging production and broadcast of more expensive drama programs.

Children's drama sub-quota

The *Children's Television Standards 2009* classify children's programs as either C programs (for children other than preschoolers) or P programs (for preschool children). Drama falls within the C band.

Broadcasters are required to screen at least 96 hours of first-release Australian C drama over a three-year period and at least 25 hours per year. They must also screen at least eight hours of repeat Australian C drama per year.

Broadcasters are able to defer the quota hours through an accrual scheme and if an independent producer fails to provide an agreed program.

Documentary sub-quota

A documentary is defined as a program that is a creative treatment of actuality other than a news, current affairs, sports coverage, magazine, infotainment or light entertainment program.

In each year, a broadcaster must screen, between 6 am and midnight, at least 20 hours of first-release Australian documentary programs, each of at least 30 minutes' duration.

Children's programming

As well as Australian content quotas, additional regulations apply to children's programming.

A broadcaster must screen a combined total of at least 260 hours of C programs (for children other than preschoolers), and at least 130 hours of Australian P programs (for preschool children) per year, with a combined total of at least 390 hours. , The 260 hours of C programs must include at least 130 hours of first-release Australian content, and at least 25 hours of those must be first-release Australian C drama.

Children's programs must be broadcast within specific children's time periods and must meet other content and advertising requirements to meet the quotas.

For purposes of compliance, these programs must be made specifically for children or groups of children, be entertaining and well produced with high production standards, and enhance a child's understanding and experiences as is appropriate.

Local content

From 1 January 2008, as part of the changes introduced by the *Broadcasting Services Amendment (Media Ownership) Act 2006*, ACMA must ensure that specified regional commercial television broadcasting licensees in Queensland, New South Wales, Victoria and Tasmania broadcast at least minimum amounts of material of local significance. This is a statutory requirement whereas the previous conditions, introduced in 2003, were imposed at the discretion of ACMA.

Content that may be considered of local significance may range from material that deals with people, organisations, events or issues of a particular area to a sporting event that involves a team from the area or a team whose principle support base includes that area.

Australian content in advertising

The objective of the *Television Program Standard 23 – Australian Content in Advertising* is to ensure that the majority of advertisements on television are Australian made, by means of a flexible regulatory system that recognises the market reality of advertising.

According to the standard, an advertisement is matter that draws the attention of the public, or a segment of the public, to a product, service, person, organisation or line of conduct in a manner calculated to promote or oppose, directly or indirectly, that product, service, person, organisation or line of conduct.

A broadcaster must ensure that Australian-produced advertisements occupy at least 80 per cent of the total advertising time screened in a year between the hours of 6 am and midnight, other than the time occupied by exempt advertisements. Exempt advertisements include those for imported cinema films, videos, recordings and live appearances by overseas entertainers and community service announcements.

SUBSCRIPTION

The areas covered by ACMA's subscription television regulation address minimum levels of Australian drama production expenditure and the anti-siphoning of sport, which are summarised below, as well as anti-terrorism. For more information, see the ACMA website.

Australian drama expenditure

The *Broadcasting Services Act 1992* prescribes that subscription television drama channels, and drama channel package providers, are required to invest at least 10 per cent of their total program expenditure on new Australian drama.

Australian programs are defined by creative control and the origin of key creative personnel. For the purposes of compliance, Australian official co-productions and New Zealand programs are recognised equally with Australian programs. New Zealand programs are recognised so as to be consistent with the Protocol on Trade in Services to the Australia New Zealand Closer Economic Relations Trade Agreement of 1988.

The scheme accommodates the dynamics of production schedules by allowing broadcasters and channel providers to operate under an 'accrual-type' system under which obligations that arise in one reporting period that are not acquitted must be fully acquitted in the following period.

APPENDIX 3: LIMITS TO AUSTRALIAN CONTENT REGULATION

Australia – United States Free Trade Agreement

On 1 January 2005 the Australia–United States Free Trade Agreement came into force. The agreement contains local content provisions related to audiovisual content that in effect act as a restraint upon Government regulation of Australian content on a number of distribution platforms. These local content provisions have the following implications:

Commercial free-to-air multi-channel broadcasters

Annual transmission quotas for local content imposed on free-to-air analogue and digital broadcasting (other than multi-channelling) shall not exceed 55 per cent of programming transmitted between 6am and midnight. Sub-quotas for drama, documentary, and children's etc, within the 55 per cent may be applied.[106]

Annual transmission quotas may not exceed 55 per cent of the programming on an individual channel of a service provider transmitted between 6am and midnight and may not be imposed on more than two channels or 20 per cent of the total number of channels (whichever is greater) by that provider. No transmission quotas shall be applied to more than three channels of an individual service provider. Sub-quotas related to drama, documentary, children's etc, may be applied.

Transmission quotas may be applied where a free-to-air commercial television channel subject to a transmission quota, is rebroadcast over another transmission platform or moves a channel to another transmission platform. [107]

Under the agreement, local transmission quotas are subject to a 'ratchet mechanism'. If either Australia or the US liberalises a measure, making it less inconsistent with the obligations of the relevant chapter, it cannot then became more restrictive because the liberalised measure becomes part of the free trade agreement commitments. This means that if the existing level of the mandated Australian television local content transmission quota were to be reduced from 55 per cent down to 40 per cent, it cannot be returned to the former level in the future.[108]

Subscription television broadcasting services

Currently, expenditure requirements for Australian drama production do not exceed 10 per cent of total program expenditure. Under the terms of the free trade agreement, there is no restriction on requirements being imposed on the arts, children's, documentary and educational in the future.

If the Australian Government finds that the expenditure requirement for production of Australian drama is insufficient to meet its stated goal, the expenditure requirement may be

[106] Australia–United States Free Trade Agreement, Annex I

[107] Australia–United States Free Trade Agreement, Annex II

[108] Australian Government, Senate Select Committee – Final Report on the Free Trade Agreement between Australia and the United States of America, Chapter 6, 5 August 2004

increased to a maximum level of 20 per cent. This increase to occur following a transparent process and consultation with affected parties, including the US.[109]

International co-productions

Australia reserves the right to adopt or maintain, under its International Co-production Program, preferential co-production arrangements for film and television productions.[110]

Australia reserves the right to provide subsidies and grants for Australian cultural activity where the subsidy or grant is subject to local content or production requirements.

Although advertising and programming Australian content requirements may be imposed on up to 2 digital multi-channels, the Government has to date elected not to extend content requirements to the multi-channels. Nor has the Government increased the program expenditure requirement for drama channels to 20% or impose a 10% requirement on new channel genres although such action is permissible pursuant to the AUSFTA.

The result of the carve-out is that those parts of the BSA which are in conflict with the AUSFTA, such as prohibitions on foreign persons exercising control of a commercial television broadcasting licence and transmission quotas for local content on commercial television and expenditure quotas on subscription television are considered 'non-conforming measures' and are therefore exempt from AUSFTA obligations.

The impact for online environment is clearer. Australia can "impose measures on 'interactive audio and/or video services', but only to ensure Austratlian content or genres are 'not unreasonably denied to Australian consumers and only on companies that carry on business in Australia." Further, the Electronic Commerce chapter (16) "prevents local content requirements being imposed on suppliers of 'digital products' other than those identitifed under Annex I and II audiovisual, broadcasting and other reservations.[111]

The AUSFTA therefore "institutionalises much lower aspirations about the level of Australian content in emerging media systems than Australians have come to expect in broadcast television."[112]

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109 Australia–United States Free Trade Agreement, Annex II

110 ibid

111 Given, Jock, Fulbright Symposium AUSFTA: The Last Five Years, the Next Five Years. Swinburne University

112 "Not unreasonably denied: Australian content after AUSFTA", Media International Australia, 2004

APPENDIX 4:
AUSTRALIAN ENTERTAINMENT CROSS-MEDIA INVOLVEMENT

The main players in the Australian market across the categories of filmed entertainment, free-to-air television, subscription television and interactive games are set out below:

	Free to air television	Subscription television	Filmed entertainment	Interactive games
ABC				
Austar United Communications Ltd				
Consolidated Media Holdings Limited				
NBC Universal				
News Corporation				
PBL Media				
Prime Media				
SBS				
Seven West Media				
Singtel Optus Pty Ltd				
Sony Corporation				
Southern Cross Media Group				
Telstra Ltd				
Ten Network Holdings Limited				
Time Warner				
Viacom				
Village Roadshow				
Vivendi				
Walt Disney Company				
WIN Corporation				

Source: Outlook: Australian Entertainment & Media 2011–2015, PwC, p 199

APPENDIX 5:
AVERAGE DAILY REACH

All television

	Average daily reach (5 mins)
Total free-to-air	14,464,100
Total commercial	12,973,000
Total public broadcasters	7,548,500
Total subscription TV	4,301,700
Total TV	16,179,500

Source:
Free-to-air: OzTAM & Regional TAM, 5 City Metro, Combined Aggregate Markets, Av Daily Reach (5 min threshold), 2am-2am, Jan-Dec 2010, Consolidated, ex spill. Metro and Regional reach figures have been added together to form a combined total.
Subscription: OzTAM, NationalSTV, Av Daily Reach (5 min threshold), 2am-2am, Jan-Dec 2011, Consolidated

Free-to-air television

Network/Channel	Average daily reach (5 mins)
ABC Total	6,436,800
ABC1	5,134,000
ABC2	1,500,000
ABC3	842,200
ABC News 24	513,300
Prime/7QLD Total	7,891,700
Prime/7QLD	7,275,500
7TWO	1,442,900
7mate	1,396,600
WIN/NBN Total	8,564,300
WIN/NBN	7,535,300
GO!	2,046,200
Gem	1,208,400
Southern Cross TEN Total	6,907,800
Southern Cross TEN	6,583,100
ONE	769,500
SBS Total	2,654,500
SBS ONE	2,443,400
SBS TWO	369,900

Source: OzTAM & Regional TAM, 5 City Metro, Combined Aggregate Markets, Av Daily Reach (5 min threshold), 2am-2am, Jan-Dec 2010, Consolidated, ex spill. Metro and Regional reach figures have been added together to form a combined total.

Subscription television

Network/Channel	Av Daily Reach (5 mins)	Network/Channel	Av Daily Reach (5 mins)
111 HITS	238,800	MAX	125,800
111 HITS2	84,500	MOVIE EXTRA	129,100
13TH STREET	209,400	MOVIE GREATS	92,500
13TH STREET+2	42,000	MOVIE ONE	142,700
Animal Planet	96,300	MOVIE TWO	93,300
ARENA	367,800	MTV	159,000
ARENA+2	138,000	MTV Classic	76,400
Aurora Community Channel	46,600	MTV Hits	73,700
BBC Knowledge	200,000	Nat Geo Adventure	63,700
Bio.	279,200	Nat Geo Wild	98,700
Boomerang	152,800	National Geographic	239,100
Cartoon Network	240,100	Nick Jr.	214,400
CBeebies	95,700	Nickelodeon	341,300
Channel [V]	119,400	Ovation	79,400
CNBC	20,000	SCI FI	202,300
COMEDY CHANNEL	261,700	SCI FI+2	90,000
COMEDY CHANNEL+2	129,700	showcase	91,500
Crime & Investigation	298,600	showcase+2	49,400
Discovery Channel	273,300	showtime action	160,300
Discovery Channel+2	158,700	showtime comedy	122,000
Discovery Home & Health	68,500	showtime drama	75,800
Discovery Science	76,200	showtime premiere	199,800
Discovery Turbo MAX	116,800	showtime premiere 2	125,000
Discovery Turbo MAX+2	92,200	SKY NEWS	369,300
Disney Channel	361,300	SKY NEWS BUSINESS	36,400
Disney Junior	196,200	Sky Racing	101,500
E!	169,700	Sky Racing World	7,600
ESPN	102,100	SPEED	43,400
FMC - Family Movie Channel	147,700	STARPICS 1	112,400
FOX Classics	228,900	STARPICS 2	85,900
FOX Classics+2	91,000	STVDIO	38,800
FOX SPORTS 1	327,900	The Style Network	82,000
FOX SPORTS 2	349,300	The Weather Channel	78,600
FOX SPORTS 3	276,400	TLC	67,100
FOX SPORTS News	221,700	TV1	441,900
FOX8	696,700	TV1+2	171,700
FOX8+2	290,800	TVN	37,800
FUEL TV	87,000	UKTV	319,100
History Channel	218,700	UKTV+2	84,300
HOW TO Channel	124,600	UNIVERSAL	87,400
KidsCo	38,700	[V] HITS	118,300

LifeStyle Channel	484,200	W	259,200
LifeStyle Channel+2	172,800	W2	93,800
LifeStyle FOOD	227,600	WORLD MOVIES Channel	49,500
LifeStyle FOOD+2	92,300	Other STV	690,600
LifeStyle YOU	189,800		
LifeStyle YOU+2	89,400		

Source: OzTAM, NationalSTV, Av Daily Reach (5 min threshold), 2am-2am, Jan-Dec 2011, Consolidated

APPENDIX 6: MULTI-CHANNEL PROFILES

Target audience	Genre	Channel positioning	Main programming strategies & highlights	Original Australian programming	Other strategies/ comments
7TWO Launched 1 November 2009					
Adults 25+	Broad entertainment. Something for everyone including themed genre nights eg, action, adventure, lifestyle, movies.	Programming strategically selected to complement the main channel and grow audiences without sacrificing one channel for the other. Maximise opportunities for audiences and clients.	New episodes of *Lost*, *Ugly Betty, Knight Rider, 24, Gavin & Stacey*. Lifestyle series from Jamie Oliver, Curtis Stone, Rick Stein. 2011 saw a strong British skew with *A Touch of Frost, Jonathan Creek, Heartbeat, Inspector Morse, Lewis, Doc Martin, Born & Bred, The Bill*. Kids Time block during weekdays. Encores of programs such as *Home & Away* run throughout the day.	*Marie Clare: Under the Cover*, a look behind the scenes of Australia's fashion magazine. Wimbledon 2011 is live on 7TWO from 9pm, but reverts back to main channel from 11pm for late night coverage. "Telling of Australian stories is important and is synonymous with the Seven brand and that's something we work at maintaining."	More of what audiences love about Seven. A natural extension of main channel. Used TV personality Tom Williams as the face of the channel when it launched. Cross promotes with main channel and vice versa. Hope to gather the most eyeballs across three clearly defined channels, with a minimum of overlap.
7mate Launched 25 September 2010					
Men 16-49	Male-skewed programming including sport, factual content and comedies.	Targets young males.	AFL Grand Final, *Family Guy, American Dad, The Amazing Race, Scrubs, How I Met Your Mother, 30 Rock, That 70's Show, Mighty Ships and Mega Structures*. Programs making their FTA debut include *Monster Garage, Jersey Shore, Gene Simmons Family Jewels, Warehouse 13* and *Caprica*. *No Ordinary Family* moved to 7mate from the main channel.	AFL, *Gangs of Oz* encored from the main channel.	Between 2012 and 2016 will air a minimum of four live AFL matches each round into the NSW/ACT market. Decision to target males 16-49 complements 7TWO's success with females +35 and +25.
GO! Launched 9 August 2009					
People 14-39	Popular entertainment for the young and young at heart. Includes comedies and reality series.	New hits and classic favourites; offers diversity and more choice for both viewers and advertisers.	Young skewed and niche drama series such as *Gossip Girl, Vampire Diaries, Fringe* and *The Wire* (Season 5). Reality series such as *Survivor, The Bachelor*. Comedy favourites such as *Big Bang Theory, Two & Half Men, Seinfeld, Curb Your Enthusiasm*. Movies were among their best performers so have shifted more in this direction. Encores of *Top Gear* are also screen.	*Uplate!* to premiere in July 2011. It is an exclusive backstage pass to what we're watching, wearing, listening to, where we're going and who we're going with, featuring entertainment news, music performances, competitions, giveaways and comedy and celebrities from the world of sport, music, entertainment, politics, food and fashion. *Gabriel* (movie).	Has output deal with WB, Columbia Pictures, Village Roadshow and MTV. Use of GO! branded news updates before key programs which often have a celebrity gossip element.
Gem Launched 26 September 2010					
Women 35+, GB's w Kids	General entertainment including classic comedies, cherished dramas and movies, sport in HD. Gem-styled news and current affairs programs that will complement main channel.	Carefully crafted channel aimed at sophisticated discerning viewer. Designed to appeal to a wide audience cross-section and to complement Nine's existing channels.	*The Big C, Weeds, CSI, The Closer, Rizzoli and Isles, Sea Patrol, Wife Swap, Secret Millionaire, How Clean Is Your House, Random Acts of Kindness, Friends, Million Dollar Baby, The Aviator.*	Long-running travel show *Getaway* has been downsized to a half hour weekend edition and will permanently move to Gem. Repeats of series such as *Alive and Cooking*	Gem is part of Nine's strategy to create a cluster of complementary channels to cover all key audiences.

Target audience	Genre	Channel positioning	Main programming strategies & highlights	Original Australian programming	Other strategies/ comments
ONE Launched 26 March 2009					
Men 25-54	Launched in 2009 as 24-hour sport channel but rebranded in 2011 as mix of general entertainment and sports programming for a distinctly male audience.	Premium sport, HD factual programs, high quality premiere drama, action and adventure series, movies with particular appeal to men 25-54. Male skewed but not designed to alienate women.	*Sons of Anarchy, Long Way Round, An Idiot Abroad (Aust Prem), Breakout Kings, Airline, Everest, Sports Tonight, Bondi Rescue, Cops, Airline, F1 Grand Prix, Ice Road Truckers, Extreme Fishing*. High quality adventure series such as *Everest Beyond the Limit, Megastructures Breakdown, Twister Sisters* and *Edge of Existence*.	Repeats of *Bondi Rescue* and *Sports Tonight*. Live Australian sports such as AFL (only until end of 2011 season), sports panel show *Game Plan* etc.	Consistency to the schedule, key programs will remain in the schedule. Not looking for a 7mate. Niche sports events that don't perform will go. Broad male skew delivers hard to reach male viewer but also appeals to women and complement youthful Eleven. Hoped relaunch will increase share to 2.5%; hard to achieve with sport focus which attracted viewers to major weekend sports.
Eleven Launched 11 January 2011					
People 13-29	Distinctly youthful programming including local dramas and US comedy favourites	Bold, fresh, fun and entertaining content that viewers want to watch. Creating a community where advertisers can interact and engage with viewers in a creative manner.	New episodes of: *The Simpsons, Neighbours, Dexter, The Cleveland Show, Futurama, Supernatural, Nurse Jackie, 90210, Wilfred, Smallville, Stargate: Universe, The Office, Raising Hope, Being Human* (US). Classic episodes of *Everybody Loves Raymond, Sex and The City, Frasier, Judging Amy, Happy Days, MacGyver*. New Lady Gaga special	Long-running soap *Neighbours* moved permanently to Eleven when the channel launched in January 2011	Has output deal with CBS. What plays on eleven stays on Eleven. Main channel repositioned to focus on 25-54 demo. TEN is positioned as The MasterChef channel with big, broad family entertainment. ONE is male skewed with motorsport, AFL and *Sons of Anarchy*. Eleven focuses on a youthful audience watching The Simpsons and Neighbours.
ABC2 Launched 7 March 2005					
-	General entertainment	Strong focus on comedy and lifestyle programming as well as documentaries, news and current affairs, education and children's shows, drama and sports.	In May 2011 the ABC for Kids block was extended to start at 6am and end at 7pm and renamed ABC4Kids. New episodes of niche series such as *Being Human* (UK), *The Wire, The Tudors.*	*Playschool* moved to ABC2 in May 2011. ABC2 screens encores of Australian content such as *Rake, Laid, Bed of Roses, Gruen Transfer, Hungry Beast, Spicks and Specks*. Premiere episodes include *Review with Myles Barlow, Bananas in Pyjamas* and doco *Threaded Connections*.	Selected programs are available to view online through iView.
ABC3 Launched 4 December 2009					
Kids 6-15 (8-12 yr focus)	Children's drama, adventure, music, wildlife, quiz shows, comedies, Indigenous programs, news, sport, education and new Australian children's series.	Become the number one destination for Australia's school-age children by creating a channel that tells our Australian stories in a creative, innovative and exciting manner.	Broadcasts between 6am and 9pm. Long-term goal is for 50% Australian content and a fully integrated online presence including social interactivity, games, video, and user-generated content, embracing websites, blogs and a range of entertaining and informative online activities.	Australian children's series *My Place* debuted on ABC3 in 2010. Other Australian series include *Dead Gorgeous, West Coast Kids, CJ the DJ, Dance Academy, Stay Tuned, Studio 3*. New series include *After School Care* and *Mal.com*	A dedicated free-to-air children's channel with a high level of Australian content is needed to maintain a balance between Australian and international content and ensure that future generations of Australian children can still see and hear Australian stories and Australian voices on children's television.
ABC News 24 Launched 22 July 2010					
-	Live bulletins, encores of news and current affairs from ABC1, coverage of Parliament's question time, docos, factual and arts programs.	Live rolling news coverage of weekdays. Daily business programs covering the Asia Pacific region.	*ABC News Breakfast* and *The Midday Report* are simulcast with ABC1. *Lateline Business* encores in an earlier timeslot. BBC World News bulletins are broadcast overnight. topical debate program, *The Drum* and international bulletin *The World* also feature.	Australian news and current affairs programs such as *ABC Breakfast, Business Today, The Drum* and health news show *Tonic*. The channel will show a mix of content, some new and exclusive, some simulcast with main channel and also encores of main channel content.	ABC News 24 streams online from iView.

Target audience	Genre	Channel positioning	Main programming strategies & highlights	Original Australian programming	Other strategies/ comments
SBS TWO Launched 1 June 2009					
-	International news and films, themed programming blocks. *SBS World News Australia* simulcast with SBS1, new drama's such as *112 Emergency* and encores of documentaries from SBS1.	Screens the Tour de France simulcast with SBS1 as well as UEFA Champions League, Ashes Cricket, time-shifted episodes of the World Game and repeats of matches from FIFA World Cup.	SBS is taking a vertical approach to programming to take on the rise of the digital channels, which have hit the audience share of SBS1. "Our goal is not to go head to head on core programmes. We want to build quality volume in film, food, football and factual. Launched provocative documentary *Go Back to Where You Came* in June 2011 on SBS1.	Premiere of doco *The Unemployables* as well as local sports commentary and content surrounding the World Game soccer. Local commentary surrounding special sports events such as the Tour de France, including the Taste Le Tour cooking show with Gabriel Gate, and also the Ashes Cricket and Olympics.	Plans to add APAC shows, international children's programming and English learning programs in the future. Hoping new ad strategy aimed at splitting market buys by geography rather than one national buy will boost ad revenue by 10% and give advertisers flexibility in how they buy ads across SBS2. Revamping website to fuel 15-20% online revenue growth in 2011.