Australian Government

Screen Australia

CONVERGENCE REVIEW
SUBMISSION

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www.screenaustralia.gov.au/research

CONTENTS

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 sector.

As part of its leadership objectives, Screen Australia plays an important role in providing authoritative research and strategic analysis. This includes examining factors that influence the production and consumption of Australian content and the role of the Australian screen production sector in delivering the Government's cultural objectives.

Screen Australia provides the following information as part of the Australian Government's Convergence Review ('the Review'), which seeks to examine the regulatory framework of Australia's broadcasting and telecommunications sectors.

While the Review has a wide remit, Screen Australia is primarily concerned with the production of Australian stories – narrative-based screen content, whether fiction or fact – on screen. Screen Australia is an advocate for the successful creation, distribution and consumption of Australian screen stories. This submission therefore focuses on aspects of the Review that are particularly concerned with this objective.

Section 2 considers options for Government by adjusting policy levers in order to meet current challenges in a climate of converging technologies. Background information to this submission is explored in **Section 3.**

This submission continues the themes discussed in two reports published by Screen Australia in 2011 underpinning the agency's exploration of technological convergence and its effect on audience participation in screen-based activities: *Convergence 2011: Australian Content State of Play* (August 2011) and *Beyond the Box Office: Understanding Audiences in a Multi-screen World* (April 2011).

Elements of this submission are mirrored and extended in Screen Australia's submission to inform the design of the National Cultural Policy (NCP) announced by the Minister for the Arts, the Hon Simon Crean MP, on 11 August 2011.[1]

[1]Australian Government (http://culture.arts.gov.au/)

1.1 Executive summary

OPTIONS FOR SUPPORTING AUSTRALIAN CONTENT

Funding Australian narrative production: state of play

A total of $709 million was invested in the slate of Australian narrative content that commenced production in 2009/10. This comprised Australian feature films, TV drama for adults and children and documentaries.

Of the $709 million, Government sources contributed 41 per cent of finance (including both direct and indirect funding), while the non-government sector contributed 59 per cent.

Within the 41 per cent provided by Government sources, the indirect policy lever (the Producer Offset) provided 20 per cent, or $139 million. Direct funding provided 14 per cent or nearly $100 million, most of which was delivered through Screen Australia, but also included funding from the state agencies, the Australian Children's Television Foundation, and Melbourne and Adelaide Film Festival funds. The public broadcasters contributed 7 per cent (approximately $52 million).

Within the 59 per cent provided by non-government sources, the commercial broadcasters (free-to-air and subscription) contributed around $171 million, or almost a quarter of all finance for Australian narrative content. The commercial free-to-air broadcasters contribute by far the largest amount from any industry sector. Its high level of investment compared to low or nonexistent levels from other content platforms is due to a combination of regulation, access to Government incentives and the ability to monetise the content it creates.

Adjusting the levers

The current mix of policy settings is contributing to a healthy screen production sector capable of delivering a broad range of content well received by both domestic and international audiences. The challenge for Government is to continue and build upon this success by adjusting policy settings at appropriate stages and increments.

The pressures created by convergence are requiring that new business models for the production of screen content be explored. Unless the right supporting framework is established the risk is that Australia languishes behind other countries in fostering a vibrant screen production sector that can tap into the unique potential created by convergence, and in particular the potential of the online medium.

Good public policy requires a fiscally responsible investment from government to balance this need. It also requires appropriate flexibility to adjust regulation as participation in different content distribution points evolves.

Screen Australia views the following as appropriate options for Government consideration to achieve desired public outcomes.

Adjustments to content regulation:

- Commercial free-to-air
    - Short to medium term: Increase in sub-quota requirements providing additional hours of the most vulnerable content for broadcast on the multi-channels. The additional costs to the broadcasters could be balanced by a commensurate reduction in their licence fees. The other sources of finance for the TV drama and documentary slate, including direct funding through Screen Australia and indirect support provided by the Producer Offset, would also need to be proportionately increased to fund the additional hours.
    - Longer term: Transition to expenditure model to assist the creation of the most vulnerable forms of content.
- Subscription television and 'television-like' services
    - Short term: Continuation and extension of expenditure model to assist the creation of the most vulnerable forms of content.
    - Medium to long term: In a fragmented media environment, the creation of Australian content should be an obligation shared by all content service providers that target their services to Australians through either advertising or purchase models. This would create a level playing field for all content services regardless of the method of distribution. The required expenditure could be determined, as it is currently for subscription television, as a percentage of program expenditure. Alternatively it could be based on revenue.

Adjustments to direct investment:

- Creation of an **Online Production Fund** to provide funding for interactive and linear narrative content projects that are released online, demonstrating the cultural benefits of high-speed internet access. It would build on a growing array of projects that have moved into this space, including:
    - feature film and television content using a digital distribution strategy
    - immersive narrative projects such as interactive documentaries
    - browser-based interactive entertainment
    - mobile and tablet applications

Adjustments to indirect investment (tax incentives):

- Creation of an **Interactive Entertainment (Games) Offset** incorporating alterations to the existing Producer Offset to include interactive components for drama and documentary content, while also introducing an offset for stand-alone games. Overall these initiatives will assist Australian interactive entertainment developers to become more cost competitive with other foreign territories, and retain control of intellectual property.

  Screen Australia has worked with PricewaterhouseCoopers to model the economic outcomes of these initiatives. This modelling indicates that together, they will enable more than $44.3 million of additional investment per year, of which around $30.3 million will come from overseas investors. In a challenging economic climate for the interactive entertainment industry, this is a significant injection of foreign money.

BACKGROUND: THE CONTENT LANDSCAPE

Participation in the consumption of screen content

In a decade of major technological change, participation in a broad range of screen-based activities has grown. The overwhelming trend of the last five years has been the addition of new screen activities to old ones, with established distribution access points proving to be resilient.

Early adopters are driving change and free-to-air television has the most to lose. Aside from being typically younger, these people tend to be also innovative, interested in technology and want to experience life, believing they can 'have it all'. They have the highest participation rates across most screen activities, yet they are less likely to be watching free-to-air television than they were five years ago.

There are more screens delivering more content in more ways and audiences are embracing these new experiences. Consumer desire for a diverse media diet presents opportunities for growing market demand but there are also challenges in meeting this demand for screen stories, in an increasingly fragmented environment.

Revenue to content delivery systems

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.

Consumer spending and other income derived from the distribution of content provides additional context to the health of the entire screen sector, with revenues forecast to continue their rise.[2]

Delivery and consumption of Australian screen 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.

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.

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

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

amount of Australian content, while catch-up TV services generally reflect their network broadcast schedule. Only a small proportion of games sold in Australia incorporate Australian content.

The economic contribution of Australian screen storytelling

Estimates of the economic value of gross product for the creative industries have been in excess of $30 billion dollars in recent years. The film and television industry still accounts for the majority of this value, with income derived from the creation and consumption of film and television screen content in 2009/10 at $20.2 billion. In particular, production of feature films, television drama and documentaries generated $709 million worth of investment in 2009/10, including $124 million in overseas finance.

Economic modelling indicates that this level of investment in drama and documentary production positively contributes $331 million to the Australian economy via gross domestic product (GDP) annually, taking into account the direct and indirect impacts of production activity on the overall economy.

Importance of screen stories to Australians

A survey of Australians aged 14 years and over shows that 91 per cent of people believed that it was quite important or very important that Australia had a film and television industry that produces local content. This compares with just 1 per cent who stated that it was not important at all.

Asked about ten benefits for having a local film and television industry that produces Australian stories, the benefit most commonly cited as the most important was to ‘make sure that Australian culture isn’t overwhelmed by American culture on account of the amount of movies and TV series that Hollywood produces’ (21 per cent of participants).

2 OPTIONS FOR SUPPORTING AUSTRALIAN CONTENT

The Australian Government has supported the development of a local screen production industry for more than 100 years. Today, the mix of activities comprises:

- Direct funding of screen content through Screen Australia
- Funding of various screen bodies, festivals, publications and industry guild activities through Screen Australia
- Funding of the Australian Film, Television and Radio School as well as other education institutional funding and support
- Funding of Ausfilm and the Australian Children's Television Foundation
- Direct funding of screen-based projects relating to core arts activities and cultural heritage through the Australia Council and the National Film and Sound Archive
- Funding for, and/or provision of spectrum to, the ABC, SBS, NITV and community television broadcasters
- Provision of spectrum to the commercial television broadcasters
- Taxation incentives, in particular the Producer, Location and PDV Offsets
- Negotiation and administration of treaties and memoranda of understanding to establish and facilitate co-productions with other countries
- Regulation, especially the Australian Content Standard administered by the Australian Communication and Media Authority
- Immigration and visa regulation and administration for foreign cast and crew working in Australia
- Export incentives.

The current mix of policy settings is contributing to a healthy screen production sector capable of delivering a broad range of content well received by both domestic and international audiences. The challenge for Government is to continue and build upon this success by adjusting policy settings at appropriate stages and increments.

The pressures created by convergence are requiring that new business models for the production of screen content be explored. Unless the right supporting framework is established the risk is that Australia languishes behind other countries in fostering a vibrant screen production sector that can tap into the unique potential created by convergence, and in particular the potential of the online medium.

2.1 Balancing the policy levers

The various components influencing the environment in which screen content is created can be grouped around the application of three policy levers:

- direct funding
- tax incentives
- regulation.

The specific charters and tied funding obligations of the national broadcasters provide a significant additional lever available to Government for the creation of screen content.

Each policy lever is important in its own right and stimulates the marketplace to generate content quite differently.

For example, the regulatory lever can be used to encourage media platforms to invest in and create content that successfully focuses on the platform's audience. The direct investment lever permits the Government to target the creation of content that specifically meets its cultural objectives including areas of market failure. The indirect investment lever assists to generate market-driven content across a production slate.

It is the careful combination of all the levers that will continue to generate successful outcomes for Government.

Balancing the contributions

The policy levers that Government deploys will be most effective when they encourage an appropriate combination of Government and non-Government (private sector) contribution to content creation. The private sector can apply a level of discipline and effective audience engagement with content. Government can ensure that the market settings that would otherwise prevent content being created or accessed are compensated for. These settings can also encourage an appropriate mix of private sector investment amongst the different content distribution platforms.

The nature of the regulatory obligations facing particular sectors of the media have been traditionally set so as to be proportionate to that sector's level of influence. This is an appropriate way to continue to regulate. There are different ways to understand the levels of influence of different media. Access, participation rates and reach as well as direct quantities of consumption are all useful indicators.

These obligations have in some cases required minimum levels of content to be broadcast (as in the case of commercial free-to -air television) or expenditure to be made (as in the case of subscription television).

In the case of commercial free-to-air broadcasters, combinations of regulatory obligations and influence have also provided the basis for granting regulatory benefits, such as access to spectrum and lucrative sporting rights, and reductions in licence fees and competition.

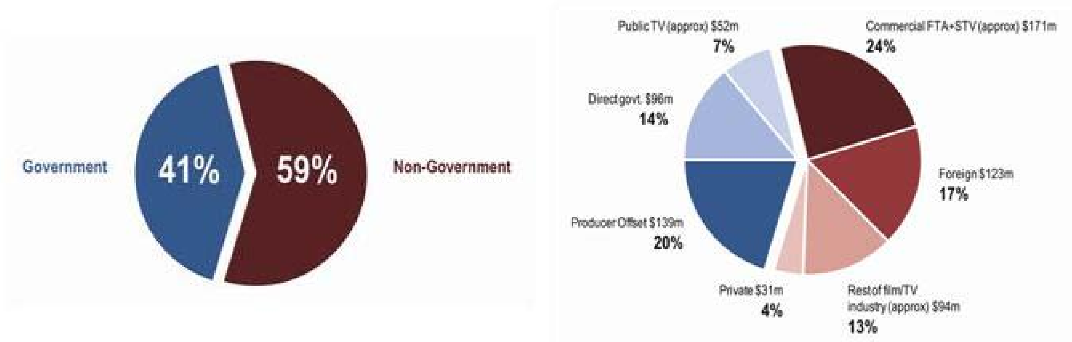
The 2009/10 Australian narrative content production slate was fairly typical of the levels of production of the last few years, and allows an examination of the balance of government and non-government contributions to production budgets.

2.2 Funding Australian narrative production

A total of $709 million was invested in the slate of Australian narrative content that commenced production in 2009/10. This comprised Australian feature films, TV drama for adults and children and documentaries.

Of the $709 million, Government sources contributed 41 per cent of finance (including both direct and indirect funding), while the private sector contributed 59 per cent.

Sources of finance for Australian narrative production 2009/10 – total $709 million



Source: Screen Australia. Note: includes inhouse production.

Within the 41 per cent provided by Government sources, the indirect lever (the Producer Offset) provided 20 per cent, or $139 million. The direct lever provided 14 per cent or nearly $100 million, most of which was delivered through Screen Australia, but also included funding from the state agencies, the Australian Children's Television Foundation, and Melbourne and Adelaide Film Festival funds. The public broadcasters contributed 7 per cent (approximately $52 million).

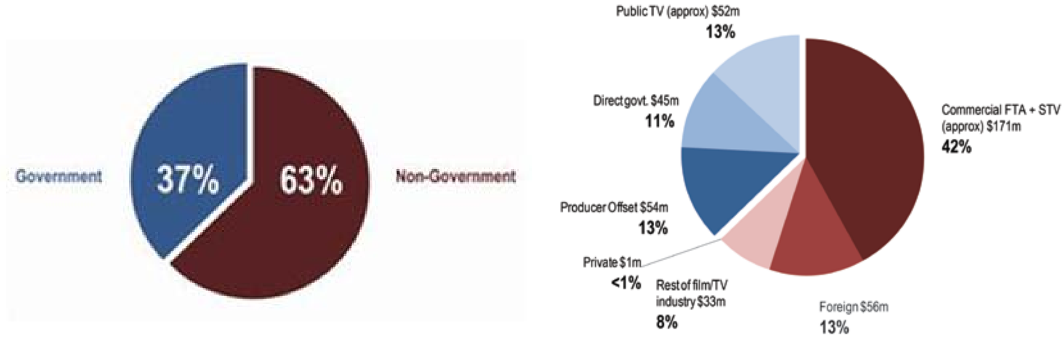
Within the 59 per cent provided by non-government sources, the commercial broadcasters contributed around $171 million, or almost a quarter of all finance for Australian narrative content. The commercial free-to-air sector provided most of this ($140–150 million), which was the largest amount from any industry sector. Its high level of investment compared to low or nonexistent levels from other content platforms is due to a combination of regulation, access to Government incentives and the ability to monetise the content it creates.

Television formats

When feature films are omitted from the mix, the balance between Government and private sources shifts, with the contribution from non-Government sources rising to 63 per cent. With the focus on content for television, the proportion of finance from the commercial broadcasters is increased to 42 per cent, the bulk of which is attributable to the commercial free-to-air sector. Subscription television contributes a relatively small proportion, especially to documentary and children's drama.

Within Government sources, the contribution from the public broadcasters also increases, and the indirect lever, the Producer Offset, drops to 13 per cent, reflecting the lower rebate available for television content.

Sources of finance for Australian television (TV drama and documentary) 2009/10



Source: Screen Australia. Note: includes inhouse production.

The three television formats – TV drama for adults, TV drama for children and documentaries – also display distinct financing profiles, reflecting the specific conditions surrounding production of these program types.

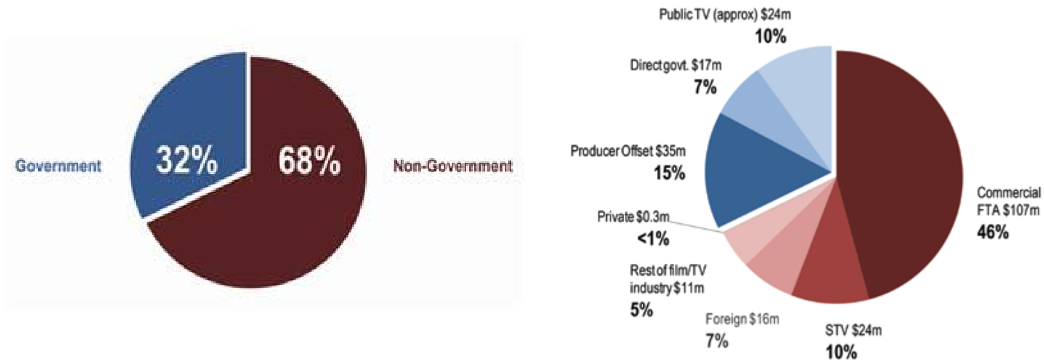
Of the three television formats, **drama programs for adults** displayed the lowest proportion of Government finance, and the highest proportion of investment from the broadcasters.

Nearly half of total finance came from the commercial free-to-air broadcasters, with subscription broadcasters adding another 10 per cent.

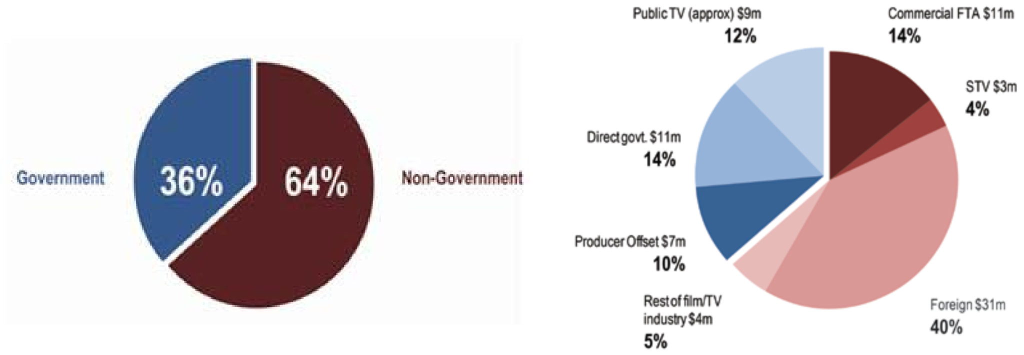
Overall Government sources provided less than a third, with direct sources contributing 7 per cent, the Producer Offset adding 15 per cent, and the public broadcasters 10 per cent.

Seven percent was sourced from foreign investors.

Sources of finance for TV drama for adults 2009/10



TV drama for children 2009/10



Source: Screen Australia. Note: includes inhouse production.

For **children's television drama** the Government to non-Government ratio was similar to that for adult drama – 64 per cent from non-Government compared to 68 per cent for adults'.

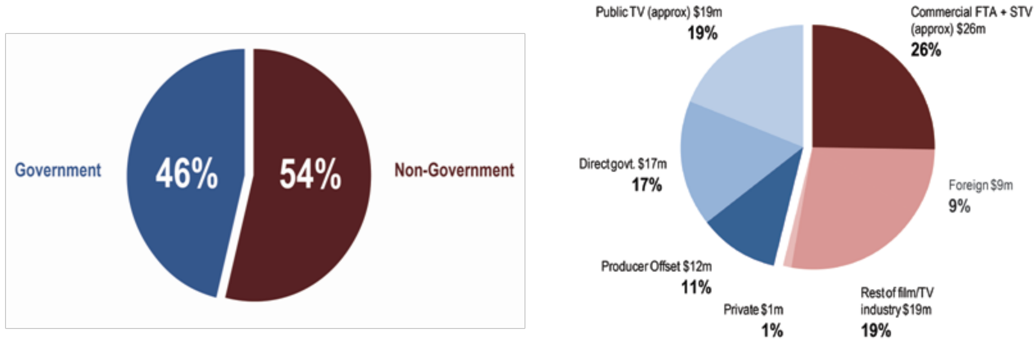
However, the proportions within those splits showed different patterns, with a much lower level of finance coming from the commercial broadcasters (14 per cent from the commercial free-to-airs and 4 per cent from subscription).This reflects the relative difficulty broadcasters have in monetising children's content. Because of this difficulty, children's drama is often made through co-production arrangements and/or sold into international territories, and as a consequence foreign finance is high at 40 per cent (compared to just 7 per cent for adults' drama)..

Children's drama also utilised a higher level of direct government finance at 14 per cent, compared to 7 per cent for adults' drama.

For **documentaries**, the Government/non-Government financing split was closer to the overall narrative slate than it was to TV drama for adults or children, with 46 per cent coming from Government.

This reflects a higher contribution from both direct government sources (17 per cent of total) and the public broadcasters (19 per cent). The commercial broadcasters (free-to-air and subscription combined) added 26 per cent. Subscription television makes a relatively small contribution to documentary production.

Documentaries 2009/10



Source: Screen Australia. Note: includes inhouse production.

2.3 Adjusting the levers

Large quantities of content are increasingly being provided through multiple broadcast or online distribution channels. The effect of this is to reduce the available audience for each discrete item of content and therefore increase the risks associated with being able to successfully monetise the content.

As this occurs, policy levers will need to be adjusted in order to continue to provide an environment where Australian narrative content is created and is able to effectively compete and be accessed alongside foreign content. This may necessarily require an increase in overall content output.

These adjustments may alter the current balance of contributors to the creation of content. It may also provide opportunities for investment from content platforms that do not currently make any contribution.

The key for Government is to understand whether changes to the current mix of contributors are warranted and at what point.

Good public policy requires a fiscally responsible investment from Government to balance this need. It also requires appropriate flexibility to adjust regulation as participation in different content distribution points evolves.

Screen Australia views the following as appropriate options for Government consideration to achieve desired public outcomes.

ASSUMPTIONS

The challenge in providing options focused on Australian content in the context of the Review is that Australian content is one part of a broader set of considerations.

The options provided in this submission make a number of threshold assumptions, namely that:

- once analogue switch-off occurs in 2013 the Government has made the decision to auction the spectrum for purposes other than an additional free-to-air television network.
- the current free-to-air commercial networks will only offer three multi-channels as part of their service offering
- existing levels of Government support are at least maintained
- a review be undertaken in five years time.

Changes across other aspects of the Review or in other policy settings are likely to affect the options being provided in this paper. These options should therefore be considered useful in stimulating thought and discussion rather than seen as a definitive list of Screen Australia's recommendations.

2.4 Adjustments to content regulation

Regulation works to ensure that media platforms are involved in the creation and distribution of content and helps to encourage expenditure by the private sector on content that would normally be uneconomic to create. The following section considers adjustments to the current regulatory landscape as it applies to commercial and subscription television.

COMMERCIAL TELEVISION

Under current regulation, commercial free to air television is required to broadcast an annual minimum transmission quota of 55 percent Australian programming between 6am and midnight on the broadcaster's main channel. This equates to an average of nearly 10 hours of content each day between 6am and midnight which throughout the course of the year provides over three and a half thousand hours of Australian content.

As part of this requirement, commercial television must also broadcast as first release the most vulnerable forms of content – so defined due to difficulties in creating and monetising the content, as explained further in section 3.3. This is referred to as the 'sub-quota'.

To meet the requirements of the sub-quota, over the course of a year each network needs to broadcast 250 points worth (approximately 150 hours) of adult drama,[3] 260 hours of children's programming (with varying requirements for first release titles compared to repeated content as well as children's drama and non drama programs) and 20 hours of documentary content. The broadcasters have generally been exceeding these levels for adult drama and documentaries, and just reaching them for children's programming.

There are no Australian content requirements on the free-to-air multi-channels.

The regulation to provide the sub-quotas remains relevant as a way on encouraging the development of programming that would otherwise not be shown on Australian television.

For example in relation to children's television, in the 2003–2005 and 2006–2008 cycles, no network broadcast more than 2 per cent above the amount of Australian C drama required, and for Australian P programs, all three networks broadcast the exact minimum of 130 hours. It is clear 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'.[4] Without regulation, it's likely that investment in and broadcast of adult drama and documentaries would also fall.

Short- to medium-term approach

Whilst commercial free-to-air television continues to enjoy increasing audiences and revenues (see section 3.2) and maintains protections from competition in terrestrial broadcasting and from sports rights acquisitions (amongst the most lucrative forms of broadcast content), it is appropriate that the current manner of

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[3] 3 year average based on ACMA compliance results 2008-2010

[4] Screen Australia, Convergence 2011: Australian Content State of Play, p 9

regulation continue, but with the sub-quota requirements increased to extend to the multi-channels

As demonstrated in section 3.4, the advent and success of the multi-channels have resulted in a watering down of local content across free-to-air programming and a fall in the proportion of viewers relative to foreign content. Given this situation, it is particularly important that the most vulnerable forms of content – namely narrative storytelling – are supported by the commercial television sector on the multi-channels. This will continue to permit Australians to locate and consume these forms of content in the very successful but fragmented multi-channel environment.

In order to determine what would be an appropriate increase to the sub-quota, it is important to understand the additional costs that this might create for the free-to-air broadcasters and potentially also for Government.

Average levels of narrative content for commercial free-to-air networks over the last four years are set out in the table on the following page, along with the current sub-quota requirements. The annual slate has averaged 650–700 hours over this period, with investment from the broadcasters of around $150 million.

Increasing the sub-quota by, say, 50 per cent, would require a total of 144 hours of children's television drama and 90 hours of documentary content across the three networks, as well 1,125 points of adult TV drama.

However, given that the broadcasters have been exceeding the minimum levels for adult drama and documentaries in recent years, it is safe to say that a 50 per cent increase to the sub-quota would not cost 50 per cent more than the broadcasters are currently investing. In fact, as the table shows, Screen Australia estimates that the figure is more likely to be around $40 million above current levels, for around 130–185 hours of drama. (No additional expenditure would be required for documentary.)

Similarly, if the sub-quota were doubled, the additional cost is estimated at around $100 million, for around 350–400 additional hours of drama. (One broadcaster would also need to spend an additional $1.5 million on documentary.)

The additional costs to the broadcasters could be balanced by a commensurate reduction in their licence fees. The other sources of finance for the TV drama and documentary slate, including direct funding through Screen Australia and indirect support provided by the Producer Offset, would also need to be proportionately increased to fund the additional hours.

FIRST-RELEASE NARRATIVE CONTENT	Current sub-quota requirements (3 networks)	Current levels (annual, 3 networks) Av. b'cast[1]	Av. produced[2]	Indicative multipliers based on current levels[3]	With sub-quota +50% Estimated outcomes[4]	Additional relative to current	With sub-quota doubled Estimated outcomes[4]	Additional relative to current
Adult TV drama	750 points/year	884 points 448 hrs	401 hrs $110m	0.5hrs/point $125k/point	1,125 points 540hrs $140m	241 points 90-140 hrs Approx $30m	1,500 points 720 hrs $188m	616 points 270-320 hrs Approx $80m
Children's TV drama	96 hours/year within 3 year cycle	98 hrs	106 hrs $21m	$200k/hr	144 hrs $30m	40-45 hrs Approx $10m	192 hrs $40m	86-94 hrs Approx $20m
TOTAL DRAMA		546 hrs	507 hrs $131m		684 hrs $170m	130-185 hrs Approx $40m	912 hrs $228m	356-414 Approx $100m
Documentary	60 hours/year	152 hrs	151 hrs $23m	$150k/hr	90 hrs $14m	Currently met by all 3 networks	120 hrs $18m	Currently met by 2 of the 3 networks (additional $1.5m for 1 network)
TOTAL NARRATIVE CONTENT		698 hrs	658 hrs $154m		774 hrs $184m	130-185 hrs Up to around $40m (assuming no reduction in docs)	1032 hrs $245m	356-414 hrs Up to around $100m (assuming no overall reduction in docs)

1. Hours and points based on ACMA's Compliance Results, 5-year average to 2010;.
2. Annual production slate (ie. projects commencing production each year) and investment in that slate by the broadcasters. Adult and children's TV drama based on Screen Australia's Drama Report - 4-year average to 2010/11; Documentary estimated based on Screen Australia's Documentary Report 2009/10.
3. Based on averaging production/broadcast figures.
4. Sub-quota requirement times indicative multiplier.
Note: Average investments by the commercial free to air broadcasters are based on Screen Australia's annual production data. ACMA's *Broadcasting Financial Results* (BFR) have not been used because the most recent data available is 2008/09. However, 5-year averages of BFR figures show similar levels of expenditure as the results show here.

Flexibility in scheduling is important. It would be preferable for the commercial television networks to be able to schedule the content created through the sub-quota as flexibly as possible but with a focus and priority upon ‘prime time’ viewing periods (from 6pm to midnight) where the majority of viewing of content still remains. Obligations created by the Australia United States Free Trade Agreement may create limitations.

Rather than tightly prescribing when content can be shown through regulation of the classification via time zones, a form of ‘watershed’ may be applicable in relation to audiences that are under 18. For example, in the United Kingdom television broadcasters must observe the watershed where material unsuitable for children should not, in general, be shown before 9 pm or after 5.30 am.[5]

Children’s programming requires special attention. As children’s content is the most difficult programming to monetise, it is appropriate that particular flexibilities are provided for scheduling this content.

Additionally, the multi-channel environment has increased the potential for trading obligations to provide children’s content between commercial broadcasters. Tradeable quotas could create an environment where a

[5] Ofcom Broadcasting Code, February 2011, Section One: Protecting the under-eighteens, http://stakeholders.ofcom.org.uk/broadcasting/broadcast-codes/broadcast-code/protecting-under-18s/

broadcaster is able to specialise in content targeted to children and provide dedicated destinations or programming blocks like those successfully created on subscription television platforms and on the ABC. However, if such a scheme were to be created it would be beneficial to ensure that there were commissioning networks other than just the ABC.

Longer-term approach

It is likely that the media environment will continue to fragment and content consumption will move from appointment viewing or linear programming to stored media and download-to-view options. In such a scenario, consumption of free channels of content may fall and should participation drop significantly, it may become appropriate to alter the regulatory framework from an 'hours broadcast' model to an 'expenditure' model similar to subscription television. An alternative could be an expenditure model based on revenue.

Expenditure could be focused on the most vulnerable forms of Australian content with flexibility to amend this from time to time.

The expenditure would need to be acquitted either directly by the broadcaster or potentially via an agency such as Screen Australia which would be tasked with investing the funds in content on behalf of the broadcaster.

The transition to this model could be done in a staged way, permitting expenditure on one or more channels but retaining 'hours broadcast' on the other(s).

Such a model would require the text of the Australia United States Free Trade Agreement to be altered to enable amendments to the current regulatory system.

TRADEABLE QUOTAS

2003 the Australian Broadcasting Authority (now the ACMA) commissioned the Allen Consulting Group to prepare a report reviewing the option of tradeable regulations. The report found that while there was considerable scope for trading to provide greater flexibility for the broadcasting industry, the scope for trading content obligations was limited in a number of fundamental ways. It is relevant to note that in relation to sub-quotas the report highlighted the following:

- in order to ensure that the total level of sub-quota content is not reduced it is suggested that trades should only be allowed for: first release C drama; first release Australian children's C programs; children's C programs; Australian preschool P programs; and documentaries;
- parties should be obliged to broadcast a minimum core (i.e. minimal) portion of the existing quotas, with a portion available for trading. This reduces any perceived risks of 'ghetto-isation' and concerns about the exertion of upstream market power by broadcasters who are dominant in a particular genre.[6]

Market liquidity was raised as a potential problem under the scheme as well as the possibility that there would be no trades. The report noted that the national broadcasters were not included in the scheme because they were not required by law to provide certain levels of Australian content and they were not permitted to accept payment for broadcasts.[7]

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[6] http://www.acma.gov.au/webwr/aba/newspubs/radio_tv/investigations/documents/general/trading_oblig.pdf
[7] Ibid, p 8

SUBSCRIPTION TELEVISION AND 'TELEVISION-LIKE' SERVICES

'Subscription television' and 'television-like' services refer to audiovisual content provided through a range of platforms including the internet, cable and satellite transmission platforms, which provide a mixture of services including video on demand, pay per view, subscription, and advertising supported. Services may be delivered through partnerships with content aggregators, hardware manufacturers and ISPs. The influence of these services remains tied to access to popular content, the rollout of new and developing devices as well as access to fast broadband.

Of these services, only subscription television broadcasting licensees that broadcast drama channels have any obligation to contribute to the creation of new Australian content. This obligation is in the form of a requirement to spend ten per cent of total program expenditure by these drama channels on new Australian drama.

Services not regulated in this manner do not contribute any investment towards the creation of Australian content.

Short-term approach

Approximately 34 per cent[8] of Australians have access to the services provided by the currently regulated subscription television broadcast licensees, with19 per cent of people aged 14 years and above watching regularly.[9] 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. This equates to significant revenue and market power.

In the short term, the obligations of such services could be expanded to include provision for investment in children's content and documentary content which, as evidenced in section 2.2 of this submission, are currently relatively low.

Medium- to long-term approach

In a fragmented media environment, the creation of Australian content should be an obligation shared by all content service providers that target their services to Australians through either advertising or purchase models. This creates a level playing field for all content services regardless of the method of distribution.

Regulatory relief could be provided to start-up services by establishing a minimum threshold level of participation by Australians in the content service before any obligation is required.

The required expenditure could be determined, as it is currently for subscription television, as a percentage of program expenditure. Alternatively it could be based on revenue.

Consistent with options considered earlier for commercial free-to-air television, expenditure could be focused on the most vulnerable forms of Australian content with flexibility to amend this from time to time.

The expenditure would need to be acquitted either directly by the content service provider or via an agency such as Screen Australia who would be tasked with investing the funds in content on behalf of the service provider.

[8] Source: OzTAM Establishment Survey, Q1 2011

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

Other countries are currently addressing online content and the licensing of services in different ways. For example, the United Kingdom and Canada have developed approaches to regulating on-demand program services (see case studies below and on following page).

CASE STUDY: UNITED KINGDOM
Authority for Television on Demand (ATVOD) licensing, regulating and defining on-demand program services

ATVOD is the independent co-regulator for the editorial content that appears on defined On Demand Program Services. The Communications Act 2003 was amended so that the Office of Communications (Ofcom) could delegate certain functions for the regulation of On Demand Program services to ATVOD. On 18 March 2010, Ofcom delegated certain functions and powers to ATVOD by means of a formal designation.

ATVOD currently issues rules and guidance about issues such as administration, editorial content, sponsorship, product placement and sets the fee structure for licenses. Fee structures for licences are determined according to revenue and services provided over the internet require a licence or permission from Ofcom in the same way that satellite, cable and terrestrial services do.

To be determined an ‘on-demand program service’ the service must satisfy all of the following criteria: the service includes TV-like programs; is a VOD service; there is editorial responsibility; and it is made available to the public.

ATVOD outlines a non-exhaustive list of types of service which are likely to be considered to be ‘on-demand program services’:

a) a ‘catch-up service’ for a broadcast television channel whether programs are made available from the broadcaster’s own branded website, an online aggregated media player service, or through a television platform to a set top box linked to a television (whether using broadcast push technology, or pull VOD);

b) a television program archive service comprising less recent television programs from a variety of broadcasters and/or production companies, made available by a content aggregator exercising ‘editorial responsibility’ over all the programs, whether via a dedicated website, online aggregated media player service, or through a television platform; and

c) an on-demand movie service, provided online via a website or using other delivery technology by a provider exercising ‘editorial responsibility’ over the content.

The types of service that are not likely to be considered to be ‘on-demand program services’ are primarily non-economic, and which are therefore not in competition with television broadcasting, services comprising on-demand content that are not ‘mass media in their function to inform, entertain and educate the general public’, games of chance, and electronic versions of newspapers and magazines (excluding any on-demand program services offered by newspapers and magazines).

Services comprised of the following types of video content that may not be considered to be on-demand program services include video content posted by private individuals onto video sharing sites (where the content has been self-generated and is not posted as part of an ‘economic’ purpose on the part of the individual); video content produced by professional bodies, trade unions, political parties, or religious organisation, where the content is very narrowly focused and is primarily about the dissemination of information about the organisation to members, rather than for consumption by the general public, video content embedded within a text-based editorial article, such as a written news story on a web site that contains an illustrative video clip; and video content on corporate websites, where the purpose is to disseminate information about the company’s own operations, products or financial performance. [10]

[10] http://www.atvod.co.uk/uploads/files/Guidance_on_who_needs_to_notify_Ed3.1_Mar_2011.pdf

CASE STUDY: CANADA
Video-on-demand licensing and regulation by Canada Radio-television and Telecommunications Commission (CRTC)

This case study refers to video on demand and Canadian films; the CRTC recently ruled that OTT services did not require regulatory intervention at this stage.

The Canada Radio-television and Telecommunications Commission (CRTC) released standard conditions of licence in January 2011 for video-on-demand services. The conditions of licence will apply to new, pending as well as existing video-on-demand services at the time of their licence renewals.

Licensed services must ensure that no less than 5 per cent of their English language feature films are Canadian; no less than 8 per cent of French-language films are Canadian; no less than 20 per cent of all programming other than feature films is Canadian; and the feature film inventory includes all new Canadian feature films that are suitable for video-on-demand.

In turn VOD licensees are required to contribute a minimum of 5 per cent of the annual gross revenues earned by its undertaking to an existing Canadian program production fund administered independently of this undertaking or to the Canadian Media Fund.

The licensee must contribute 5 per cent of its gross annual revenues to an existing Canadian program production fund administered independently of its undertaking. For the purpose of this condition:

- if the video-on-demand service is a ‘related service’, ‘gross annual revenues’ must be 50 per cent of the total video-on-demand associated revenues received from customers of the broadcasting distribution undertaking distributing the service;
- if the video-on-demand service is not a related service, ‘gross annual revenues’ must be the total amount received from the broadcasting distribution undertaking(s) distributing the video-on-demand service; and
- a ‘related service’ means one in which the broadcasting distribution undertaking distributing the video-on-demand service or any of its shareholders owns, directly or indirectly, 10 per cent or more of the equity of the video-on-demand service.

Advertising is permitted under a number of conditions and exceptions apply for small video-on-demand services if they are not owned and operated by an existing broadcasting distributor.[11]

[11] http://www.crtc.gc.ca/eng/archive/2011/2011-59.htm

2.5 Adjustments to direct investment

Direct funding provided by Screen Australia enables the Government to target the creation of content that it believes is important to meets the Government's cultural objectives. Screen Australia currently funds feature films, TV drama for adults and children, documentary and a number of newer forms of interactive narrative content. The Online Production Fund seeks to expand Screen Australia's capacity to fund a range of content to be made available in an online environment.

ONLINE PRODUCTION FUND

The Online Production Fund is an initiative seeking direct funding to support the production of premium original content for online delivery. The support is needed as there is currently little provision or access to Australian content on emerging media platforms at a time when participation in these distribution points is increasing.

This is not a new issue, having already been detailed in the 2009 report, *Australia's Digital Economy: Future Directions*, which stated that 'while content is a key driver of digital economy growth, technology has a disruptive effect on the entertainment and media industries. The array of entertainment options available is fragmenting the market and the trend to digital teaches viewers new habits. These challenges are being felt by the content industry globally and in Australia'.[12]

***Rake** was the highest rating Australian TV drama series screened on ABC in 2010, achieving a five-city metro average of 817,000. It premiered on iView five days prior to its release on ABC1. Each subsequent episode was uploaded to iView after its screening on TV, attracting a further 300,000 viewings.*

The report continued: 'the popularity of the online content offerings of the Australian Broadcasting Corporation (ABC) and the Special Broadcasting Service (SBS) provides further examples of successful forays by Australian organisations into digital content. In 2008, the ABC had 49 million audio podcasts downloaded, another 18 million video podcasts were downloaded and an average of 2.3 million users a month visited its websites. Similarly, from the SBS website 887,000 radio and television programs were downloaded in 2007/08 and an average of 598,000 unique users per month visited the SBS websites.'

This appetite is matched by the broader growth rates. Participation rates in online video have doubled in just three years, with almost one-in-three Australians over the age of 14 now viewing audiovisual content via the internet on a monthly basis.[13] Furthermore, new devices will drive this up even further; for example, PwC estimates that there will be 5.5 million Australians owning a tablet device such as an iPad by 2015.[14]

*Dario Russo was offered a development deal with SBS after his student film **Italian Spiderman** attracted almost 10 million views on YouTube for its trailer and subsequent short episodes. His new project **Danger 5** is currently in production and will be screened on SBSONE in early 2012, preceded by a short web series to build on his existing fan base.*

[12] Australian Government, 'Australia's Digital Economy: Future Directions' 2009
[13] Screen Australia, 'Beyond the Box Office: Understanding Audience in a Multi-screen World', April 2011 (http://www.screenaustralia.gov.au/research/beyond_box_office.aspx)
[14] ProcewaterhouseCoopers, 'Australian Media and Entertainment Outlook: 2011-15', August 2011

Unless local content can keep in step with these consumer trends, Australia runs the risk of missing the cultural opportunities that online distribution can provide through new types of linear and interactive engagement and increased access to Australian content. Of paramount concern is the danger that Australia may become little more than a distribution outpost for foreign intellectual property.

Back in the 1990s, fuelled by speculation about the impact of the information superhighway, the government of the time introduced a number of multimedia initiatives as well as the Commercial Television Production Fund (CTPF).

The aim of the CTPF was twofold: on one hand it was aimed at giving 'Australians access to a wide range of high quality Australian programs... (providing the sector) with additional support during the onset of the new communications era.' On the other, it supported 'the development and marketing of multimedia applications of new or existing programs produced for television and providing incentives for the export of programs or applications.'[15]

The CTPF delivered many positive outcomes for the production sector by funding the pilots and/or telemovies of several long-running series such as *Good Guys, Bad Guys*, *State Coroner* and *Medivac.* However, its intention of fostering closer links between multimedia components and television broadcasting proved to be ahead of its time. It took another decade for the internet to come into its own as a broadcasting platform through the pervasiveness of YouTube, and more recently, on-demand services like catch-up television.

Today it is possible for a video to attract millions of views through the likes of YouTube, but the revenue model is typically advertising supported with little or no up-front investment from the aggregator. Online delivery of premium content is limited in most cases to either unsustainable self-funded projects or as an ancillary distribution point for content primarily made for other screens.

The time is now ripe to update the CTPF concept by considering a broader range of support strategies for online content made possible via the building of high-speed broadband infrastructure.

The coverage targets of the NBN are currently anticipated to be 93 per cent of Australian premises having access to a high-speed fibre network providing speeds of 100 megabits per second, with a capability to provide speeds of up to one gigabit per second.[16] According to reports, a 100Mbps broadband service is enough to download a music album in as little as 5 seconds, an hour-long TV show in about 30 seconds, and a high-definition movie in roughly 7 minutes, 25 seconds.[17]

According to the NBN Co's *Corporate Plan 2011-13*, entry level service on its fibre network will be 12Mbps, with incremental tiers up to 1,000Mbps, and future upgrades are likely to see even higher speeds and more competitive costs. In 2011-12, pricing for these services ranges from less than $30 to $150 per month.[18]

The plan also states, that 'the main limiting factor in the early years of the NBN is expected to be the availability of applications that require high bandwidth. Without these applications, consumers have limited reasons for migrating to the

[15] David Gonski 'Review of Commonwealth Assistance to the Film Industry', January 1997
[16] Australian Government, 'National Broadband Network: Progress Update', May 2011
17 CNET, '100Mbps broadband may be closer than you think'8 March 2010 (http://news.cnet.com/8301-30686_3-10465098-266.html)
[18] NBN Co, 'Corporate Plan 2011-13', December 2010

speeds offered by the NBN, and price becomes the main factor in driving consumer choices. NBN Co's strategy is based on the expectation that as higher bandwidth becomes available, applications that take advantage of that bandwidth will be developed.'

The NBN Co has identified audiovisual content as a key to these applications in the next five years. This ranges from over-the-top services and Internet Protocol Television (IPTV) services,[19] which they state will only be possible on networks that offer sustained speeds of 10–20Mbps. In the long term they see new products in development, such as Ultra High-definition video, that are expected to require speeds of more than 250Mbps.

The Online Production Fund would provide a launching pad for the screen sector to fully embrace the opportunities that fast broadband makes available. It would build on a growing array of projects that have moved into this space, including:

- feature film and television content using a digital distribution strategy
- immersive narrative projects such as interactive documentaries
- browser-based interactive entertainment
- mobile and tablet applications.

To coincide with Network Ten's drama series **Offspring***, a series of 13 x 5 minute webisodes called* **The Nurses** *was released online for both seasons 1 and 2. Each episode of* The Nurses *follows characters from* Offsrping*, providing additional content and further sub-plots.*

Recent examples of projects that fall within these areas are *Rake*'s premiere on iView; the online series *The Nurses*, featuring characters from its companion program *Offspring*; interactive children's websites with activities and stories relating to *My Place* and *Dirtgirlworld*; and the Facebook documentary *Goa Hippy Tribe*.

The Fund would be targeted to projects in which the production company (and any associated first-release broadcaster or distributor) agrees to an exclusive online screening window, prior to release on other distribution points. The Fund would have the capacity to assist a wide range of content, from small-scale projects with limited marketplace attachment that may only ever be distributed online to others that follow traditional financing structures that will ultimately be released in cinema and on television or video.

Goa Hippy Tribe*, an interactive documentary supported by SBS and Screen Australia, used Facebook as a release platform. Darius Devas documented his reunion with the people central to the Goa Hippy Tribe from the 1970s, posting video interviews that encouraged the formation of a highly engaged community. The Facebook page is still hosting 400 active monthly users with more than 20,000 fans.*

Ultimately, the objective is that each project needs to explore potential business models, advancing the development of new distribution arrangements for content that are more in keeping with changes in audience expectation and demand.

[19] 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.

A BOLD APPROACH TO FUTURE FUNDING OF INNOVATIVE CONTENT

The dramatic technological changes which have occurred in the last decade have brought with them many challenges. At the forefront has been the need for content creators, distributors and broadcasters to grapple with new infrastructure, ranging from an increase in internet speeds and the power of online broadcasting to the implementation of free-to-air digital television multi-channelling.

While these changes have threatened existing business models, they have also given rise to opportunities beyond what many would have predicted. In just a short time the traditional boundaries between content and audience have blurred. Audience expectations have risen as a result, demanding social interaction around their stories, if not with the story itself.

However, the journey isn't complete. The screen sector is still in a transitional phase with targeted support needed to stimulate financing structures as these new business models are not yet fully mature.

The proposed Online Production Fund and Interactive Entertainment (Games) Offset are two areas that can benefit from immediate attention. In the longer term, there is a public cost involved in ensuring that Australian screen stories and the companies that create them will thrive in the years to come.

Australia is at a telecommunications crossroad with the impending re-organisation or 're-stacking' and sale of spectrum freed up by the move to digital television – producing a 'digital dividend' for the public purse. Although there is not yet a price on the digital dividend's yield, the commercial networks have suggested that the value of their analogue spectrum licences will be $1–2 billion each.[20] Others have claimed that the dividend will be far greater than this, with many telecommunications companies already vying for the licences after restacking in 2013.

This presents an unparalleled opportunity for Government to offset costs associated with new innovative content creation. One option for Government to consider is the setting aside of a proportionally small amount of the proceeds from the digital dividend to establish a **Future Fund for Screen Content (FFSC).**

The FFSC could be managed by a steering committee or panel of experts. The initial allocation of money would be invested with interest from these earnings used to support funding programs without shrinking the principal investment. Three to five year plans would be developed and programs adjusted in light of changing environments, and the fund would report annually.

[20] Annual reports and media articles

2.6 Adjustments to indirect investment

Indirect investment is provided under the tax system to producers via a refundable tax offset on eligible expenditure (the Producer Offset). The advantage of this type of lever is that it is market-driven. It supports the creation of a more sustainable screen production community capable of retaining intellectual property in productions, and building and developing slates of screen content rather than one-off bespoke projects.

The Producer Offset is one of three tax offsets available, the others being the Location Offset and the PDV (Post, Digital and Visual Effects) Offset although these target foreign productions.

Since its inception in 2008, the Producer Offset has contributed $331 million to the productions of Australian film, television drama and documentary content.[21]

There is an opportunity for Government to build upon the success of its indirect investment levers by introducing an offset that targets interactive entertainment (games).

From the results of its 2010 Business Survey, Screen Australia examined two possible indicators of business sustainability – consistency of production activity & profitability – and analysed the currently active screen businesses displaying these indicators.

A ***consistent business*** *was defined as having a TV series or two or more one-off feature, TV drama or documentary titles in production since 2006/07.*

A ***profitable business*** *was one that reported a profit in 2008/09 and/or 2009/10 in the survey.*

Based on these definitions:

- *40 per cent of businesses could be defined as consistent*
- *56 per cent of businesses could be defined as profitable*
- *29 per cent of businesses were both consistent and profitable*

INTERACTIVE ENTERTAINMENT (GAMES) OFFSET

The Interactive Entertainment (Games) Offset is an initiative with two components. The first is a broadening of the scope of the current Producer Offset to allow for expenditure on interactive entertainment components of otherwise eligible projects to qualify under the rebate, and the second is the introduction of new offsets to assist with the production of stand-alone games titles.

The need for this support was previously raised by Screen Australia in its *Submission to the Australian Government's 2010 Review of the Independent Screen Production Sector*[22] and is the subject of a new discussion paper by Screen Australia to be released at the Games Conference Asia-Pacific in November 2011.

Over the last few years a lack of private investment from local sources in interactive entertainment has remained an ongoing challenge due to the high level of risk and project-based nature of financing models. Because of this, developers have been reliant on foreign publishers as a source of finance, typically relinquishing their intellectual property in return for project funding or performing fee-for-service contract work.

[21] Screen Australia; based on final certificates issued to 30 June 2011.
[22] Screen Australia, 'Submission to the Australian Government's 2010 Review of the Independent Screen Production Sector', July 2010 (http://www.screenaustralia.gov.au/news_and_events/review2010.aspx)

Compounding this problem are external factors such as the strength of the Australian dollar and targeted government incentives offered by overseas territories, which mean the local industry is no longer cost competitive with hubs in Europe, the US and Canada. Furthermore, the console hardware cycle has reached a mature phase causing publishers to consolidate their development operations, choosing to develop fewer medium-budget titles in favour of existing high-budget franchises. Ultimately, this is leading to fewer packets of work being sent away from the main development hubs.

L.A. Noire, *a crime console game released in 2011, was developed by Australian company Team Bondi. It relies heavily on narrative content for immersive gameplay and the strength of this narrative alone meant that* L.A. Noire *was the first game to be shown at the Tribeca Film Festival prior to its release.*

As a result several major independent and foreign-owned studios in Australia have closed, unable to attract enough fee-for-service work or project funding. Without stimulation the industry faces a brain drain of skill practitioners to other territories and limited opportunities open to those emerging from tertiary education.

Some incentives are currently available to assist developers: from project support programs through film agencies such as Screen Australia and Film Victoria to relocation, product development and export programs at a State and Federal Government level. The leading incentive relates to research and development activities. A new iteration of the R&D Tax Incentive was passed by the Senate on 24 August 2011, with an added focus on small and medium enterprises.[23]

Broadly, the program takes a two-tiered approach:[24]

- 45 per cent refundable R&D tax offset will be available for companies with a grouped turnover of less than $20 million. This is equivalent to a benefit of 15 cents in the dollar, with a refund of up to 45 cents in the dollar if the company has a tax loss.
- 40 per cent non-refundable R&D tax offset will be available for companies with a group turnover of more than $20 million. This is equivalent to a benefit of 10 cents in the dollar.

However, the R&D Tax Incentive is quite limited in the types of production expenditure that can be claimed. It does not provide a rebate against most local costs in the same ways as the Producer Offset does for film and television.

The first component of the proposed **Interactive Entertainment (Games) Offset** initiative could see the inclusion of interactive components relating to drama and documentary projects qualify under the production expenditure guidelines of the Producer Offset. This will enable production companies to explore a full range of interactive entertainment options, from large console games such as *Happy Feet Two* to a bundle of smaller projects for online access like *Asylum Exit Australia* or apps like *Bondi Rescue*.

As well as being shortlisted for the 2010 Academy Awards 'Best Short Animation' for The Cat Piano, ***The People's Republic of Animation*** *provides stylised character animation to leading console game developers, publishers and advertising agencies. Their games work includes cinematics and trailers for Xbox 360, PS3 and Nintendo Wii for titles such as* ModNation Racers, de Blob *(1 and 2), and* Transformers: Revenge of the Fallen. *Earlier in 2011, they were partially acquired by Australian games studio* ***Halfbrick.*** *One of the aims was to strengthen their production capabilities and further develop IP across interactive and other entertainment platforms.*

[23] Australian Government, 'Crossbench support means new R&D Tax Credit will start on 1 July 2011', 15 June 2011
[24] PricewaterhouseCoopers, 'New R&D Tax Incentive Program', August 2011

This will ultimately offer a way to expand linear storytelling into more dynamic environments, leveraging these drama and documentary stories further by increasing their appeal among new audiences.

A second component of this initiative could be the introduction of a new offset for stand-alone interactive entertainment projects that are unrelated to drama and documentary titles. This initiative could support high-cost projects such as traditional console games and massively multiplayer online environments, as well as lower-cost downloadable titles that are emerging across consoles, smartphones, tablets and personal computers.

Levels could be scaled in the following manner:

- 30 per cent for projects that meet a $500,000 threshold
- 20 per cent for projects that meet a $200,000 threshold

Overall these initiatives will assist Australian interactive entertainment developers to become more cost competitive with other foreign territories, and retain control of intellectual property.

Games company Firemint was recently acquired by US games studio Electronic Arts (EA), bringing in substantial foreign investment into Australia. Despite this, Firemint remains Melbourne- based with Australian key creatives continuing to produce locally developed original IP. They are best known for the self-publishing original titles Flight Control and Real Racing on iPhone and iPad.

Companies involved in console game development will be able to continue attracting fee-for-service work as well as ready their skills base in preparation for an upturn in the console market when new hardware is released in the next few years. Furthermore, these companies, plus an array of specialist developers, will have an incentive to explore new digital distribution alternatives with games of a smaller scale.

Australia is already a leader in the development of interactive content for mobile and tablet devices, with the likes of *Fruit Ninja, Flight Control* and *Spy Mouse* each achieving millions of downloads.

Like the projects targeted in the Online Production Fund, the Interactive Entertainment (Games) Offset will capitalise on the benefits of fast broadband and changing business models. It will enable not only stand-alone games to benefit from new revenue streams such as micro-transactions, but also enable a greater intersection with the film and television industry to similarly benefit from this socialisation of content.

Screen Australia has worked with PricewaterhouseCoopers to model the economic outcomes of these initiatives. This modelling indicates that together, they will enable more than $44.3 million of additional investment per year, of which around $30.3 million will come from overseas investors. In a challenging economic climate for the interactive entertainment industry, this is a significant injection of foreign money.

After years of developing licensed games for medium budget handheld console games, the Brisbane-based games company Halfbrick Studios has moved into primarily creating original IP for the mobile and digital distribution space, with a recent push towards the console Xbox Live Arcade Kinect. Halfbrick is best known for the original game Fruit Ninja created for iPhone and iPad but which has recently been released as Fruit Ninja Kinect.

According to the modelling, the key impacts of the additional investment are:

- The long-run net impact of these initiatives is an increase to gross domestic product (GDP) of $23 million per year.

- The net present value of the GDP increase, with a phased response from publishers and developers over the first five years is $75.8 million.
- 383 new jobs will be created and sustained.

It is important to remember that consumer spending is also on the rise, with double-digit growth forecast for online, mobile and tablet gaming over the next five years.[25]

Furthermore, technologies driven by the development of interactive entertainment, such as 3D modelling, artificial intelligence, and the natural user interface, are all utilised in health and military fields among others. These indirect benefits derived from the screen sector must be considered when analysing the public cost of cultural products and services.

FUNDING THE NATIONAL BROADCASTERS

The national broadcasters – ABC and SBS – provide the Government with the opportunity to directly create and supply Australian content. In order to achieve this, both organisations need to be well resourced.

It may be appropriate for Government to review the charter obligations of both broadcasters to require the delivery of a firmer and definite local content commitment at a similar level of the commercial television networks. This is appropriate so as to ensure that Australians are able to receive a core quantity of Australian content from these services and that both organisations prioritise its creation and delivery.

The ABC already broadcasts approximately 50 per cent local content across its platform and therefore it is not envisaged that introducing a requirement to deliver a comparative level of broadcast hours to that of the commercial television networks would pose significant challenges.

For SBS, however, this would be impossible to achieve without significant funding increases.

More information about the current output and role of the ABC and SBS is contained in Screen Australia's report *Convergence 2011: Australian Content State of Play*.

[25] PricewaterhouseCoopers, 'Australian Media and Entertainment Outlook: 2011-15', August 2011

3 BACKGROUND: THE CONTENT LANDSCAPE

In order to consider options for the future, it is important to consider the environment in which content is created, distributed and consumed as well as consider the extent to which that content landscape may evolve.

Particular attention must be paid to the way Australian's are consuming content and the propensity for that consumption to change. It is important also to consider the extent to which various forms of content are or are not being created by the market place and to what extent Government involvement is required in order to ensure that content is made and is accessible to Australians. This assessment requires an appreciation as to the ongoing viability of various forms of media distribution platforms.

These issues have been explored in two reports published by Screen Australia in 2011 underpinning the agency's exploration of technological convergence and its effect on audience participation in screen-based activities and the challenges that this creates for creating and delivering various forms of screen content: *Convergence 2011: Australian Content State of Play* (August 2011) and *Beyond the Box Office: Understanding Audiences in a Multi-screen World* (April 2011).

This section highlights key findings of these reports along with new research that considers the value Australians place upon the creation and provision of Australian content.

3.1 Participation in the consumption of screen content

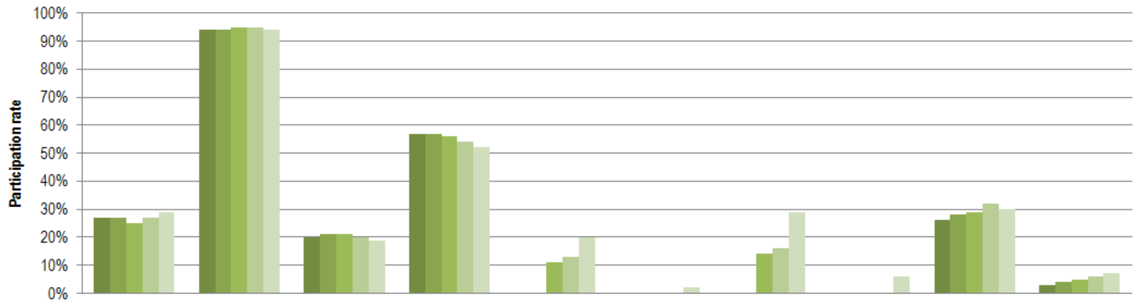
Screen Australia compiled statistics from a range of sources, including Roy Morgan's Single Source data covering the five years to September 2010, to comprehensively map the screen media participation of 18.1 million people in Australia aged 14 years and above.

The participation rates cover all forms of screen content consumption, including the established distribution points of cinema, rental or purchase of DVD or Blu-ray video, console gaming, free-to-air television and subscription television, as well as the emerging platforms of social media and online video.

First published in April 2011, Screen Australia's *Beyond the Box Office: Understanding Audiences in a Multi-screen World* report found that in a decade of major technological change, participation in a broad range of screen-based activities has grown. The overwhelming trend of the last five years has been the addition of new screen activities to old ones, with established distribution access points proving to be resilient.

There are more screens delivering more content in more ways and audiences are embracing these new experiences. Consumer desire for a diverse media diet presents opportunities for growing market demand but in an increasingly fragmented environment, there are also challenges in meeting this demand.

Participation rates for screen media, 2006-2010



	Cinema	Free-to-air TV	Subscription TV	DVD/Blu-ray	Online video (PC)	Online video (mobile)	Social media (PC)	Social media (mobile)	Console games	Console games (online)
OCT 05 – SEP 06	27%	94%	20%	57%	0%				26%	3%
OCT 06 – SEP 07	27%	94%	21%	57%	0%				28%	4%
OCT 07 – SEP 08	25%	95%	21%	56%	11%	<1%	14%	<1%	29%	5%
OCT 08 – SEP 09	27%	95%	20%	54%	13%	<1%	16%	<1%	32%	6%
OCT 09 – SEP 10	29%	94%	19%	52%	20%	2%	29%	6%	30%	7%

Source: Compiled by Screen Australia using Roy Morgan *Single Source*

Television remains the leading method of viewing screen content, at over three hours on average per day. In 2010, 96 per cent of people indicated that they had watched a television program in the preceding week, similar to the rate for the last five years. Free-to-air and subscription services have each remained steady with participation rates of 94 per cent and 19 per cent respectively.

Cinema participation has grown slightly over the last five years when looking at shorter time period to that of the ABS, with the proportion of people attending in the preceding four weeks rising by almost 2 percentage points to 29 per cent in 2010. Console gaming achieved stronger growth; with those ever playing a console up by 4 percentage points to 30 per cent.

Piracy poses economic threats not just domestically but to the screen sector worldwide. 2011 analysis of audience behaviours by Screen Australia found that 5 per cent of all viewings for surveyed movies that were considered in Beyond the Box Office: Understanding Audiences in a Multi-Screen World occurred via online video, with just 1 in 20 of those viewing paid for.

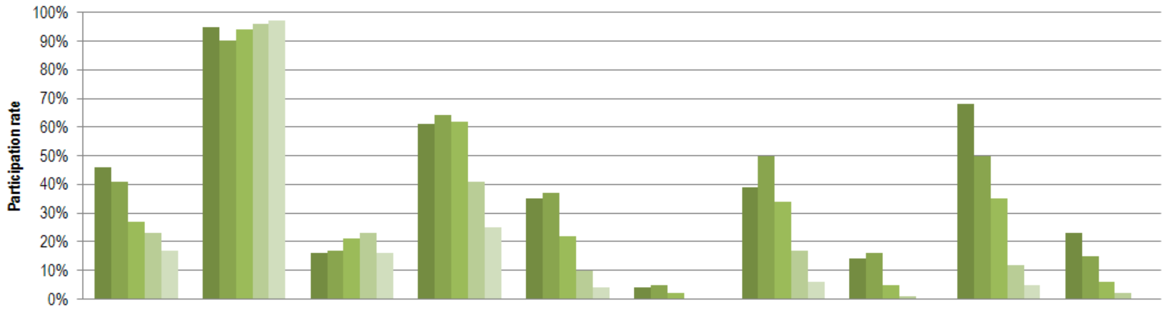
Watching video on DVD or Blu-ray remains an activity regularly undertaken by the majority of the population but is the only access point to record a decline in the last five years. The proportion of people renting or purchasing video in the preceding three months has fallen gradually by 5 percentage points to 52 per cent.

However, the dominance of traditional forms of access should not be taken for granted. Fuelled by an increasing number of people accessing the internet through high-speed connections and the roll out of the high-speed broadband infrastructure, there is growing capability and interest in viewing long-form video online. YouTube, for example, has reacted to this by extending clip lengths, and all major free-to-air and subscription broadcasters have recently launched web-based catch-up and on-demand services.

This has contributed to the increasing number of people who have downloaded or streamed video online,[26] 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.

This is the strongest demographic factor affecting screen media consumption, with younger people more likely to have above-average participation rates in most activities. As the viewers get older it is unlikely that they will reduce the number of screens in their media diet, becoming dependent on portability.

Participation rates for screen media by age group, 2010



	Cinema	Free-to-air TV	Subscription TV	DVD/Blu-ray	Online video (PC)	Online video (mobile)	Social media (PC)	Social media (mobile)	Console games	Console games (online)
14-17	46%	95%	16%	61%	35%	4%	39%	14%	68%	23%
18-29	41%	90%	17%	64%	37%	5%	50%	16%	50%	15%
30-49	27%	94%	21%	62%	22%	2%	34%	5%	35%	6%
50-64	23%	96%	23%	41%	10%	<1%	17%	1%	12%	2%
65+	17%	97%	16%	25%	4%	<1%	6%	0%	5%	<1%

Source: Compiled by Screen Australia using Roy Morgan *Single Source.*

Early adopters are driving change and free-to-air television has the most to lose. Aside from being typically younger, these people tend to be also innovative, interested in technology and want to experience life, believing they can 'have it all'. They have the highest participation rates across most screen activities, yet they are less likely to be watching free-to-air television than they were five years ago.

Participation is not just on the rise, but so too is time spent watching online video. Analysis compiled by Frost & Sullivan shows that 11 billion internet videos will be watched by Australians in 2011. This will result in 10.2 hours of online video watched on average each month per person.[27]

Screen content, particularly narrative storytelling, is accessible via many distribution points. In the case of feature films, viewings at cinemas account for less than one in ten viewings.[28]

Although success-breeds-success from one distribution point to the next, given these shifts in participation it is not surprising storytellers are looking are looking at new distribution techniques that don't necessarily place cinema at the head of the release cycle.

A recent example is the Australian feature film *The Tunnel*, which premiered worldwide, for free, on file sharing sites including BitTorrent before its release on

[26] Downloaded clips, podcasts, television programs or feature-length movies, or streamed television or video via mobile phone/personal computer.
[27] David Ramli, Viewers switch on internet TV', Australian Financial Review, 19 September 2011
[28] Screen Australia, 'Beyond the Box Office: Understanding Audience in a Multi-screen World', April 2011 (http://www.screenaustralia.gov.au/research/beyond_box_office.aspx)

DVD, Foxtel's Showtime Network and ABC's iView. It is now slated for a North American theatrical release in 2011. To date the film has achieved over 2 million downloads worldwide.[29]

3.2 Revenue to content delivery systems

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.

Consumer spending and other income derived from the distribution of content provides additional context to the health of the entire screen sector, with revenues forecast to continue their rise.[30]

In 2010 revenue for commercial free-to-air television was $3.5 billion; $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 advertising and consumer spending revenues.[31]

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.[32]

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.[33]

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. [34]

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[29] *Encore*, 'First Australian film to be distributed and promoted legally via BitTorrent', October 2011
[30] PricewaterhouseCoopers, 'Outlook: Australian entertainment and media, 2011-15', August 2011 (http://www.pwc.com.au/industry/entertainment-media/publications/outlook/index.htm)
[31] Ibid
[32] PricewaterhouseCoopers, 'Outlook: Australian entertainment and media, 2011-15', August 2011 (http://www.pwc.com.au/industry/entertainment-media/publications/outlook/index.htm)
[33] Ibid
[34] PricewaterhouseCoopers 2011

3.3 The creation of Australian screen 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.

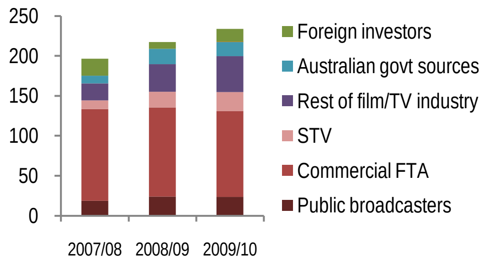
Broadly, finance for narrative content comes from a range of sources: the distribution platform; the producer or production company itself; private equity investment; government (either direct and/or through the Producer Offset); and foreign sources (marketplace and/or equity). Foreign sources are particularly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

As noted in section 2.2, commercial free-to-air broadcasters are still the most significant investor in Australian screen stories.

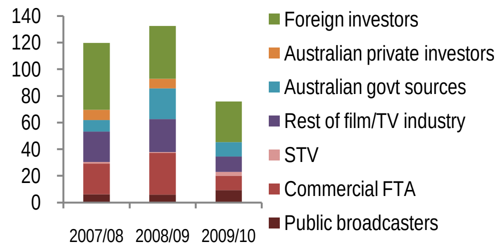
Looking at **TV drama** produced over the last three years, on average just over half of all finance to the adult slate was contributed by commercial free-to-air television. 10 per cent came from the public free-to-air broadcasters and 8 per cent from STV. 7 per cent came from foreign sources. Foreign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

3.4 The delivery and consumption of Australian screen 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.

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.

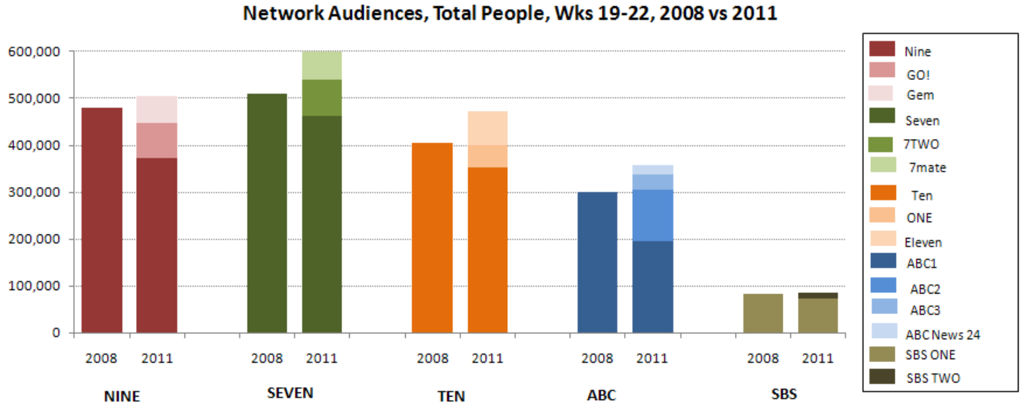
Shifting viewing patterns with free-to-air multi-channelling

As Australian's receive the majority of the screen content via television and given commercial free-to-air's role as the most significant investor in Australian narrative content it is important to consider the television environment in particular detail and any changes that have effected this environment.

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

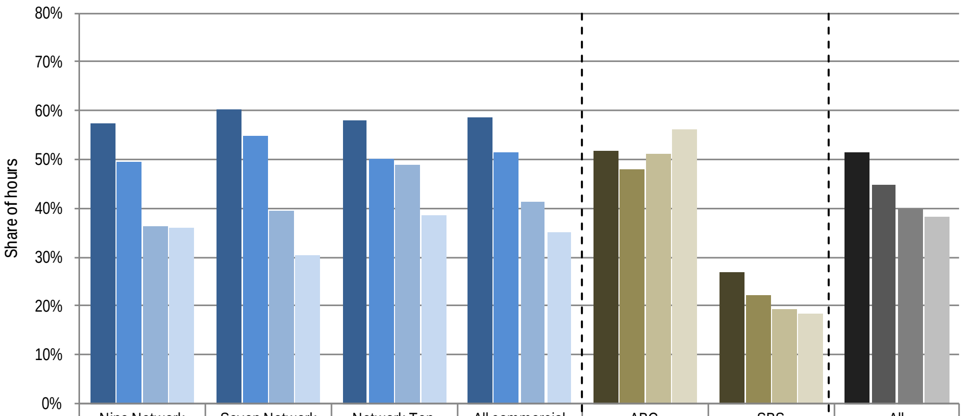


Source: Screen Australia analysis of OzTAM data. 5-city metro, Total households, 6am to midnight, weeks 19-22, 2008 and 2011

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

Breaking this into a channel by channel analysis and considering the relative proportions of both hours broadcast and audience viewing for content defined by its country of origin further highlights the changes that have occurred 2008 to 2011.

3.5 The economic contribution of Australian screen storytelling

As published in *Convergence 2011: Australian Content State of Play*, Screen Australia compiled analysis in August 2011 looking specifically at the economic contribution of narrative screen content (feature films, television drama and documentaries). This activity generated $709 million worth of investment in 2009/10,[35] which includes $124 million in overseas finance.

Economic modelling indicates that this level of investment in drama and documentary production positively contributes $331 million to the Australian economy via gross domestic product (GDP) annually, taking into account the direct and indirect impacts of production activity on the overall economy.

Drama and documentary production investment 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.[36]

There is no doubt that government support plays a key role in the production of screen stories, but what is also clear is that, perhaps unlike many other cultural activities, Australian screen storytelling 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.

In real terms, the cost to the Federal and State Governments for their direct (screen agencies and public broadcasters) and indirect (tax offsets) investment in feature films and narrative television programs was approximately $288 million in 2009/10. This works out to just $12.68 per capita.[37]

[35] Screen Australia, 'Convergence 2011: Australian Content State of Play', August 2011 (http://www.screenaustralia.gov.au/research/convergence_stateofplay.aspx)

[36] 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)

[37] Ibid.

3.6 Importance of screen stories to Australians

In the last three years, Australian television programs have accounted for all spots on the annual list of top 20 titles. Notably, *Packed to the Rafters* has been the highest-rating drama during this time, attracting approximately 2 million viewers on average per episode.[38]

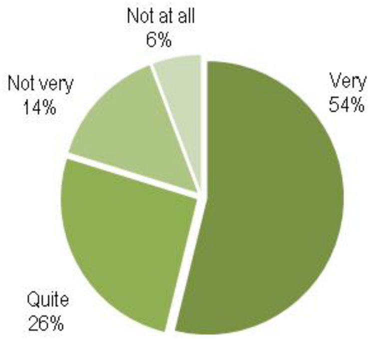
For feature films, Screen Australia's 2011 *Beyond the Box Office* analysis of cumulative viewings shows that locally-produced films released 2007–09 have been viewed by Australians over 100 million times across the whole first release lifecycle from cinema, to DVD/Blu-ray video, free-to-air and subscription television.[39]

Indicators such as these can provide useful quantitative information about Australians' consumption of their own screen stories. However, the more qualitative aspects – how they feel about these stories – are typically less easy to measure.

To better understand these less tangible aspects, Screen Australia commissioned original research as part of its submission to the National Cultural Policy Review. It asked Australians about the importance they placed on Australian narrative screen content – feature films, television dramas and documentaries – in an increasingly converged distribution environment, where consumption occurs across multiple screens.

The survey of Australians aged 14 years and over shows that 91 per cent of people believed that it was quite important or very important that Australia had a film and television industry that produces local content. This compares with just 1 per cent who stated that it was not important at all.

Importance of Australia having a local film and television industry that produces Australian stories, 2011



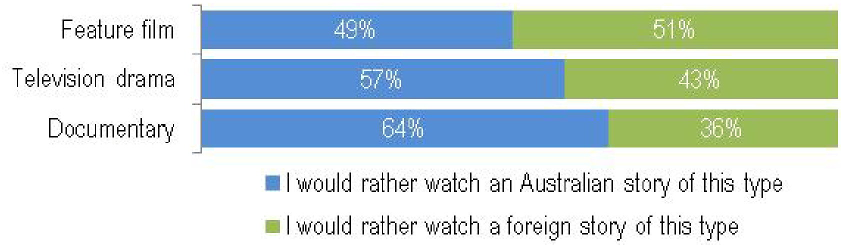
Source: Compiled by Auspoll on behalf of Screen Australia.

When asked to identify their preference between foreign and Australian content by type, 64 per cent of people said they would rather watch an Australian documentary over a foreign one; the preference for Australian content was 57 per cent for television drama and 49 per cent for feature films.

[38] Compiled by Screen Australia from OzTAM data; 5-city metro (http://www.screenaustralia.gov.au/research/statistics/wftvtopdrama.asp)

[39] Screen Australia, 'Beyond the Box Office: Understanding Audience in a Multi-screen World', April 2011 (http://www.screenaustralia.gov.au/research/beyond_box_office.aspx)

Preference for Austrlaian verses foreign content, 2011



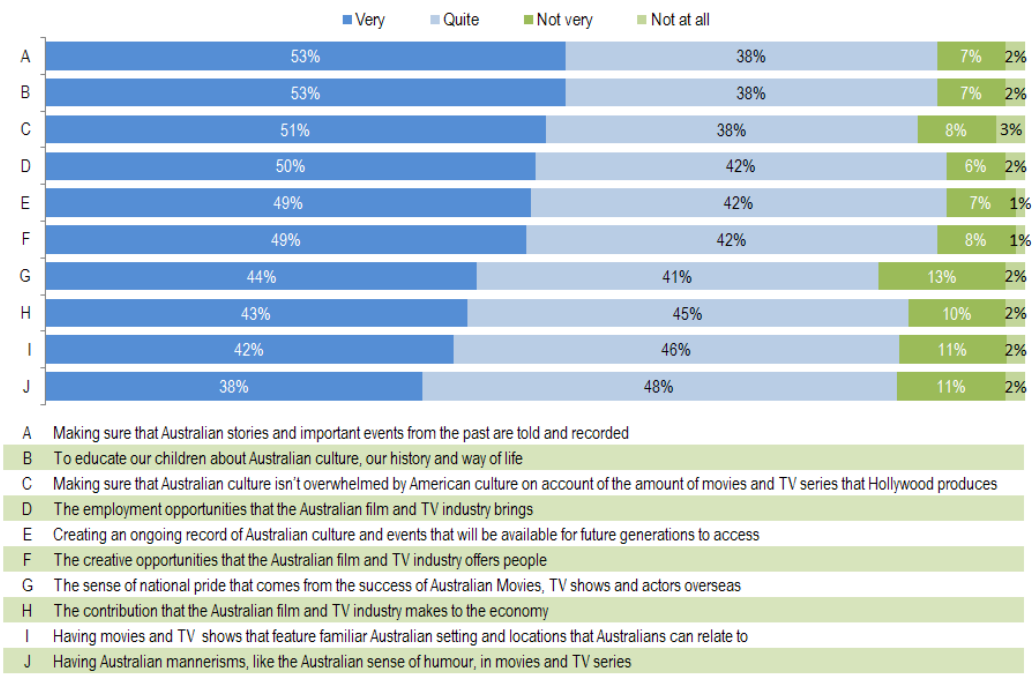
Source: Compiled by Auspoll on behalf of Screen Australia.

Respondents were also asked about ten benefits for having a local film and television industry that produces Australian stories. They were first asked to classify the benefits from very important to not important at all, and then asked to choose which one they felt was the single most important benefit.

Twenty-one percent of people stated that the most important benefit of the film and television industry was to make sure that Australian culture isn't overwhelmed by American culture on account of the amount of movies and TV series that Hollywood produces.

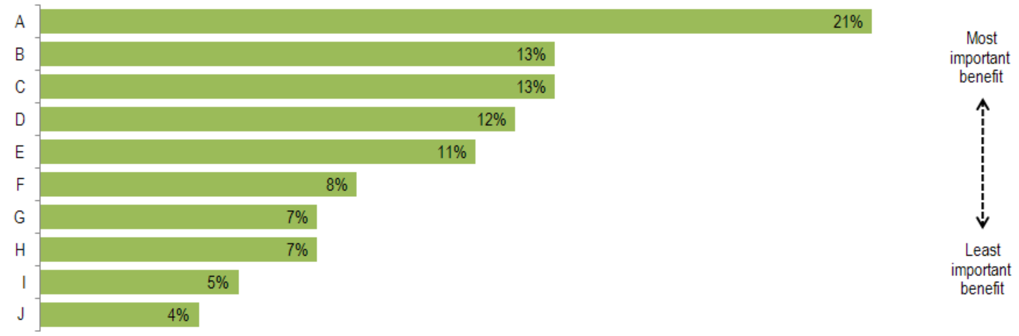
This was followed by recognition of the employment opportunities that the industry brings, as well as ensuring that Australia's stories and important events from the past are told and recorded, each nominated by 13 per cent of respondents.

Importance of perceived benefits gained from having an local film and television industry producing Australian stories, 2011



Source: Compiled by Auspoll on behalf of Screen Australia.

Most important benefits from having an Australian film and television industry, producing Australian stories, 2011



A	Making sure that Australian culture isn't overwhelmed by American culture on account of the amount of movies and TV series that Hollywood produces
B	The employment opportunities that the Australian film and TV industry brings
C	Making sure that Australian stories and important events from the past are told and recorded
D	Creating an ongoing record of Australian culture and events that will be available for future generations to access
E	The creative opportunities that the Australian film and TV industry offers people
F	To educate our children about Australian culture, our history and way of life
G	The contribution that the Australian film and TV industry makes to the economy
H	Having movies and TV shows that feature familiar Australian setting and locations that Australians can relate to
I	The sense of national pride that comes from the success of Australian Movies, TV shows and actors overseas
J	Having Australian mannerisms, like the Australian sense of humour, in movies and TV series

Source: Compiled by Auspoll on behalf of Screen Australia.