

## **Screen Australia – Statement of Intent Response by the Independent Producers’ Association (IPI)**

The Independent Producers Initiative (IPI) is an association of Australian feature film producers. IPI's members and supporters include many of the most experienced and successful feature film producers currently working around Australia, and some of its most promising emerging producers. Members have at least one feature film credit, and associate members have a demonstrated commitment with production credits.

IPI thanks Screen Australia for the opportunity to respond to the Draft Statement of Intent. As an organisation of feature film producers we will focus on issues relevant to the feature film sector.

IPI is strongly supportive of the overall direction signalled in the SOI, in particular:

- devolving more decision making to the industry
- the principle of rewarding success, and
- plans to give greater support to the areas of development, marketing, distribution and cross platform elements to support and capitalise on the Offset policy

In addition, we ask Screen Australia to consider the following:

- A proposal to address the main issue concerning producers, namely, the cost of cashflowing the offset. The proposed scheme could be similar to the guarantees provided by the Export Finance Insurance Corporation (EFIC), with Screen Australia guaranteeing the security of the Offset to cashflow production. The scheme would be at no risk/no cost to Screen Australia.
- A broader suite of initiatives to reward success. While we strongly support the proposal to provide a box office linked reward to producers, Screen Australia should consider complementary initiatives to reward qualitative achievements such as special cultural contribution, innovation and experimentation.

### **1. Role of Screen Australia**

The introduction of the Producer Offset realigns production decision-making with development and therefore distribution and exhibition.

While there are policy and efficiency benefits in shifting subsidy to a single agency, there are legitimate concerns relating to the concentration of decision-making and its effect on diversity.

We believe the role of Screen Australia should be to focus primarily on governance, policy and research, with the distribution of subsidy and recoupment outsourced to the industry. This would encourage the growth of efficient and sustainable businesses able to deliver the broad cultural outcomes expected of these policies.

The retention of the research function at Screen Australia (which already has an impressive track record in collecting and analysing industry data), now positions it to take on the more ambitious role of investigating emerging trends in production, marketing and distribution as well as evaluating the cultural and financial results of policy.

## **2. Making the producer offset work**

Screen Australia has a major role in ensuring the effective administration of the Offset. As the prime subsidy agency it is equally important that Screen Australia ensures that the Producer Offset is made to work in its most efficient and transparent way, delivering to producers and/or their investors equity in their projects.

While we support Screen Australia's proposed focus on areas not addressed by the Offset, such as development, marketing and distribution, there is one area in which Screen Australia could add significant value to the efficient administration of the Producer Offset.

Early anecdotal evidence indicates that a major issue currently facing producers is the high cost of cashflowing the Offset; compounded by viable cashflowing sources in an unpredictable and volatile financial market. It is imperative that non-deductibles (including financing and legal costs), which currently can amount to as much as 15% of the Offset, are kept to a minimum. Moreover, the need for producers to repay loans quickly to minimise cashflowing costs could well lead to rushed production and post-production schedules. These costs are primarily due to the weakness of the security the Offset provides to a lender. Simply, banks will not lend against the Offset even when QAPE is guaranteed by a third party unless it is backed by real property or other similar assets. Even if state subsidies are used to cashflow the Offset, they are not expected to satisfy demand. The structural problem will still firmly be in place.

Our proposal is that, subject to the producer receiving provisional certification and having appropriate completion facilities in place, Screen Australia could provide a guarantee to the production company's bank for the repayment of the producer's cashflow requirements plus interest against the Offset.

IPI would be very happy to participate in further work to develop such a scheme.

Furthermore, we would urge, as a matter of priority that, in the annual

review of the operation of the offset, that the timing of the audit be made flexible, so as to alleviate the June 30 rush. Additionally, we would propose that a cap be placed on the dollar value of the offset to any single production.

### **3. Revised program structures**

IPI strongly supports the proposal to transfer more resources back into the industry to assist it to grow, plan ahead and develop talent. A number of elements in the revised program structure will facilitate this:

- the enterprise development scheme (EDS)
- greater industry involvement in content selection
- outsourcing of some production activities (such as shorts, low budget features and national interest content) to production houses

#### **3a) Enterprise Development Scheme**

IPI endorses the introduction of an enterprise development scheme with funding provided to companies over a three-year period to support production slates, develop business/marketing expertise and training /mentoring opportunities.

We agree that the new scheme needs to be substantially larger than the current Screen Business Venture program. We believe the EDS should be broad in its scope and allow for project-based teams to come together and be funded around projects or slates of projects. This is particularly relevant to the feature film sector, which is characterised by a diversity of production models and shifting relationships with the market both in Australia and overseas.

Emphasis should be given to the development of projects and talent by small, independent companies, as they are invariably the major source of new talent, innovation, and culturally uncompromising ideas. In particular, we note that the rhetoric of supporting 'larger companies' does not necessarily equate with the aim of excellence, and may in fact be counter-productive.

We would like to propose two alternatives to existing project-by-project funding:

- a select number of writers' fellowships annually, to be offered to established writers
  - matched funding for a small number of project-by-project applications (this would not be draft-by-draft funding)
- (both these alternatives would be selected via a peer assessment process. We recommend evaluation panels operating on fully-fledged peer assessment principles. The panels should not be fixed

term but convened on a more flexible basis, allowing for maximum turnover of peers.

Outside the enterprise development scheme, a focus on matched funding, with investors and distributors as part of the mix, would be highly desirable.

### **3b) Production financing**

Recognising that the Offset will, in most cases, require additional support to be a viable financing mechanism, we support a single criterion for feature films, with varying levels of top up to a maximum of 75% including the Offset and the provision of 100% funding for low budget productions below the Offset threshold.

Greater industry involvement in program selection should extend to peer assessment for production financing. Again, flexibly constituted, small, peer evaluation panels would be the preferable means of determining how much direct funding each project should receive, against a broad framework of "cultural merit" determinants.

The proposal to make available marketing loans, is a priority in view of the exclusion of these elements from the Offset.

## **4. Rewarding achievement**

An approach that rewards filmmakers' history and experience is an exciting new initiative that should assist consolidation of the industry. Schemes which reward box office achievement and allow producers to draw down on their next project are well established in various European countries, including France and Norway, and through the EU. The range of possible formulas should be considered to assess which of these, if any, are appropriate to the Australian environment. In the meantime we make the following points:

- We endorse the scheme being limited to small to medium budget films.
- In assessing any bonus or reward, the theatrical box office needs to be examined in the context of the cost of the production and the nature of the release. It is important that the bar to trigger the reward is not set too high. For example, a gross domestic box office of 50% of budget should be regarded as a good result, and could be the point at which the reward is triggered. To give films with a narrow release an opportunity for recognition the 'per screen average' could also be taken into account.
- We support the notion that this scheme be operated as simply as possible, and able to be triggered once the theatrical release is complete.

- While we strongly support the introduction of performance bonuses, it is important to see achievement as multi dimensional, embracing critical acclaim, impact at major festivals, experimentation, innovation and cultural value. We note that the Statement of Intent includes a commitment that Screen Australia will foster innovation in content creation. One suggested initiative would be for the Board to offer innovation awards.
- It is as important to develop creative sustainable talent as it is to develop sustainable businesses. The FFC financed 160 features and just over a hundred involved directors who have never made another film. Filmmakers can only develop confidence and refine their filmmaking methodologies if they have the opportunity to work on a succession of projects. One important way to provide recognition and develop a mature industry is to provide a healthy number of fellowships to producers, writers and directors who have demonstrated a record of achievement and commitment.

## **5. Marketing and distribution**

IPI supports the introduction of an incentive for distributors to increase their financial commitment to Australian feature films but we do not support direct subsidy to distributors. Any P&A type subsidy should be delivered to the copyright holder who licenses the content.

We propose P&A loans should be limited recourse and in the case of theatrical P&A, in the order of \$10,000 per print with a cap to be evaluated on a project-by-project basis.

Australia needs more competitive strategies in the exhibition sector to allow Australian content equal access to screen dates and terms. With more than sixty percent of screens controlled by three companies, Screen Australia should be keeping a close eye on the DCI rollout and developing intelligence on distributors' plans and exhibition policies.

It would be extremely useful for Screen Australia to examine history to see why at various stages in the past Australian films have enjoyed a much higher profile, particularly in Europe, than they currently do. Such an examination would need to bear in mind that the cultural profile of feature film is much broader than box office and often has a far-reaching role in defining Australian identity internationally (as well as locally). We would support all ambitions of the Brand Australia campaign, to re-invigorate the international marketing of our films, and in particular, to assist with certain marketing costs to foreign distributors (talent expenses or subtitling for instance).

Other countries' marketing programs could also be studied. UniFrance for instance has enjoyed considerable success over the past two decades in

promoting French films into markets such as the UK, Australia, Japan and Korea – all the time remembering that Paramount is more powerful than the Pentagon.

## **Conclusion**

IPI appreciates that the SOI represents broad principles only. We look forward to engaging in the next stage of consultation on the proposed programs and principles underlying guidelines. In the meantime we would be happy to elaborate on the above proposals relating to guaranteeing the offset and broadening the reward system.