australia new zealand screen association

Pre-Budget Submission in support of an increase of the Location Offset to 30%

20 December 2019

About us

1. ANZSA's members produce and distribute some of the highest quality creative content in the world. We work to advance policies that support diversity, creators, protect content and foster a thriving creative economy. Our members are also active participants in Australia's screen community. They represent a significant share of the inbound screen production investment into Australia and play significant roles in the distribution of content – both local and international - through different platforms. As screen production and distribution are increasingly becoming global, new trends and technologies are driving new opportunities.

2. All six Hollywood studio members have had long-standing business ties to Australia, from establishing distribution companies as far back as 1926, to commissioning international feature films to be produced in Australia over the past twenty years, including *The Matrix* and its sequels, *Star Wars: Episode II – Attack of the Clones*, *Mission Impossible 2*, *Moulin Rouge*, *Charlotte's Web*, *Alien: Covenant*, *X-Men Origins: Wolverine*, *The Great Gatsby*, *The Lego Movie*, *Thor: Ragnarok*, *Pirates of the Caribbean: Dead Men Tell No Tales*, *Peter Rabbit* and *Aquaman*.

3. All six Hollywood studio members have also participated in the Australian film market - either through partnering on direct production (*Mad Max: Fury Road*, *Gone, Tidelands*) or through the acquisition of distribution rights in Australia and around the world (*Railway Man*, *Tracks*, *The Dressmaker*, *The Water Diviner*, *Ladies in Black*, *Storm Boy, Bluey, Glitch, The New Legends of Monkey, The Letdown*).

Introduction

4. ANZSA welcome the opportunity to make this submission to Treasury to provide input for the Government's budget planning for 20/21 and beyond.

5. Unprecedented growth and consumer demand for high-quality film and television drama productions in recent years have presented opportunities for investing in new screen productions.

6. The Best Practice in Screen Sector Development study by Olsberg SPI for the Association of Film Commissioners International (AFCI) released in September 2019 shows a boom in global screen content production and consumption.[1] The estimated number of feature films produced worldwide has increased by 10%, from 7,455 in 2014 to 8,204 in 2018. The number of original scripted series increased from 389 in 2014 to 496 in 2018 (mainly driven by online services). In the European Union, more than one million people are employed in the audio-visual industry that is worth $107 billion a year. In Australia, the screen production industry's cultural and audience value has been estimated at over $12 billion and contributing to over 25,000 full time jobs.

7. Following the introduction of the Location Incentive in 2018, our members have responded with an estimated foreign investment of $670 million into the Australian economy; Disney with Marvel's *Thor: Love and Thunder* and *Shang-Chi and the Legend of the Ten Rings* ($355m combined) and *Reef Break* (via its US ABC station - $50m), Paramount Pictures with *Monster Problems* ($57m) and *Shantaram* ($55m), Warner Brothers via Legendary's *Godzilla vs Kong* ($68m) and Netflix with *Clickbait* ($36m). This represents 74% of the estimated $900m of foreign investment generated by the

[1] Association of Film Commissioners International, Best Practice in Screen Sector Development, September 13 2019, <https://afci.org/research-best-practices/>

Location Incentive to date.[2] Both *Shantaram* and *Clickbait* have a distinctively Australian provenance as well. The former is based on an Australian novel, the latter was developed by Matchbox Pictures, an Australian production company.

8. However, the $140 million allocated to the four-year Location Incentive program (2019-2023) is almost fully committed. Productions secured through this program are likely to continue into 2020/2021. As international film and TV production typically plan 24 months in advance, any uncertainty in the program will be a concern for investors to make long term commitment in Australia's screen service industry that will impact creation of highly skilled jobs and investment in capacity development and infrastructure.

9. For Australia to be competitive, ANZSA would like to advocate for an increase from 16.5% to 30% to the Location Offset for Australia to continue to attract international productions. As an interim measure for the short term, a further allocation of funding to the Location Incentive would alleviate concerns on uncertainty. We encourage Australia to act on this by mid-2020.

10. ANZSA would also like to express support for the AusFilm's pre-budget submission and wishes to add the following comments.

The international screen production landscape

11. Consumption of screen content is increasing globally. In 2018, combined theatrical and home entertainment consumer spending reached US$96.8 billion, a 9% increase compared to 2017, and a 25% increase compared to 2014.[3] This growth was both evident in theatrical exhibition as well as home entertainment – where digital distribution models via Transaction Video on Demand (TVOD) and Subscription Video on Demand (SVOD) are embraced by consumers the world over.

12. The growth in global screen content consumption is causing global screen production expenditure to rise significantly. The number of feature films produced worldwide increased by 10% between 2014-2018. Streaming services such as Netflix and Amazon are investing billions of dollars in content productions annually. In November, both AppleTV+ and Disney+ entered the market. Both Warner Media (HBO Max) and NBC Universal (Peacock) have announced the launch of streaming services in the US market. These services are competing for consumer attention. A strong and distinctive content offering will ensure service differentiation. In 2017, the Top 14 US video content producers – which now include these new streaming platforms - spent a combined US$63bn on non-sports programming.[4] The major streaming companies alone are expected to spend US$36 billion on premium content in 2019.[5]

13. An increasing number of state and national governments around the world[6] have identified the attraction of overseas screen production as an effective means to secure inward investment that generates highly skilled and future-facing creative employment which delivers significant spill-over

[2] In Senate estimates it was confirmed just $18m is left unallocated of the original $140m Location Incentive, which means $900m of foreign investment is committed. The two projects not directly aligned with our members are Ranger's Apprentice and The Alchemyst, produced by Dick Cook Studios.

[3] Motion Picture Association, *2018 Theme Report*, <https://www.motionpictures.org/wp-content/uploads/2019/03/MPAA-THEME-Report-2018.pdf>

[4] Rani Molla, *Netflix spends more than anyone else on content than anyone else on the internet – and many TV networks, too,* Recode, February 26, 2018, <https://www.recode.net/2018/2/26/17053936/how-much-netflix-billion-original-content-programs-tv-movies-hulu-disney-chart>

[5] Brandon Katz, *How much does it cost to fight in the streaming wars?,* Observer, October 23, 2019, <https://observer.com/2019/10/netflix-disney-apple-amazon-hbo-max-peacock-content-budgets/?

[6] *Global Incentives Index 2019*, Olsberg SPI, <https://www.o-spi.co.uk/wp-content/uploads/2019/11/Olsberg-SPI-Global-Incentives-Index-November-2019.pdf>

economic benefits and helps to build a bigger, more sustainable domestic industry as well. In fact, there are now active production incentive programs in over 100 jurisdictions, created to capitalise on the continuing global increase in screen production volume.

14. International producers determine where to invest based on the net cost of producing in a state or territory (actual cost level minus incentives), alongside other factors matter such as the predictability and certainty of the incentive program, the preference for working in a stable democracy with a stable financial sector, the availability of highly skilled cast and crews and the quality of the production facilities. For this reason, the bulk of investment goes to strong and stable first-world economies with the US states such as Georgia (20% transferable tax credit, plus 10% uplift), Louisiana (25-40% partially refundable tax credit), New York (30% refundable tax credit for below-the-line and post production), and countries such as the United Kingdom (25% refundable tax credit), Canada (18-20% incentives, supplemented with further credits of around 40% on production labour) and New Zealand (20% grant, plus 5% uplift) amongst the most successful. It is worth noting that these headline rates have been largely stable over the past five years, with particularly Georgia and the UK struggling to build new infrastructure fast enough to keep up with demand.

Impact of the UK's screen incentive policy

15. The UK Government's screen production policy interventions clearly demonstrate what can be achieved when a competitive, stable and predictable incentive is established. The UK Government introduced a 25% Film Tax relief in 2007, and based on the success of this measure, expanded it to High-End Television Tax Relief (HETR) – 2013, Animation Programme Tax Relief (ATR) - 2013, Video Games Tax Relief (VGTR) - 2014 and Children's Television Tax Relief (CTR) – 2015. The 25% headline rate of the UK's tax relief has remained consistently competitive since it was introduced in 2007.

16. The five screen sectors attracted over £2 billion of inward investment from the US, EU and other markets in 2016, comprising 66% of the total screen production spend that year.[7] The tax relief-supported screen sectors delivered a higher than average £75,600 Gross Value Add per employee than the UK economy £62,144 average. The film sector has been the key driver of the UK's screen production sector, with screen production investment rising from £850.9 million in 2007 to a new high of just under £1.72 billion in 2016. Inward investment represented £1,376m of that, or 80%. This investment has not just benefited international features; the resulting vibrant sector has also seen the share of the UK Box Office taken by UK films increase from 16.7% in 2009 to 36.9% today.

17. Thanks to the certainty afforded by open-ended tax credits, investor confidence to build and develop UK infrastructure and innovation has been high, leading to over £850 million of publicly identified spend on studios and facilities. In fact, demand for studio space is now so high that companies like Disney[8] and Netflix[9] are making multi-year commitments to book out studio space.

18. The film sector is now a significant source of export revenues for the UK economy; a major part of the core UK film sector is directly linked to the receipt of royalty revenue from the exploitation of UK IP overseas, as well as the sale of UK-based production services to foreign investors. In 2016, the UK

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[7] *Screen Business, How screen sector tax reliefs power economic growth across the UK, October 2018, A report commissioned by BFI from Olsberg SPI with Nordicity*, <https://www.o-spi.co.uk/wp-content/uploads/2018/10/Screen-Business-Full-Report.pdf>. A detailed methodology explanation can be found here: <https://www.o-spi.co.uk/wp-content/uploads/2018/10/Screen-Business-Appendices-4-and-5.pdf>

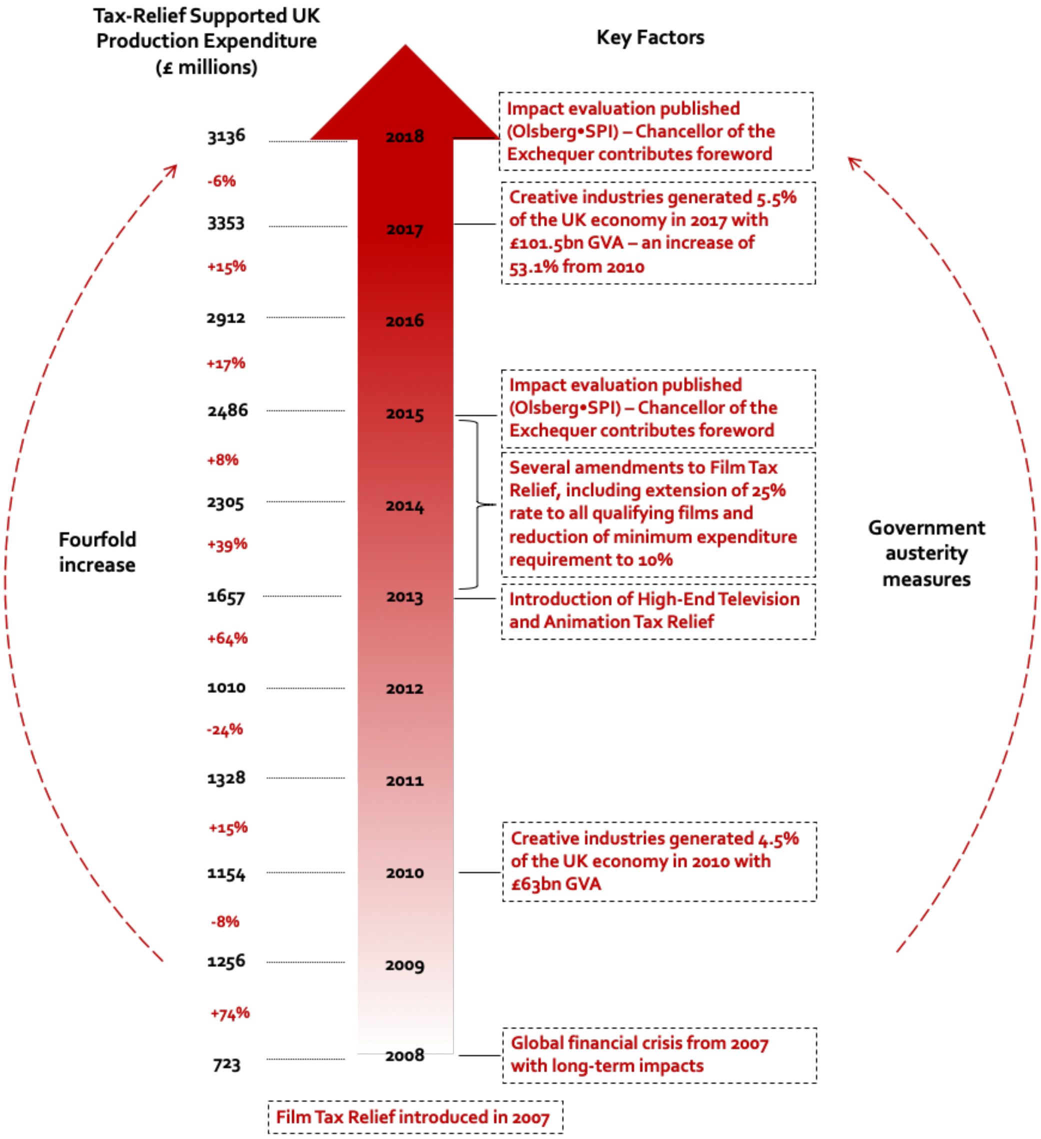
[8] Louise Tutt, 9 September 2019, *The Walt Disney Co signs long-term lease for entire Pinewood Studios site in the UK*, Screen Daily, <https://www.screendaily.com/news/the-walt-disney-co-signs-long-term-lease-for-entire-pinewood-studios-site-in-the-uk/5142713.article>

[9] Mark Sweney, 3 July 2019, *Netflix strikes production deal with Shepperton Studios*, The Guardian, <https://www.theguardian.com/media/2019/jul/03/netflix-strikes-production-deal-with-shepperton-studios>

film sector generated over £1.71 billion in exports for the UK economy and contributed to a trade surplus of £784 million. This makes the export-to-GVA ratio for the film sector the highest of all of the UK's services industries at 0.38, with the next best sector – information and communication – at just 0.27.

19. The study also found that all screen sectors supported by tax relief showed a net positive economic benefit (with GVA generated exceeding expenditure) with film – due to its scale – showing the best GVA returns which have grown from £6.81 per £1 invested in 2009 to £7.69 in 2016. Film also shows the best employment generation at 150 FTE for every £1 invested in tax relief.

20. Recent reports suggest that the continued strength of the screen production sector is one of the key drivers in the UK's stronger than expected economy. *The Guardian* reports that films, TV and music provided the largest contribution to GDP growth over the period, as one of the strongest performing sectors over the last year, expanding at a faster rate than the services sector as a whole.[10]



Source: Olsberg•SPI analysis

[10] Richard Partington, 11 October 2019, *UK on track to avoid recession despite Brexit chaos*, The Guardian, < https://www.theguardian.com/business/2019/oct/10/uk-looks-likely-to-avoid-recession-despite-brexit-chaos>

Introduction of the Location Incentive

21. Australia's headline rate via the Location Offset scheme is currently set at 16.5%. The overwhelming majority of major productions produced in Australia between 2012/13 and 2016/17 were offered a discretionary top-up of 13.5%, making the overall incentive equivalent of 30%. Major productions would not have gone ahead without the 30%. These discretionary top-up grants stopped in 2017/18, causing investment in foreign location shoots to fall from A$557 million in the year directly preceding to just $13 million in 2017/18. Meanwhile, for PDV work enjoying a stable and competitive 30% offset, investment increased from $72 million to $98 million.[11]

22. This clearly outlines the need for the Government's decision to introduce the Location Offset incentive program in May 2018's Budget. This $140 million four-year program provides a grant equivalent to 13.5% of the qualifying expenditure. The 30% equivalent of the combined Location Incentive and the Location Offset is expected to attract just over $1 billion in inward investment over that four-year period, or $250 million average per year, providing a strong economic base which will benefit local screen content producers.

23. We thank the Government for the introduction of the Location Incentive; without it, Australia's production facilities would be empty, and the brain drain of talent to the UK and other countries would have continued. Screen Australia's Drama Report has demonstrated the immediate effect of this measure, with Foreign Location Shoots recovering from just $13 million in 2017/18 to $297million in 2018/19. Combining this with PDV Offset linked investment (which also increased from $98 million to $113 million) overall expenditure by foreign titles in Australia rose 269% in just one year. Projects included high-budget titles *Dora and the Lost City of Gold*, *Monster Problems*, *Godzilla vs Kong*, *Preacher* (TV) and *Reef Break* (TV). AusFilm estimates that this led to the creation of over 3,700 jobs and involved work for approximately 3,000 small businesses.

24. The pipeline of projects announced[12] suggests that this number will increase in coming years, however the capped nature of the incentive will keep the $521 million foreign investment achieved in 2016/17 out of reach, given it can only support an average of $250 million per year. In fact, we anticipate that foreign investment will dry up in 2021 without immediate action to put in place a competitive and predictable incentive policy.

25. Successive Ministers of Communications and the Arts have highlighted the benefits these foreign investments are bringing to the Australian economy:

    (a) On the announcement of Marvel Studios' *Shang-Chi and the Legend of the Ten Rings*[13]: "We are very excited to have Marvel return to Australia following the incredible success of *Thor: Ragnarok*. Securing this latest production will bring over $150 million of new international investment, create 4,700 new Australian jobs and use the services of around 1,200 local businesses,"

    (b) On the announcement of Marvel Studios' *Thor: Love and Thunder*[14]: "The film is expected to invest over $178 million in our economy, create up to 2,500 jobs and use the services of around 1,650 businesses."

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[11] *Screen Australia Drama Report, Production of feature films, TV and online drama in Australia in 2018/19*, Screen Australia, <https://www.screenaustralia.gov.au/getmedia/08d8518b-867b-4f61-8c2e-ebd10f0dc3a4/Drama-Report-2018-2019.pdf>

[12] See paragraph 7

[13] Media Release, April 5, 2019, <https://www.minister.communications.gov.au/minister/mitch-fifield/news/major-marvel-feature-set-film-sydney>

[14] Media Release, 27 July 2019, <https://www.paulfletcher.com.au/media-releases/joint-media-release-marvel-studios-to-film-thor-love-and-thunder-in-australia>

(c) On the announcement of Paramount Television's *Shantaram*[15]: "The production is expected to attract more than $55 million in investment, employ around 330 cast and crew and use the services of more than 500 local businesses."

(d) On the announcement of Netflix's *Clickbait*[16]: "Securing this production will bring more than $36 million of new international investment to our shores, engage around 540 cast, crew and extras, and use the services of around 290 local businesses,"

(e) On the announcement of Dick Cook Studios' *Ranger's Apprentice* and *The Alchemyst*[17]: "The Australian Government is proud to support the production of these films, which are expected to provide a $280 million boost to both Victoria and Australia's economy and employ around 4,500 cast and crew. Each film will use the services of around 800 local businesses."

26. In Senate Estimates, Dr. Stephen Arnott confirmed that $122 million of the total $140 million has been allocated, leaving only A$18 million available.[18] The production activity generated by the $122 million allocated will continue into the late 2020, and in some instances early 2021. Given the fact that our members typically plan 24 months ahead, ANZSA submits that it is essential to provide clarity in early 2020, Without immediate action in the first half of 2020, we will see direct foreign investment decline sharply again and with it the opportunity to deliver jobs of the future. This highlights the limitation to what the Location Incentive can achieve. Whilst the Location Incentive has contributed to improving the utilisation rates of the existing production facilities and has directly contributed to the employment of the highly skilled crews working on these productions, it does not provide the certainty needed to generate increased investment in facilities and training, which will limit Australia's ability to capture a greater slice of the growing global screen production investment and create jobs for the future.

Increasing the Location Offset to 30%

27. ANZSA encourages the Government to act on increasing the Location Offset from 16.5% to 30% by mid-2020 to provide certainty and predictability.

28. ANZSA commissioned leading creative industries strategy consultancy Olsberg SPI[19] to produce a report on the economic impacts of Australia's Film and TV incentives programs. The report concluded that the proposed increase would be self-funding, with each dollar invested generating $3.86 of value-add activity, which in turn returns $1.05 in additional tax income. Please note that the budgetary impact for each qualifying project would not be realised until the project is completed, typically a full two financial years after the economic activity has taken place, with the positive effects working through the economy prior to that, and consequently the tax income triggered by the incentive mostly collected prior to disbursement of the Offset payment.

[15] Media Release, 15 August 2019, <https://www.arts.gov.au/departmental-news/epic-bestseller-shantaram-film-victoria>

[16] Media Release, 26 August 2019, <https://www.paulfletcher.com.au/media-releases/joint-media-release-netflix-partners-with-victorian-creators-to-bring-clickbait-to>

[17] Media Release, 19 October 2019, <https://www.paulfletcher.com.au/media-releases/joint-media-release-adventurefantasy-blockbusters-to-boost-australian-film-industry>

[18] Senate Environment and Communications Legislation Committee, October 22, 2019, <https://parlinfo.aph.gov.au/parlInfo/download/committees/estimate/32f667dc-ad33-4062-95df-f53b5d823b55/toc_pdf/Environment%20and%20Communications%20Legislation%20Committee_2019_10_22_7281.pdf;fileType=application%2Fpdf#search=%22Guild%22>

[19] The UK case study presented previously (footnote 6)– endorsed by Rt Hon Philip Hammond MP, Chancellor of the Exchequer in the UK - was prepared by the same company, Olsberg SPI. The Australian report is entitled *Impact of Film and TV incentives in Australia*, March 2018, < http://anzsa.film/downloads/Impact-of-Film-and-Television-Incentives-in-Australia_180507.pdf>

29. A stable, competitive and predictable rate of 30% would enable Australia to truly capitalise on Australia's creative talents and the increasing global demand for quality screen content. It would provide predictability for those seeking to invest in screen infrastructure and training. In fact, this process has already started with State Governments responding to the opportunity that a competitive Federal screen production incentive provides by investing in additional screen production facilities. Screen Queensland studios came online in 2018 with $12 million support of the Queensland Government. In October 2019 the Victorian Government also announced it will invest $46 million in the construction of a 2600 square meter sound stage at Docklands. These facilities would be under-utilised without a globally competitive incentive.

30. We also understand Austrade has been fielding enquiries from international investors exploring the potential to invest in studio infrastructure investment opportunities in Australia. This is entirely consistent with the findings in the recently released AFCI Best Practice in Screen Sector Development report. [20] The report explains:

Increases in the volume of global production, and in the size and technical requirements of high-end productions, means that there is currently an undersupply of physical production space in many markets worldwide. At the same time, the elevated importance of post-production and visual effects in modern filmmaking has created a huge demand for studio infrastructure of this kind – making an adequate supply of it invaluable to hubs like the UK, Vancouver and Australia.

31. The recent announcement that Disney's Industrial Light and Magic will set up a new special effects studio in Sydney, which will create 500 new jobs supported by a stable and competitive PDV Offset, demonstrates the benefit that a certain and competitive incentive regime can bring to Australia. Industrial Light and Magic will also co-invest with the NSW Government to establish a 'Jedi Masters' training program to provide local workers with specialised PDV skills.[21]

32. The Australian screen production services companies have demonstrated they can operate successfully on the world stage, provided they are not financially disadvantaged relative to their competitors in other developed countries. The Government has the opportunity to remove that obstacle and allow our screen production services companies to compete on a level playing field. We believe that such a move would be consistent with the Government's stated objective as expressed in DFAT and Austrade's Services Export Action Plan.[22]

33. The cost to Government of such a decision would be capped in the short to medium term as the production facilities and the availability of highly skilled and experienced crews act as a natural ceiling on the ability of the sector to service international productions. Australia cannot service more than two to four big budget Location Offset productions each year, making the impact on the forward estimates predictable.

[20] Association of Film Commissioners International, Best Practice in Screen Sector Development, September 13 2019, <https://afci.org/research-best-practices/>

[21] AusFilm, *Industrial, Light & Magic sets up a new studio in Sydney*, 24 July 2019, <https://www.ausfilm.com.au/news/industrial-light-magic-sets-up-a-new-studio-in-sydney/>

[22] Department of Foreign Affair and Trade, Services Export Action Plan, < https://dfat.gov.au/trade/services-and-digital-trade/Pages/services-export-action-plan.aspx>

Allocating more funds to the Location Incentive program

34. The business case for Government to strengthen its investment in the screen sector by increasing the Location Offset to 30% is compelling, particularly given the opportunity afforded by the increasing global investment in, and demand for, premium screen content. If the Government chooses to not take up our recommendation in the short term, we urge the Government to allocate additional funds to the Location Incentive program within the first half of 2020.

35. This will avoid a continuation of the 'feast to famine' cycle of the last five years, and at least ensure a level of consistency which will help retain the most talented practitioners in Australia.

We would welcome the opportunity to discuss the future of Australia's screen production attraction strategy and the benefits it can bring to Australia's economy.

Appendix A: The Australia New Zealand Screen Association

This submission is made by the Australia New Zealand Screen Association (ANZSA), who are proud representatives of a film and television industry that contributed $5.8 billion to the Australian economy and supported an estimated 46,600 FTE workers in 2012-13.[23]

Australia New Zealand Screen Association (ANZSA) represents the film and television content and distribution industry in Australia and New Zealand. Its core mission is to advance the business and art of film making, increasing its enjoyment around the world and to support, protect and promote the safe and legal consumption of movie and TV content across all platforms. This is achieved through education, public awareness and research programs, to highlight to movie fans the importance and benefits of content protection. ANZSA works on promoting and protecting the creative works of its members. Members include: Village Roadshow Limited; Motion Picture Association; Walt Disney Studios Motion Pictures; Netflix Inc.; Paramount Pictures; Sony Pictures Releasing International Corporation; Universal International Films, Inc.; and Warner Bros. Pictures International, a division of Warner Bros. Pictures Inc., and Fetch TV.

More information can be found at anzsa.film.

[23] Access Economics, *Economic Contribution of the Film and Television Industry* (February 2015) Australian Screen Association <http://screenassociation.com.au/wp-content/uploads/2016/01/ASA_Economic_Contribution_Report.pdf> iv.