



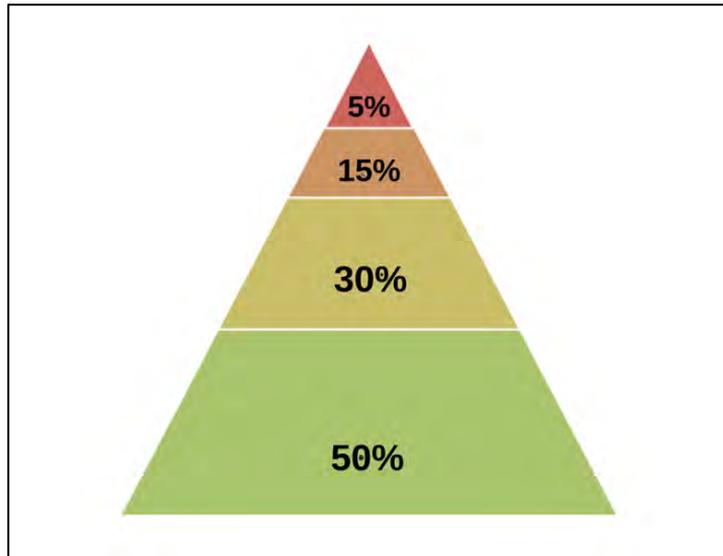
National Roadshow Presentations March-April 2014

Matthew Deaner, Executive Director

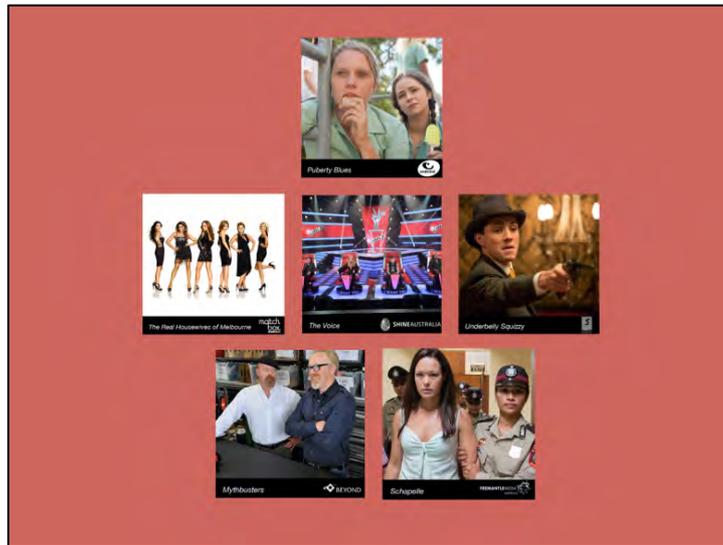
Matthew Hancock, Manager, Strategy and Insights



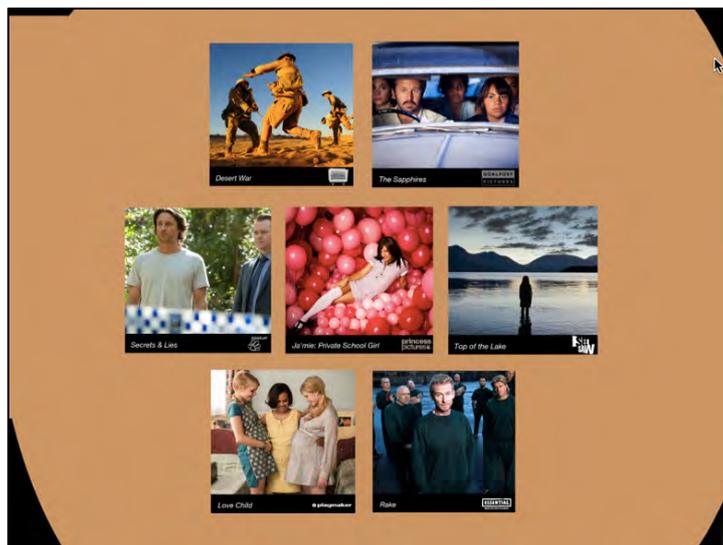
- Screen Producers Australia was formed by industry to represent businesses of all shapes and sizes across a diverse production slate of feature film, television, games and interactive content.
- This creates an industry that is not just important culturally, but also economically.
- The strength of the sector is an achievement that comes in part due to engaged policy makers who have carefully reviewed and adjusted the policy levers that affect the commercial foundations underpinning screen production over many years.



- According to the most recent data reported by the Australian Bureau of Statistics (2011/12), the production sector in Australia has costs of \$3 billion annually.
- \$1.7 billion of this comes from the independent television and feature film production community. The vast majority of these costs relate to production expenditure that is shared across between 100-150 businesses in any given year, as a rule of thumb.
- Screen Producers Australia has created 4 screen production company segments to classify the 100-150 businesses that are in production in any given year (this excludes development).
- By comparison, vertically integrated free-to-air broadcasters each have revenues of excess of \$1 billion annually.
- This compares to revenues of our largest business of between \$100-200 million. Punctuating the point that the annual average turnover of production activities across all businesses is less \$5 million.
- In addition to revenue, there are characteristics that are useful in segmenting production businesses that help us better engage with their needs, particularly in framing policy objectives.



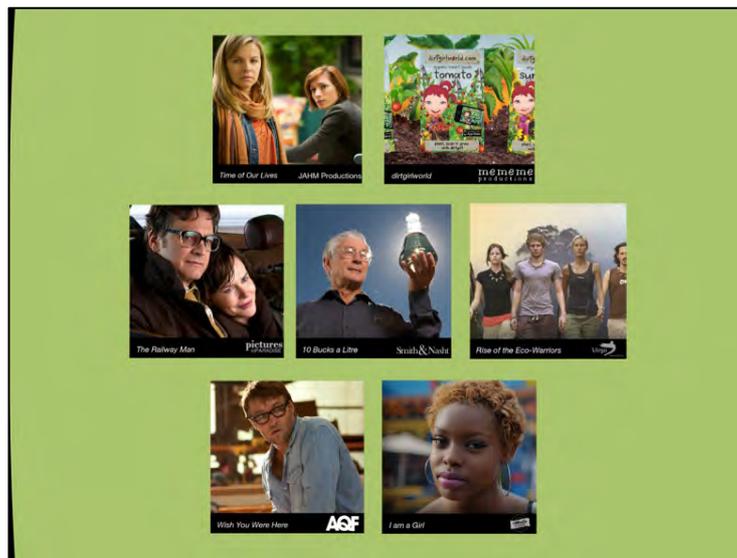
- **5 per cent of businesses** could be categorized as having a large level of foreign investment and a complex infrastructure with a high volume of production diversified across a number of genres. Although there are just a few of these businesses they do account for the majority of production revenue in any given year.



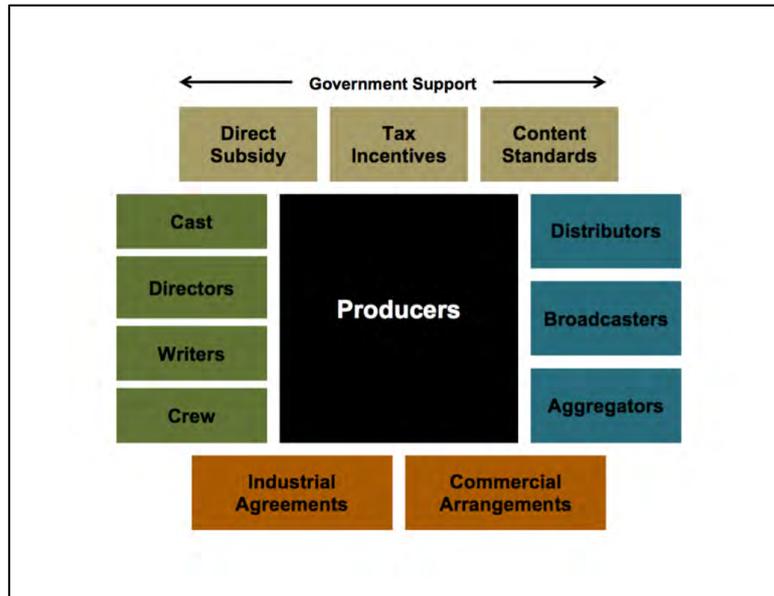
- **15 per cent of businesses** fall into the second tier. These businesses are also of a high volume and largely diversified but to a lesser degree than the top five per cent of businesses.
- They have a small but growing infrastructure, thanks in part to the consolidation of smaller production businesses over time and, for some, support through Screen Australia's Enterprise Program. This group also includes feature film producers that have to varying degrees branched into television production.
- From within this group of businesses are those companies that are on a growth trajectory to break into the top tier by branching into other markets and/or attracting larger levels foreign investment.



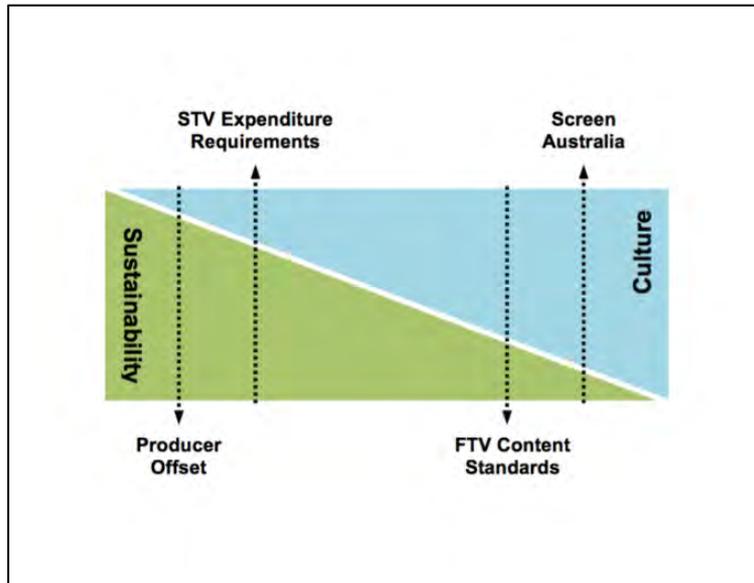
- **30 per cent of businesses** fall into the third tier. These businesses may have some diversification but often sustain their production across fewer or single genres.
- Like the tier above it, this group also includes businesses that have received support through Screen Australia's Enterprise Program but regardless are perhaps more susceptible to the development and production cycle limiting their volume of production through smaller company size and infrastructure.



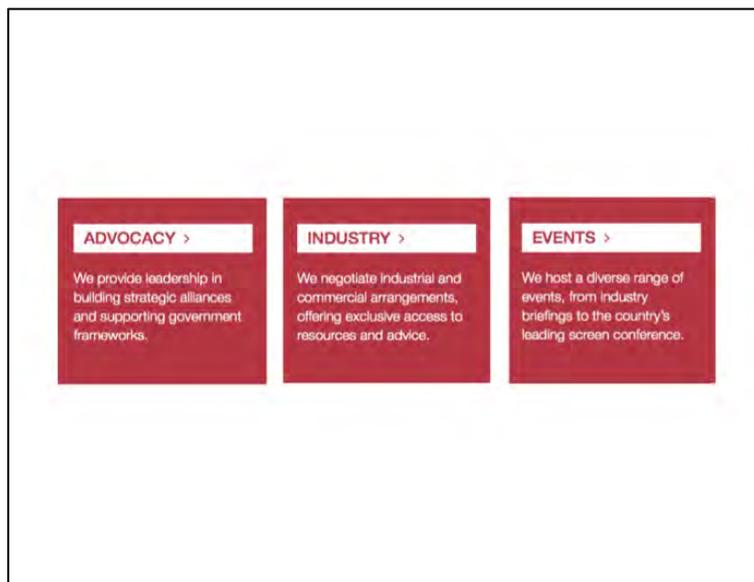
- The remaining **50 per cent of businesses** fall into the fourth tier. These businesses are largely single genre and have very small teams, often sole traders or partnerships.
- These businesses tend to work only on one project at a time, resulting in churn as several hundreds of businesses compete each year to fall in and out of the triangle depending on their development and production cycle.
- Despite their small scale, these businesses show that regardless of company size and structure they do deliver projects of scale – just at a slower rate than the peak of the triangle.



- We aim to deliver a healthy commercial environment for these businesses, and the sector more broadly, by advocating about the challenges of production through ongoing engagement with elements of the labour force, including directors, writers, actors and crew, as well as with broadcasters, distributors and government in all its various forms.
- The partnership between private industry and public investment has ensured that despite challenging market forces our industry is successful, employment levels are strong and the Australian community's expectations regarding their access to high quality Australian content have been met. And it's a high expectation because Australians love and expect great Australian content.
- Our coordinated dialogue ensures that we can work towards our shared goal of creating great screen content that is uniquely Australian for local and increasingly international audiences.



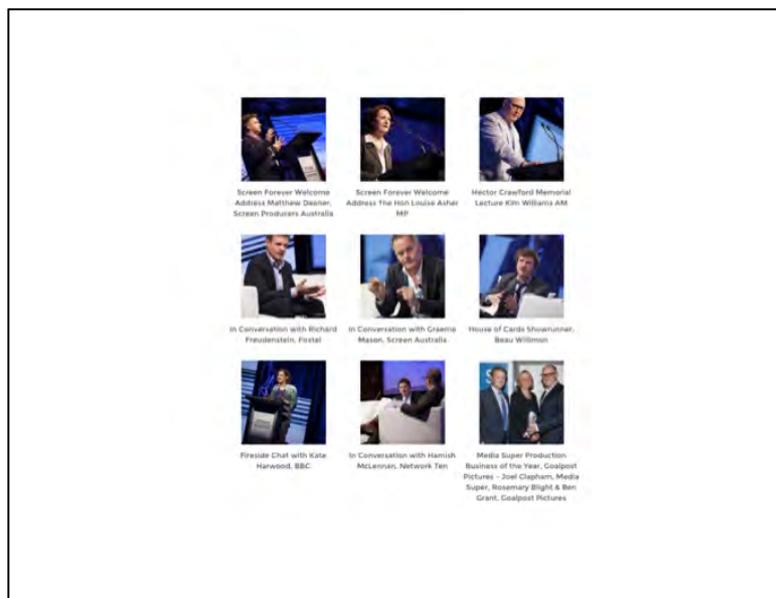
- While government support of the screen industry can be broadly categorized into direct subsidy, tax incentives and content standards, it is worth highlighting that there are different objectives being met by these different interventions.



- On behalf of our members and within this policy context, Screen Producers Australia provides leadership, negotiates industrial and commercial arrangements and host a diverse range of events.



- SCREEN FOREVER is our flagship event attracting close to 800 people annually. It offers attendees three guiding streams: partnerships, monetization and craft.
- Key sponsors included: Film Victoria and the Victorian Government, Screen Australia, Foxtel, DDP Studios, Media Super, ABC Television and Telstra among many others.



- The 2013 program was shaped into:
 - 47 Conference Sessions, including a series of Meet the Buyer Sessions; TV Pitching Market: Ready, Steady, Pitch; The International Partnerships Market; Roundtable Briefings; Ones to Watch Program; Games Forever Stalls; Preview Screening: Saving Mr Banks
- Plus, networking opportunities that included:
 - Private Reception for International Guests; Opening Night Drinks; Canadian Delegation Welcome Dinner; Malaysian Delegation Welcome Dinner; Screen Producers Australia Annual Awards; SCREEN FOREVER Gala Party; SCREEN FOREVER Private Dinner

Strategic Priorities

- At the start of 2013, Screen Producers Australia conducted a range of face-to-face consultations and conducted the first annual business survey. This helped us to frame five strategic priorities areas in which to frame our policy objectives.
- A year on, now it is a good time to take stock and provide an update of some of the key issues that have emerged within these priority areas over the last twelve months as well as share some key findings from this year's business survey.

Strengthen the opportunities for market-driven productions

- The first of these is strengthening the opportunities for market-driven productions.



- The Producer Offset continues to present the most compelling way to enable producers to alleviate bottlenecks in direct subsidy, encourage entrepreneurial behaviour and position their production businesses to grow inward investment and export potential.
- With this in mind, there are certainly arguments for an increase but given the fiscal environment at the moment it isn't likely, furthermore we must ensure that the balance of support mechanisms isn't put at risk by the adjustment of one in isolation.
- Nevertheless, we believe there are also other aspects, other than rate and threshold, of the Offset that could be looked at.

Increase foreign engagement

- The second priority is to increase foreign engagement.



- There have been a variety of international issues over the last year, including broad policy issues such as negotiations for the Trans Pacific Partnership Agreements alongside some movement in other co-production treaties, including Korea.
- But the most important issue continues to be local producers looking to the global market for production and distribution partners, to serve projects and businesses in both creative and financial objectives.
- Screen Producers Australia is supporting many international efforts, including recently inking a MOU with PACT in the UK as well as CMPA in Canada. This builds on the existing agreement with PGA in the US.
- These agreements bring our organisations closer together, be it on a policy level or building relationships. The importance of these relationships is not just on a practical level but also in demonstrating to Government that we are exploring investment strategies independent of their very valuable support. This is about ensuring that our house is in order.
- For example, we saw a delegation of more than 25 people from Canada at last year's International Partnership Market at SCREEN FOREVER.

Stronger oversight and modernisation of commercial foundations

- The third priority is stronger oversight and modernization of commercial foundations.



- There is a lot to talk about in commercial foundations, from the need to maintain levels and reporting on commercial content standards and the update our industrial agreements.
- This is a dual government and industry responsibility, with Screen Producers Australia continuing to do the heavy lifting in regards to the latter.
- We believe that this, combined with responsive support mechanisms, provide us with the best opportunity to grow the production pie.
- For example, we have not only been renegotiation our suite of agreements with the actors and writers, we are also looking at other opportunities, such as a low budget feature film and online production agreements.

Ensure adequate public broadcasting support

- The fourth priority is to ensure support for public broadcasting.

SPA calls on ABC to preserve drama, kids' budgets
[Tue 11/02/2014 06:30:00]
By Don Groves

Screen Producers Australia executive director Matt Deaner has called on the ABC to preserve its commitments to adult and children's drama in the face of the efficiency audit ordered by Communications Minister Malcolm Turnbull.

Deaner also made an impassioned plea to the Australian government not to meddle with TV quotas and screen industry funding.

"The ABC needs to publicly loudly and proudly reassure the production community and the Australian public that there has not been and will not be a reduction in the level of investment it makes in children's content," Deaner told the Kidscreen summit in New York today.

"In particular, 2012/13 budget levels must be maintained in order for ABC to successfully deliver on its two children's channels, as was the intention of Government.

"In the search for operational efficiencies the programming budgets to drama and children's must be protected and not cut."



- Along with commercial foundations, this is perhaps equally a live issue for us at the moment. A year ago this was about trying to secure additional funding for ABC2 and youth programming, now it is about trying to hold on to what we've got.
- The good news is that the additional funds that were gained in 2009 for drama and kids production were rolled into the base allocation in 2013. But we are concerned about reports that suggest there have already been some cuts to the program budgets of drama, kids and documentary.
- Added to this is the potential compounding effect of any savings that ABC and SBS will need to make as a result of the current efficiency review.

Nurture innovative distribution and commissioning opportunities

- And, the last of our five key priorities is the nurturing of innovative distribution and commissioning opportunities.



- We must continue to ensure that all parts of the sector contribute. And, we must revisit some of the distribution constraints facing our content, particularly in the area of feature film. Competition is good for business growth, good for diversity of programming and good for audiences.



CURRENT AGENDA

- Australians are proud of their screen content. Nine in ten people believe it is important that Australia has a film and television industry producing local content.
- This is also reflected in the vital, and increasing, investment that both commercial and public broadcasters make in local content.
- Just consider earlier this month when we saw three Australian dramas battle it out the first night of the new ratings year. Collectively, *INXS: Never Tear Us Apart*, *Schapelle* and *Rake* simultaneously drew an overnight average audience of 3.6 million people – well in excess of 4 million when rolling in time shift and catch up audiences.



- **Despite fragmenting audiences, the prospects for television are good with more than 13.6 million Australians watching free-to-air television every day.**
- Advertising revenues continue to increase and while the total Australian programming expenditure is up 24 per cent on the free-to-air commercials, around \$1.4 billion, the same can't be said for drama, documentary and children's programming.
- A counterpoint to this has been significant growth in distribution platforms that have brought with them vast amounts of foreign content.
- This is changing business models and has increased viewing opportunities dramatically, but it has not uniformly increased production levels. What's more there is a growing trade deficit.
- While news, current affairs and sport have all recorded significant increases, feature film, television drama and documentaries are at best static and worse have suffered decreases. This has contributed to a growing trade deficit in audiovisual royalties.
- With the highest cost per hour, many agree that drama and documentaries are the most financially vulnerable, yet culturally significant, forms of content.
- Given the high levels of output from the US, and its relative pricing, there isn't a level playing field. Product dumping is commonplace and the role of our content standards is to counter the effects, effects that should not be underestimated.

Adult Drama: **-7%**
Children's Drama: **-10%**
Documentaries: **-30%**

- In fact, when compared to the five-year average, adult drama was down 7 per cent, children's drama down 10 per cent and documentaries were down 30 per cent.
- The continuing dominance of television, and the realities of the local production community competing with cheap foreign imports, demonstrate that the rationale guiding content standards for drama and documentary remain today.



- The case is supported across all objective measures.
- Including the annual Broadcasting Financial and Compliance Results from the Australian Media and Communications Authority as well as modelling by PricewaterhouseCoopers and the Australian Productivity Commission.
- We are pleased to see that in their recent submission to the Government's deregulation review, Free TV have also acknowledged the ongoing importance of the sub-quotas. This is of great significance.
- But importantly, the squeeze is on and the broadcasters won't be able to continue to acquit their obligations if they continue to drive licence fees down. We need expenditure strategies that don't undermine the importance of our local productions.



- **ABC and SBS also have a very important role to play.**
- Yet, this is not to say that the public broadcasters are in a position to make up for any programming shortfall should commercial broadcasters produce less or reduce expenditure.
- On the contrary, in the search for operational efficiencies the programming budgets to drama and children's must be ring-fenced and openly and proudly defined so as not to see plummeting levels of production reminiscent of ABC in the mid-2000s.



- As we all know, Minister Turnbull has appointed former Seven West Media executive, Peter Lewis, to conduct the efficiency review of ABC and SBS.
- It is right that we look at our institutions and see what efficiencies there are. Everyone must adapt and change and strive for better results.
- The BBC faces the same scrutiny regularly and as an institution it has adapted over time to take on a clearer engagement with the independent production community.

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No part of ABC would be quarantined if funding cut, managing director Mark Scott says

Updated Wed 26 Feb 2014, 11:00am AEST

No part of the ABC will be quarantined from cuts if the national broadcaster's funding shrinks, managing director Mark Scott says.

However, Mr Scott told a Senate estimates hearing on Tuesday that he is confident Prime Minister Tony Abbott will abide by public and private commitments to maintain the ABC's budget.

The Government late last month announced it would conduct an inquiry into the efficiency of the broadcaster's operations, along with that of SBS.

The study will examine the costs of day-to-day operations and propose options to increase efficiency and reduce expense.



PHOTO: Mark Scott has told a Senate estimates he is confident Tony Abbott will abide by ABC funding commitments. (News Online (Sydney))

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- The 2012/13 budget levels must be maintained in order for ABC to deliver on the intention of Government.
- The last thing the production community, and the Australian public, want is the frittering away of money that creates shows for our nation into supporting bloated infrastructures and facilities.
- And we must have a commitment to work with the independent production sector in an ongoing and defined way. This creates certainty, allowing businesses to be built and attract overseas investment.
- This, along with ensuring that an adequate proportion of content is commissioned outside of Sydney and Melbourne, enables a diversity of programming.
- It ensures that the best and brightest ideas and talents are supported and in turn celebrated by the viewing public.
- However it doesn't just stop with the commercial free to air and national broadcasters. It is crucial that all platforms including subscription television and increasingly on-line aggregators are motivated in various ways to play a part.
- Contributing towards our storytelling is part of our community, communities in which these businesses operate in very privileged positions.



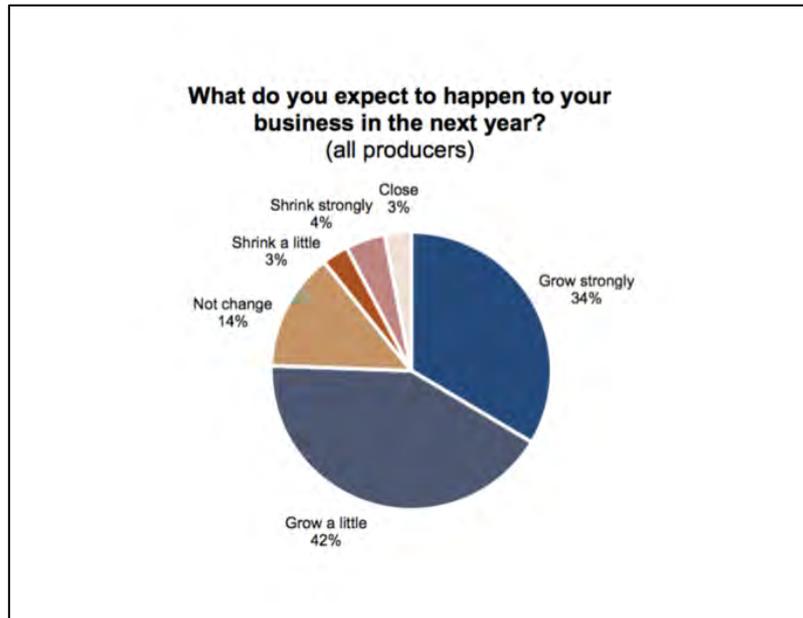
- **Market drive solutions will help our industry to grow**
- The screen industry is an advocate for market-driven solutions. The Producer Offset tax incentive enables producers to be more entrepreneurial in attracting market support and to lessen their reliance on direct subsidy.
- However, distribution continues to impede growth in feature film. Space on the supermarket shelf is a problem, driven by session contracts and output deals.
- This can force some production down a particular path, perhaps working with a larger distributor, but one that does not, for one reason or another, necessarily support the project to the extent in which the producer believes will reach the market.
- This can be for good reason, but it can also just be a matter of falling between the cracks.
- More innovative distribution opportunities are out there, but perhaps struggle to satisfy requirements for the 40 per cent Offset. This is an Offset about displaying theatrical intent, and we encourage more thought around how a bona fide release is measured.
- There are many indicators of theatrical release, be it the nature of their employment terms and conditions and where the distribution guarantee comes from. As an industry support measure, it is not unreasonable to expect that an international release should also be equivalent, for example.



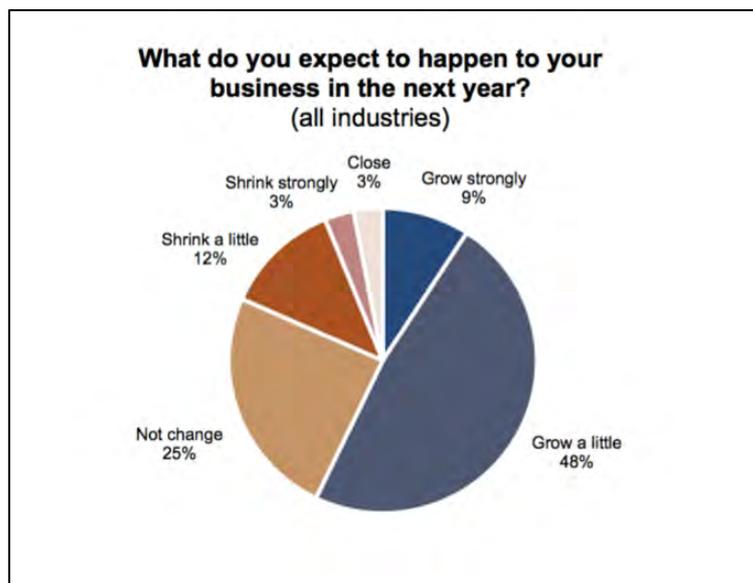
- Consultation has been a core part of our approach in identifying these critical policy needs as we must ensure that any tweaks to subsidies, incentives and/or content standards do not have unintended commercial consequences.
- In 2014 our consultation will culminate in two policy events in the coming weeks: The Prism - Perspectives, Policy and Productivity forum and our Screen Stories Parliamentary Breakfast and Screening.

Screen Producers Australia Annual Business Survey

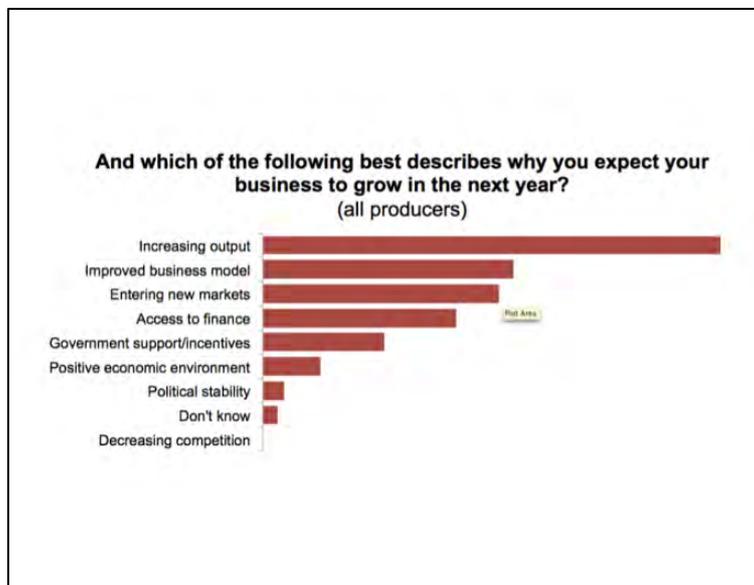
- Our latest round of consultation kicked off in February with our Annual Business Survey more than 250 responses across the industry, including 150 production companies.
- As you know, the survey has been followed by this Roadshow, which travelled across 7 cities with RSVPs of more than 600 people, with corresponding deep dive consultations with 45 production companies spread across the segmented triangle that we discussed earlier as well as 6 screen agencies.
- While there are a number of different stories that can be told within the survey, the most salient one relates to growth, or more specifically, where the production community sees that there are immediate growth opportunities.
- This is an important story as it is one linked to domestic challenges and government interventions but is not beholden to them, this is in fact about our producers being entrepreneurial in what is increasingly an international marketplace in which they must operate to ensure business stability.



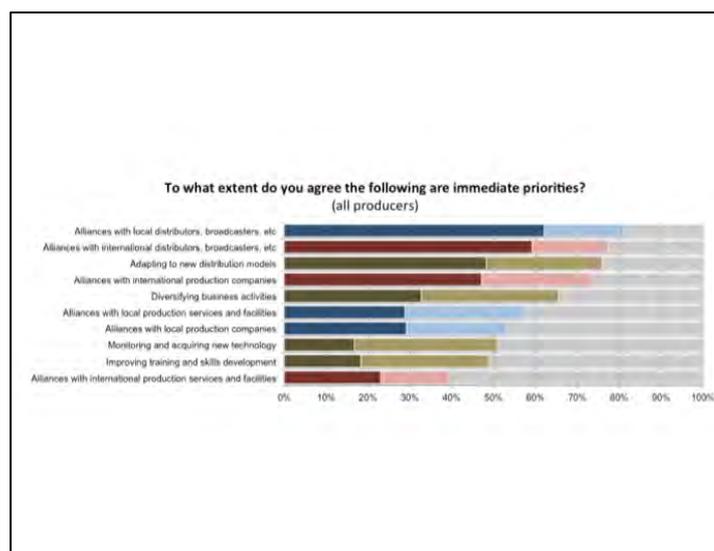
- The survey was kicked off with a question about growth and confidence that was lifted from a CPA Australia small business survey, to enable a point of comparison.
- By in large, 76 per cent of the 150 or so production businesses believed that their business would grow other the next year, with 34 per cent signaling strong growth.



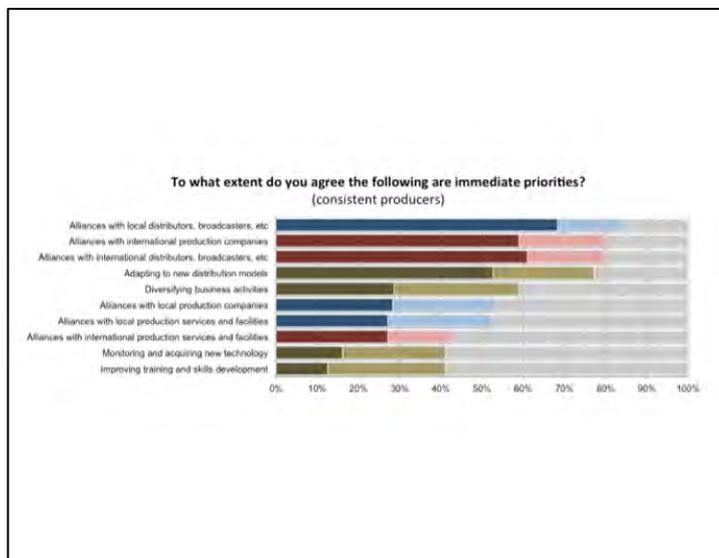
- When compared to the CPA findings across all industries, we can see that screen producers are an optimistic bunch. Just 57 per cent of other industries consider growth likely, with only 9 per cent indicating strong growth.



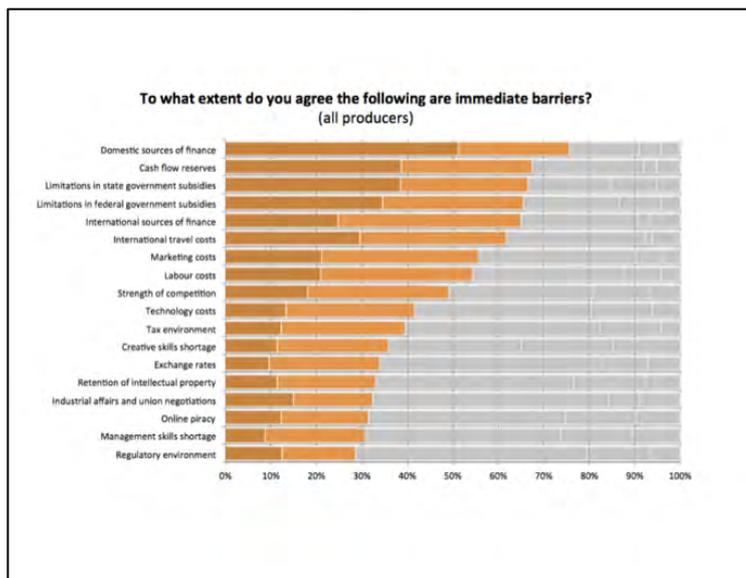
- When we look at the reasons why the production sector sees such growth opportunities, it clearly comes from increasing output. This is not a surprise. However, what is driving this output is changes to both business model and intern entering new markets.
- By comparison to other industries, entering new markets is particularly strong.



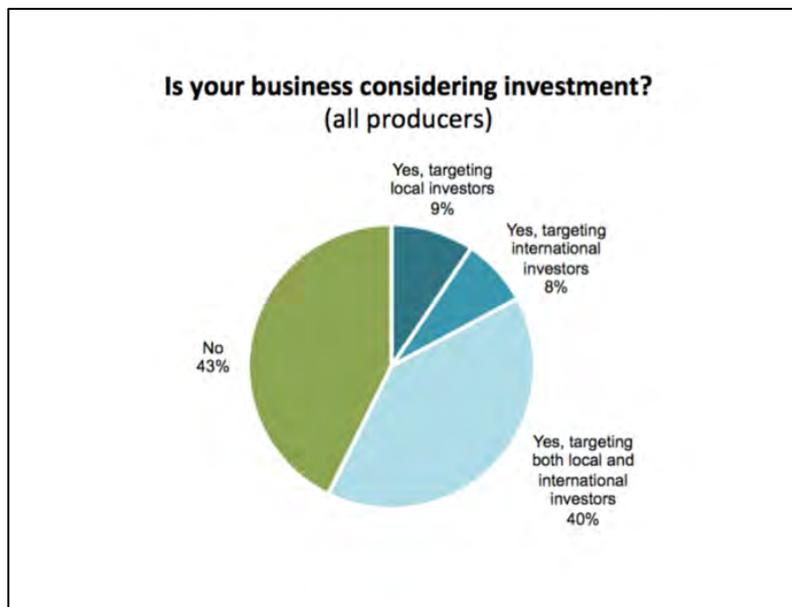
- This significance of both diversification of business model and markets is reflected in the more specific priorities to our businesses.
- This chart ranks priorities by importance. The dark shade reflects the proportion of people who have indicated that it is 'very important' while the light shade are those that indicated 'important', the remaining segments coloured gray are 'neither important or unimportant', 'unimportant' and 'very unimportant'. A couple of themes in these priorities have also been singled out, with the blue representing domestic alliances and red international alliances.
- The top two categories continue to demonstrate the ongoing importance of the producer's relationship with distributors and broadcasters.
- This can be sometimes overlooked in a climate when distribution barriers are breaking down and there are more routes to audiences. But nevertheless, the established supply chain is a paramount concern particularly in an environment of squeezed licence fees.



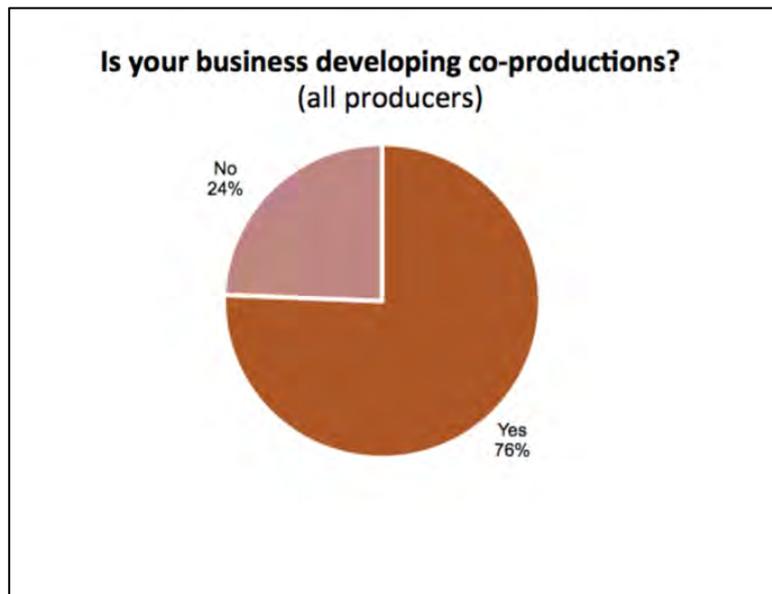
- However, there are some significant changes in this chart when we look at the most 'consistent producers'. This classification is based on volume and profitability and represents roughly a third of the production company respondents to the survey.
- This shows a jump in international alliances as a priority. In particular, alliances with international production companies.



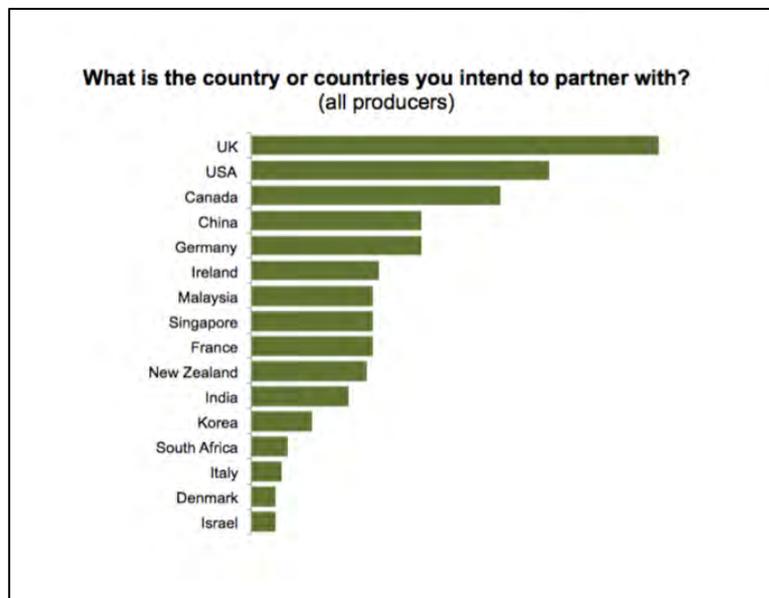
- In contrast, when we look at barriers – and yes, there are a lot of barriers on this chart – the top barriers relate to domestic financing limitations. Some of this stands to reason as we know that there will always be an over subscription to the screen agencies, and as we have already discussed, public and commercial broadcasting is unlikely to outlaying huge increases in their programming investment.
- So, one can conclude that in the faces of these domestic limitations, be it subsidy or finance, it is driving an international focus in our production community.



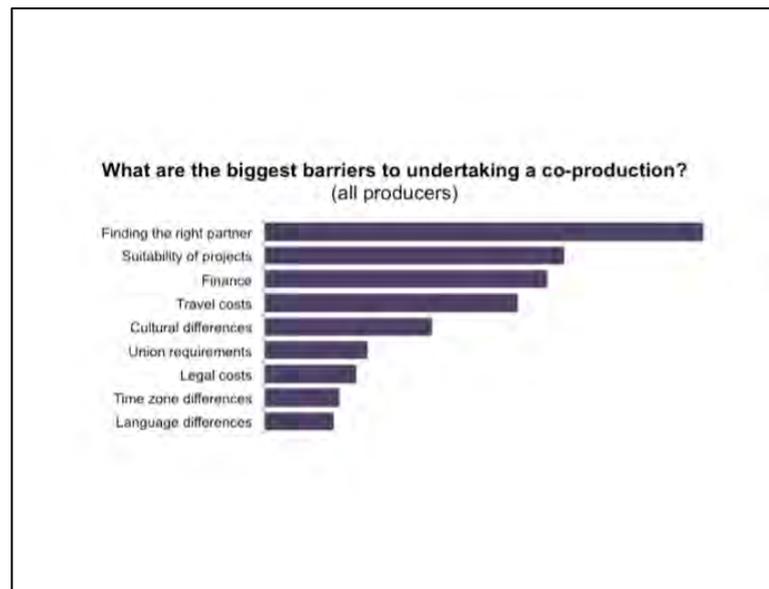
- This is happening on an investment level within businesses, with 48 per cent of businesses looking to international sources.



- And it is happening in terms of local producer's looking to develop with international producers, be they official or unofficial.



- It is perhaps unsurprising that the UK and US continue to be partners of choice, and perhaps the strength of Canada is in part due to our recent efforts to strengthen the relationship. As mentioned, by signing the MOU with CMPA and the resulting delegation to the SCREEN FOREVER conference in November.
- We can see China, which has also benefited for concerted focus for a number of years, followed by Malaysia, India, Korea and Singapore flying the flag for regional production.



- When looking at the specific barriers, finding the right partner and project are clearly the driving factor and they are to some extent interchangeable.
- This underlines many of the initiatives that the industry is taking, both with some government support, but equally through industry-led investment.
- This is an important signal within the policy context that we are operating in and is an important point to conclude this presentation on...



- While we may need to respond to a wide variety of local issues, such as the efficiency and deregulation reviews mentioned earlier, the screen industry must drive its own future and given the size of our domestic industry we need to adapt to the growing international market.
- Yes, this is a significant challenge as all other screen industries around the world are competing to do the same thing, this means we need to sure up our creative point of difference and look hard at how we increase productivity, and if we meet these challenges head on it will help us reach our export potential without eroding our content's cultural significance in the process.