australia new zealand
screen
association

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

31 January 2019

About us

1. This submission is made by the Australia New Zealand Screen Association (ANZSA). We are proud representatives of the film and television industry that contributed $5.8 billion to the Australian economy and supported an estimated 46,600 FTE workers in 2012-13.[1]

Background

2. ANZSA welcome the opportunity to make this submission to Treasury to provide input for the Government's budget planning for 19/20 and beyond.

3. ANZSA's members comprise a number of international feature producers who have invested billions in Australia for the production of high-level internationally recognised screen content.

4. 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 Carribean: Dead Men Tell No Tales, Peter Rabbit and Aquaman.

5. All six Hollywood studio members have also participated in the Australian film market - either through partnering on direct production (Mad Max: Fury Road, Gone) or through the acquisition of distribution rights (Railway Man, Tracks, The Dressmaker, The Water Diviner, Ladies in Black, Storm Boy).

6. ANZSA supports AusFilm's pre-budget submission and wishes to add the following comments.

The international screen production landscape

7. The innovation in screen production and distribution is causing global screen production expenditure to rise significantly. Streaming services such as Netflix and Amazon are investing billions in content productions annually. Apple and Facebook are also entering the sector. In 2017, the Top 14 US video content producers – which now include these new streaming platforms - spent a combined US$63.1bn on non-sports programming.[2] That figure only appears to be growing with Netflix, for instance, reportedly increasing its US$6.3bn investment in 2017 to US$12bn-13bn[3] in 2018.

8. An increasing number of state and national governments around the world 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

[1] For more information see Appendix A.

[2] 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>

[3] Fortune, David Z. Morris, Netflix is Expected to Spend up to $13 Billion on Original Programming This Year, July 8, 2018, < http://fortune.com/2018/07/08/netflix-original-programming-13-billion/>

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

9. The incentives used to effectuate these attractive programs generally fall into three categories: 1) Cash rebate, an amount of qualifying production expenditure is repaid to a producer according to a pre-determined formula. These rebates are typically funded by federal and state budgets. 2) Tax credit, offset against tax liability of production companies to the state. Typically, the incentive would reduce these liabilities when the company's tax return is filed, and provides a refund if the credit exceeds liabilities. Most tax credits are transferable – i.e. producers can sell the credits at a discount for third parties to use to reduce their individual or corporate tax liabilities, providing cash flow for the production; and 3) Tax shelter, this is structured around attracting investment from companies and individuals, who invest in film projects to reduce tax liabilities. One benefit of a tax shelter scheme is that it is funded by investors, removing the need to cash flow. However, tax shelters can be complex and can lack clarity for producers and the competent authority.

10. The attractiveness of a state or country offering incentives is determined by the actual cost-level of the screen production costs and the size, predictability and certainty of the incentive structure, as well as other variables such as a preference for working 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 (30-40% transferable tax credit), New York (30% refundable tax credit for below-the-line and post production), and countries such as the United Kingdom (25% incentive), 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.[4] It is worth noting that these headline rates have been largely stable over the past five years, in particular with Georgia and the UK struggling to build enough new infrastructure to satisfy demand.

UK Case Study – setting the model for Australia[5]

The UK Government first introduced a Film Tax Relief (FTR) in 2007, set at 25% and, based on its success, continued to expand the approach to other sectors: 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.

Over the past four years, these programs have resulted in an increase of production activity of 63%. 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. 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

[4] Ibid 3.

[5] 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> All data in this section is sourced from this report.

billion in 2016. Inward investment represented £1,376m of that, or 80%. However, this 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.

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 publicly identified spend on studios and facilities. 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 film sector generated over £1.71 billion in exports for the UK economy and contributed to a trade surplus of £784.0 million. This makes the export-to-GVA ration 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.

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.

Introduction of the Location Incentive

11. Australia's headline rate via the Location Offset scheme is currently at 16.5%. The overwhelming majority of major productions produced in Australia over the past five years were offered a discretionary top-up of 13.5% - and would not have gone ahead without it - making the overall incentive equivalent to 30%.

12. The discretionary top-up grants which were available to some projects in the preceding three years stopped in FY17/18, with location shooting of foreign features dropping from $557 million in the year directly preceding to just $8 million in the current year.[6] Meanwhile, for PDV work enjoying a stable and competitive 30% offset the performance was consistent at $88 million, very close to the five-year average of $93 million.

13. This data clearly justifies the Government's decision to introduce the Location Offset incentive program, a discretionary grant program, in May 2018's Budget. This $140 million four-year program provides a grant equivalent to 13.5% of the qualifying expenditure (thus providing a 30% equivalent for successful applicants in combination with the 16.5% Location Offset). The Location Incentive in combination with the Location Offset is expected to attract just over $1 billion in inwards investment over that four-year period, or $250 million average per year, providing a strong economic base which will benefit local screen content producers.

[6] Screen Australia, Drama Report 2017/2018, <https://www.screenaustralia.gov.au/getmedia/2cdec8cb-eb51-400b-9c88-2d14bcf83ca8/Drama-report-2017-2018.pdf>

14. 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. Thanks to the Location Incentive, a number of major productions scheduled to shoot in Australia have already been announced; Legendary Entertainment's feature film *Godzilla vs Kong* and *Reef Break*, a 13-episode series by Disney ABC International Television.

15. However, there are limitations to what the Location Offset can achieve. The Location Incentive acts as a disincentive to spend more than the planned budget in Australia as the grant is capped at 13.5% of the estimated budget, and if, for instance, a Location shoot goes over budget it becomes financially more attractive to move the PDV work overseas as leaving it in Australia would limit its incentive to 16.5%. And whilst the Location Incentive can contribute to improving the utilisation rates of the existing production facilities and assist in the employment of the highly skilled crews working on these productions, it does not promote increased investment in facilities and training nor enable Australia to achieve the foreign investment levels achieved in 2016/2017. In fact, over the four-year period the Location Incentive creates a cap at less than half that activity-level on average. And it certainly would not enable Australia to capture a greater slice of the growing global screen production investment levels.

16. For perspective, assuming that local production spend ($718 million) and foreign PDV work ($88 million) stays constant to 2017/2018's result, and the foreign investment in Australia triggered by the Location Offset is spread equally over the four years ($250 million annually), the share of foreign investment will be at just 32% of total.[7] Whilst that would be an increase on the 13% achieved in 2017/2018[8], it remains far below the 80% achieved in the UK.[9]

Increasing the Location Offset to 30%

17. ANZSA encourages the Government to consider a permanent increase of the Location Offset from 16.5% to 30% to provide certainty and predictability, rather than a discretionary top up. Should this recommendation be taken up, there is no longer a need for the Location Incentive program, and the savings from this can make a significant contribution to the financing of the Location Offset increase ANZSA commissioned leading creative industries strategy consultancy Olsberg SPI[10] to produce a report on the economic impacts of Australia's Film and TV incentives programs, which concludes that the proposed increase would be self-funded, with each dollar invested generating $3.86 of value-add activity, which in turn returns $1.05 in additional tax income.

18. The Olsberg report projects that the increase of the Location Offset, in combination with some changes to the TV Producer Offset, will transform the Australian screen production sector with the construction of 265,000 square foot in additional screen production facilities after four years, driving $1.9 billion in value add by 2021/2022, and an increase in employment of nearly 35,000 FTE employees. The tax relief investment to achieve this – assuming this is primarily driven by foreign investment - would be $477 million per annum leading to $1.6 billion in foreign investment.

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[7] Ibid 7. ($250m + $88m) / ($250m + $88m + $718m)

[8] Ibid 7. $96m/$718m

[9] Ibid 6. £1,376m/£1,720m

[10] 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, <https://anzsa.film/downloads/Impact-of-Film-and-Television-Incentives-in-Australia_180507.pdf>

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.

19. For perspective, this would bring the ratio of foreign investment as a share of total screen production investment to 70% in Australia.[11] This appears to be a realistic target given the 80% achieved in the UK (see paragraph 17).

20. 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 with you.

Clarify eligibility of streaming platforms for the Location and PDV Offsets

21. As stated in paragraph 7, streaming platforms such as Netflix and Amazon are investing in excess of $10 billion in screen content annually (and that number appears to be increasing year on year), yet Australia's current Offset guidelines restrict access to 'feature film or film of like nature e.g. telemovie, mini-series of television drama or television series. Furthermore, it goes on to clarify that 'a series or mini-series that is not distributed by way of television broadcasting (including series solely intended for distribution via a streaming platform, video on demand or DVD)' are excluded [12].

22. As evidenced by the many nominations and awards presented to shows from the streaming platforms[13] there is no logical basis to prevent the quality content produced by these platforms from accessing these Offsets.

23. As such we encourage the Government to amend the guidelines and make productions by a streaming platform eligible, provided they meet the other criteria.

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[11] Ibid 7, ($1600m + $88m) / ($1600m + $88m + $718m)

[12] Location Offset guidelines, Department of Communications and the Arts, https://www.arts.gov.au/file/7926/download?token=EZGx2-qC and Post, Digital and Visual Effects (PDV) offset guidelines, Department of Communications and the Arts, <https://www.arts.gov.au/file/7946/download?token=ug3uWq6d>

[13] Tara Bitran, *Oscars: 'Roma' Lands Netflix Its First Best Picture Nom, Hollywood reporter, 2/1/2019,* <https://www.hollywoodreporter.com/news/roma-makes-history-as-first-best-picture-oscar-nom-netflix-1177013>, Tom Huddleston Jr, *How Amazon, Hulu and Netflix fared at Golden Globes*, Fortume.com, 8/1/2018, http://fortune.com/2018/01/08/golden-globe-awards-netflix-amazon-hulu/, David Bloom*, Streaming giants rule the 2018 Emmys as Netflix, Amazon grab the gold*, Forbes.com, 18/9, 2018, https://www.forbes.com/sites/dbloom/2018/09/18/netflix-amazon-emmy-wins-2018/#53409a8e2748

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.[14]

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. The ANZSA has operated in Australia since 2004 (and was previously known as the Australian Federation Against Copyright Theft) and has operated in New Zealand since 2005 (and was previously known as NZ Fact and the New Zealand Screen Association). 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 Australia; Paramount Pictures Australia; Sony Pictures Releasing International Corporation; Twentieth Century Fox International; 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.

[14] 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.