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This is the Published version of the following publication

Burns, Alex and Eltham, Ben (2010) Boom and Bust in Australian Screen Policy: 10BA, the Film Finance Corporation, and Hollywood's 'Race to the Bottom'. Media International Australia, incorporating Culture and Policy, Film, (136). pp. 103-118. ISSN 1329-878X

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Boom and Bust in Australian Screen Policy: 10BA, the Film Finance Corporation and Hollywood's 'Race to the Bottom'

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ABSTRACT

In recent years, a narrative has emerged in the Australian popular media about the box office “unpopularity” of Australian feature films and the “failure” of the domestic screen industry. This article explores the recent history of Australian screen policy with particular reference to: 1) the “10BA” tax incentive of the 1980s; 2) the Film Finance Corporation of Australia (FFC), a government screen agency established in 1988 to bring investment bank-style portfolio management to Australia’s screen industry, and 3) local production incentive policies pursued by Australian state governments in a chase for Hollywood’s runaway production. We argue the 10BA incentive catalysed an unsustainable bubble in Australian production, while its policy successor, the FFC, fundamentally failed in its stated mission of “commercial” screen financing (over its 20-year lifespan, the FFC invested \$AUD1.345 billion for \$AUD274.2 million recouped: a cumulative return of negative 80 per cent). For their part, private investors in Australian films discovered the screen production process involved high levels of risk (Goldman 1984, Malkiel 2007). Foreign-financed production also proved highly volatile, due to the vagaries of trade exposure, currency fluctuations, and tax arbitrage. The result of these macro- and micro-economic factors – often structural and cross-border in nature – was that Australia’s screen industry failed to develop the local investment infrastructure required to finance a sustainable (non-subsidised) local sector.

KEY WORDS: Australian cinema; motion-picture industry finance; cultural policy; media policy; cultural economics; tax arbitrage

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1. The Importance of the Screen Industry in Australia's Cultural Landscape

In the early 21st century, film and television remains the dominant medium of Australian cultural consumption, as it was for much of the 20th century. The Australian Bureau of Statistics notes that Australians' most common leisure activity is watching television. In 2006, 87 per cent of Australians watched or listened to TV daily, for an average of just under 3 hours (179 minutes), down slightly from the 1997 figure of 182 minutes (Australian Bureau of Statistics 2008). Screen products are also the biggest category of cultural consumption for Australian consumers: in 2003-04, Australians spent an estimated \$AUD2.7 billion on cinema tickets, DVD rentals and pay-TV subscriptions, and an additional \$AUD2 billion on the televisions, VCR and DVD players to watch them with. In comparison, book and newspaper purchases totalled \$AUD2.6 billion, and CD purchases only \$AUD665 million (Australian Bureau of Statistics 2009: 20). When Australians attend a cultural event or venue, cinemas are the most popular destination (Australian Bureau of Statistics 2007).

Film and television dominates Australian cultural consumption yet the film and television production market is relatively small-scale. For instance, in cinemas, foreign-produced movies accounted for at least 90 per cent of Australian movie ticket sales throughout the 2000s (Screen Australia 2010a). Australia's total size of screen production in 2006-07 was a relatively small \$AUD1.8 billion; feature films accounted for only \$AUD183 million of this (Screen Australia 2010b). Australia consequently runs a large and ongoing trade deficit in film and television media.

Screen policy is highly visible in Australian cultural policy debates, due to the screen industry's perceived cultural importance and media profile. In recent years, a popular media narrative has emerged, particularly in newspapers, about the box office "unpopularity" of Australian feature films and the "failure" of the domestic screen industry (Bodey 2009, Schembri 2008, Nowra 2009, Williams 2010). In contrast, Australian government agencies responsible for screen industry development have defended the local industry - and their institutional legitimacy - by arguing that "Australian films have performed relatively well given their release strategies" (Screen Australia 2009).

This article examines the cultural policy debate about screen funding and the 'failure' or 'success' of Australia's screen industry, with particular focus on the 10BA tax incentive and the Film Finance Corporation of Australia (FFC), a government-owned screen agency established in 1988 to bring investment bank-style portfolio management to Australia's screen industry. Over its 20-year institutional lifespan, the FFC invested \$AUD1.345 billion for \$AUD274.2 million recouped: a cumulative return of negative 80 per cent. We focus on the transition from 10BA to the FFC, and on the film industry rather than television, which has a substantially larger production pipeline of projects.

By examining the FFC's declarative policy goals, and the possible factors that might explain its dismal failure as an investment vehicle for film as an alternative asset class, a broader and deeper perspective of the Australian screen industry emerges that highlights the intermeshing of global, structural and local industry factors at play. Rather than the issues of 'talent' or 'quality' often posited in journalistic narratives of the screen industry, we focus primarily on the role of finance and production. In doing so, we build on the earlier scholarly research of Elizabeth Jacka, Tom O'Regan, Janet Wasko, Toby Miller and others, which focused on the pre-FFC period of the Australian Film Commission. Our analysis suggests that cross-border, macro-economic and structural conditions, and in particular opportunities for cross-border tax, location and cultural arbitrage (Ghemawat 2007, Porter 1990), have contributed to the struggles of Australian films to attract local audiences. Indeed, they may represent underlying explanations (for instance, low marketing and production budgets) for the perceived failures of Australian screenwriters, directors

or producers to create hot box office products.

2. From 10BA to the Film Finance Corporation

Australian cinema has a more than 100-year-long history of screen production (Pike and Cooper 1998). The world's first feature film is often credited as an Australian production, the 1906 film *The Story of the Kelly Gang* (Nowell-Smith 1996). For most of the 20th century, Australian cinema was characterised by a pattern of modest but culturally significant levels of local production, accompanied by wide penetration by English and American products; a pattern described by Tom O'Regan as "a medium-sized English-language cinema." (O'Regan 1996: 77-110).

By the early 1970s, an upsurge of interest in a more nationally assertive Australian cultural policy attracted political support and accompanying federal funding. In 1973, the Whitlam Government created the Australia Council, a national funding body for the arts, modeled on English and Canadian institutions (Gardiner-Garden 1994). In 1975, the Australian Film Commission (AFC) was established. This national screen funding agency marked the beginning of a national policy of sizeable direct public subsidies for Australian production, although limited subsidies for documentary production had existed since 1945.

In 1978 and then again in 1981, the Fraser Government amended Australian tax law (the *Income Tax Assessment Act 1936*) to enable screen producers to claim a tax deduction for eligible film production: a production subsidy. The deduction rate was set at 150 per cent in June 1981, lowered to 133 per cent in 1983, and then lowered to 100 per cent between 1987/8 and July 2007 when the new Producer Offset replaced it (Screen Australia 2010g). The *Income Tax Assessment Act's* relevant sections were classified as '10B' and '10BA', and these tax subsidies soon became common methods for attracting film financing for domestic production (Department of Communications, Information Technology and the Arts 2005). 10BA's 'architect', Joe Skrzynski, had an investment banking background, and was appointed to spearhead the Australian Film Commission (Jacka 1988c: 39).

Due to the subsidy stimulus and other contributing incentives (for instance, investors only had to pay tax on half of their initial investment, and also had access to location and production subsidies), film production experienced an unprecedented boom. According to the Australian government's screen agency Screen Australia, "in the eight years from 1980/81 to 1987/88, during which the 10BA concession was at least 120 per cent with at least 20 per cent of income from the investment exempt from tax, production budgets secured through 10BA totalled ... 92 per cent of Australian features produced in the period" (Screen Australian 2010c).

Rapid growth in feature film and television production resulted, notably in an unsustainable production bubble in 1981-84 that coincided with similar speculative bubbles in artificial intelligence and expert systems, biotechnology, and early videogames (Malkiel 2007: 68-71). Private investment in Australian feature film production soared: while in the 1970s, most feature film production was government financed, by 1981/82 private investment accounted for 95 per cent of feature film investment (Jacka 1988b: 29). The 10BA scheme's approach to film financing was modelled on an investment prospectus, which although inefficient, led to the growth of film management companies, and investment banks that specialised in investor prospectuses and insurance guarantees (Jacka 1988a: 7-11, Jacka 1988b: 28-29, Augar 2006). This approach promised to deliver an improved financial infrastructure for screen production, but the high risk and low profitability of Australian screen production meant this infrastructure never fully developed.

The 10BA era saw many popular and internationally successful films produced, notably *The Man from Snowy River* (1982), *The Year of Living Dangerously* (1982), and the 10BA/foreign studio-

financed blockbusters *Mad Max 2: The Road Warrior* (1981) and *Crocodile Dundee* (1986). The audience share for Australian cinema during 10BA's subsidy was the highest in post-war history (Screen Australia 2010d, Screen Australia 2010h). However, tax evasion scandals and the rising cost of the 10BA provision led to the winding back of the 10BA subsidy from 1988. With the taxpayer as the overwhelming funder of Australian production, the production boom proved vulnerable to a more austere Australian fiscal policy after 1987 (French 2001, Stratton 1990). When the 10BA incentive was wound back to 100 per cent (eliminating the subsidy), the production bubble rapidly deflated. Thus, while the 10BA scheme continued to operate in this modified form until 2007, the '10BA era' can be considered to have ended by the late 1980s.

The local production sector and the relevant government agencies, including the Australian Film Commission, lobbied for a policy response to the now-rampant overcapacity - the sudden lack of investment demand - as a replacement for the 10BA subsidy. The eventual solution decided on by the Hawke Government was the FFC, a government-owned financing body modelled on a blueprint set out by the Australian Film Commission's policy adviser David Court. Court had authored two influential policy discussion papers: "Film Assistance: Future Options" released in November 1986, and a "Supplementary Paper" released in January 1987 (Jacka 1988a: 16-19). After a 'licensing' idea failed to gain industry support, Court proposed the FFC as a 'film bank' (Jacka 1988a: 16), in which projects with initial private investment interest would be 'topped up' and guaranteed in return for an ownership stake and a cut of the film's eventual profits (if any should materialise). The FFC was announced by Treasurer Paul Keating on 25th May 1988 and launched later that year (Jacka 1988a: 19).

Court notes:

The idea was that it would be market-driven, that is, responsive to the investment decisions of distributors, sales agents, TV networks etc. But it was understood to require continuing subsidy. The FFC was a model for delivering that subsidy. (Court, personal communication, 12th April 2010).

At first, the FFC's \$AUD70 million budget was perceived to have altered the screen industry's institutional 'balance of power'. According to Screen Australia, "direct funding from government agencies, principally the Film Finance Corporation Australia, again became the major source of finance in the 1990s." (Screen Australia 2010d). However, over time, the AFC's Special Production Fund (Jacka 1988a: 13, Jacka 1988b 43-46) and the state film corporations in Queensland, New South Wales and Victoria also established themselves as funding agencies, moving from being production facilitation agencies (helping with regulatory permissions and location scouting) towards becoming significant financiers of local production. The longer-term outcome was that domestic investment in Australian feature films came to be overwhelmingly taxpayer-financed, a trend which accelerated over the next two decades, even if the rhetoric and policy orientation of the FFC was framed around investment recoupment and commercial return (Parker and Parenta 2009, Jacka 1988d).

We argue that the 10BA film boom of the early and mid-1980s showed many characteristics of an industry bubble. Tax minimisation schemes inflated Australia's film production slate in a period of "irrational exuberance" (Shiller 2000) and investment bank growth (Augar 2006), so that the quality of film productions ran secondary to their role as tax arbitrage and minimisation vehicles (Stratton 1990). Yet, just as many so-called Web 2.0 firms emerged from the 1995-2000 dotcom bubble, the 10BA period also stimulated investment in supply-side capacity in location and post-production facilities (House of Representatives Standing Committee on Environment, Recreation and the Arts 1992, Reid 1999). These underpinned the screen industry's next 'image of the future' (to use futurist Fred Polak's term): the late 1980s vision of Sydney and the Gold Coast as Hollywood's preferred

back-lot (O'Regan and Goldsmith 2006, O'Regan and Ward 2006, Polak 1973). In doing so, 10BA bequeathed an unexpected contribution to the industry's productive capacity, similar to the long-term payoffs of railroad, telegraph, and fibre-optic infrastructure (Gross 2007).

3. The Investment Performance of the Film Finance Corporation

The FFC operated for 20 years, from 1998 until 2008, when it was amalgamated with the AFC and Film Australia by the Rudd Government into a new body, Screen Australia. The 20-year track record of the FFC as an investor therefore offers a constrained data-set and a useful sampling from which to assess the investment track record of an Australian cultural agency. Although we offer some initial analysis below for illustrative theory-testing, more in-depth analysis of the FFC and Screen Australia data-sets, and the FFC's investment in 1,165 projects, is beyond this article's scope. Rather, the causal and explanatory factors we discuss may inform more rigorous research.

[FIGURE 1 ABOUT HERE]

[Caption for Figure 1:

Above: Film Finance Corporation of Australia recoupment on investment, 1988-2008. Figures in nominal dollars, not adjusted for inflation. Source: Film Finance Corporation 2008.

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Figure 1 above shows the FFC's nominal return on investment during its two decades of institutional existence, using FFC figures published in a glossy brochure "showcasing the 20 years of achievement by the Australian Government's principal agency for funding the production of film and television in Australia" that accompanied its 2007-08 *Annual Report* (Film Finance Corporation 2008). The aggregated data available meant it was not possible to adjust for inflation.

From 1988 to 2008, the FFC invested \$AUD1.345 billion in 1,165 Australian film and television productions, for a total return of \$AUD274 million – a cumulative return over that time-frame of negative 80 per cent. The FFC states that their investment had a multiplier effect on final production budgets, arguing that their \$AUD1.345 billion investment translated into a total screen production value of \$AUD2.872 billion. But Screen Australia's own figures tell a different story. Production of Australian films has flat-lined at an average of 25 a year since the early 1990s, and the box office share of Australian features has declined from an average of 11.5 per cent for the 1980s decade to 4.5 per cent for the period 2000-2008 (Screen Australia 2010d). Production budgets per film have increased modestly over this period, and this increase needs to be seen in the context of the rapidly spiralling cost of Hollywood productions, notably marketing costs (McDonald and Wasko 2008: 51).

[FIGURE 2 ABOUT HERE]

[Caption for Figure 2:

Above: Average annual production numbers, average production budgets and average percentage of Australian box office, for Australian feature films, by decade, in the period 1980-81 – 2008-09. Figures in 2009 dollars, adjusted for inflation. Source: Screen Australia 2010e.

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On an initial analysis, the FFC and Screen Australia's production data suggests that the FFC era has

seen less feature film production and a declining share of cinema attendance in Australia, compared to the 10BA boom's glory days. The FFC's uncertain 'recoupment' record also bears witness to the high risks for the investor inherent in a taste-based market with highly uncertain demand.

Consequently, "nobody knows" beforehand whether a film will succeed or not, due to the "random walk" of combinatorial uncertainties from script and production to marketing, distribution and exhibition, although Hollywood studios increasingly use data-mining and other forecasting models (de Vany 2004, Wasko 2003: 3, Caves 2000: 3, Goldman 1984: 39, Malkiel 2007, Epstein 2006). As Australian critic and industry commentator Lynden Barber (2009) observed, "many of the failures of the local industry have been the result of commercial misjudgments — not only by the federal and state funding agencies, but also by private investors, distributors and filmmakers."

When judged by its own initial goals of 'commercial' financing, using an investment bank model based on insurance contracts and completion guarantee structures, the FFC failed to generate commercial returns. David Court counters that ". . . the FFC simply did not have available to it the range of investment strategies you envisage. In particular, it was unable to properly diversify its portfolio and effectively was unable to invest up or down the value chain. That said, it was quite good at risk management, probably too good --- hidebound and risk-averse." (Court, personal email, 12th April 2010). Nevertheless, by the end of its institutional lifespan, the FFC justified itself by resorting to old-fashioned industrial policy arguments about the amount of production it was financing, rather than the profitability and diversification of that investment portfolio (Film Finance Corporation 2008).

4. Hollywood's Runaway Productions in Australia

By the late 1980s, concurrently with changes to 10BA's subsidy levels and the FFC's creation, many Australian state governments began to move aggressively into the film policy sector with a range of local production incentives and subsidies. As Toby Miller and his co-authors observe (Miller et al. 2005: 143), in the best recent discussion of Hollywood's runaway productions in Australia:

When Dino De Laurentiis was choosing between Sydney and Queensland's Gold Coast as locations for a joint-venture studio with the Australian company Village-Roadshow in 1987, one factor in the latter's favour was the \$AUD7.5 million loan patched together by the then Queensland Film Corporation, which attracted AUD\$55 million via a local share-issue (another was lax labour laws that enabled easy exploitation of children). De Laurentiis' company collapsed after the stock market crash that year, and the space seemed destined to fail. Touted as a new Disneyland site or a multifunction polis, neither plan succeeded. But in 1988, a 150-day strike by the WGA over creative and residual-rights payments led to a chronic shortfall in new programmes. Village Roadshow responded by refinancing its investment with Warner Brothers and seeking foreign business.

The Movieworld complex at Queensland's Gold Coast was followed by similar investments in high-end location and post-production facilities at Sydney's Fox Studios and Melbourne's Docklands Studios (Newman 2008: 301). All three facilities featured significant cash, location and production subsidies and other incentives from the relevant state governments, often auspiced through their state film agencies, including payroll tax breaks and preferential leases (Miller 1998, Maher 2004: 23). By 2000, Australia was attracting significant levels of overseas production away from the market leader, Vancouver, which has provided the location for over 80 per cent of Hollywood's foreign-produced features since the late 1990s (Wasko 1998: 58). For example, while only one foreign feature was produced in 1990, with a budget of \$AUD20 million, by 2001-02 seven films were produced, with a combined budget of \$AUD374 million. Local employment more than doubled, from 5,998 in 1994 to 15,195 in 2000 (Screen Australia 2010f, Given 2003). Miller cites a 2001 study by Ulich and Simmens, in which Warner boss Lorenzo di Bonaventura explains:

The Matrix [shot at Sydney's Fox Studios] cost us 30 percent less than it would have if we shot in the United States ... the rate of exchange is 62 cents on the dollar. Labor costs, construction materials are all lower. And they want us more. They are very embracing when we come to them. (Ulich and Simmens 2001: 361).

In Australia, the debate about runaway productions such as *The Matrix* and the second *Star Wars* trilogies is often framed between two poles: 'internationalist' financiers versus 'Australian content' advocates in the federal and state government film agencies. State government film agencies in particular brushed aside fears of 'Hollywoodisation' or 'Hollywood South' (Newman 2008: 296-297) that arose during 10BA to wholeheartedly pursue runaway production. Two strategies were evident. First, Australia screen agencies encouraged 'equity co-production' agreements, analogous to the deals Hollywood studios struck to take advantage of European production subsidies (Miller et. al 2005: 195-196). Second, government screen agencies enthusiastically competed to lure foreign production to Australian facilities. Deal incentives for Hollywood producers were transparent: production subsidies, tax breaks, soft loans and preferential share issues, and cheaper labour, an arbitrage opportunity for 'value migration' (Miller et. al 2005: 143, 145-147, Slywotzky 1996). While the Australian dollar's exchange rate remained attractive, Australian crews (but more rarely Australian screenwriters, producers and directors) benefited through employment and small business development. Tourism and related industries also experienced flow-on growth.

Unfortunately, Australia's runaway production boom proved short-lived. By the mid-2000s, rising Australian terms of trade had seen a significant appreciation of the Australian dollar, a phenomenon that accelerated as a boom in Australian mineral exports to north Asia pushed the Australian dollar towards parity with the US dollar by decade's end. Although disaggregated figures for runaway production are not readily available, the scale of the contraction can be shown by the fact that the total industry value of Australian production fell from \$AUD2.24 billion in 1999-2000 to \$AUD1.67 billion in 2002-03; after a lag, screen employment in Australian also contracted sharply, from 16,427 in 2002-03 to 13,844 in 2006-07 (Screen Australia 2010b, 2010f). By 2006, post-production facilities at Gold Coast Movieworld were closing as Hollywood studios divested their investments. New Zealand also emerged as a regional competitor, after tax credits secured Peter Jackson's *Lord of the Rings* trilogy over Tasmania as an alternative location (O'Regan and Ward 2006: 18, Newman 2008: 303). Australian newspapers began to report regularly that the local screen industry was "in crisis" (Bodey 2008, Williams 2010).

Australia's screen industry responded in characteristic fashion, advocating for increased subsidies for foreign production in Australia, which the Rudd Government duly delivered in mid-2008 as part of a new film policy that saw increased production rebates (including a 15 per cent location offset for foreign production), and the amalgamation of the Australian Film Commission and the Film Finance Corporation into Screen Australia (Australian Film Commission 2006, Department of the Environment, Heritage, Water and the Arts 2009).

Runaway production in Australia turned out to be as evanescent as its name suggests. Currency competitiveness was a key factor determining where the production dollars flowed, as the AFC admitted after surveying Hollywood producers in 2002: "Australia is seen by these producers as more competitive than Canada because of the exchange rate" (Australian Film Commission 2002: 22). As well as an appreciating currency, Australia also faced increasingly fierce competition from Canada, Mexico and other US states, which had begun to offer their own generous production subsidies and tax incentives (Moneypenny Business and Taxation Services 2003, Scott and Pope 2007).

By the late 2000s, Australian policy-makers therefore faced a policy landscape disconcertingly

similar to the late 1970s, with the bulk of Australian production dependent on taxpayer funding, either through direct public investment in local film and television or indirect subsidies for foreign-financed production. A self-sustaining private investment market for Australian screen remained tantalisingly out of reach - as it has done since the end of the 10BA subsidy era.

5. Structural Factors and Pro-cyclical Policies in the 10BA and FFC Eras

We argue that cross-border, macroeconomic and structural factors involved with film finance, film markets and project selection decisions - rather than merely a paucity of local screenwriting, acting or directing talent, as is often suggested in the popular media - represent a significant causal explanation for the current (un)popularity of Australian cinema. While it is possible that lower artistic standards, or less popularly appealing screen products, may be one of the reasons for the current market share of Australian cinema, we argue that is far more likely that the apparent “unpopularity” of Australian films is in fact a consequence of structural factors constraining the creative output of Australian film-makers: low production and marketing budgets, distribution bottlenecks, and the poor investment decisions of monopsonistic screen funding agencies.

Secondly, the unintended consequence of policy decisions since 1981 has been considerable volatility in local screen production levels. Importantly, Australian screen policy in this period has tended to be pro-cyclical, accentuating the boom-and-bust cycles that local cinema was already susceptible to. Policies that can be considered to have exacerbated this volatility include the 10BA subsidy of the early 1980s, and the encouragement of runaway production in the 1990s and 2000s. While the good times saw considerable employment and production growth, the busts led to savage industry adjustments. Nor did the self-sustaining industry anticipated by policy-makers ever eventuate: by the end of the first decade of the 2000s, Australian feature film production continued to struggle to draw local audiences (let alone export markets) and attract private investment. What policy lessons might be drawn?

One lesson, in our view, is that the current journalistic narrative of industry ‘crisis’ is a major barrier to sound policy development. While policymakers can’t necessarily influence screen journalism, they make policy in an environment in which media narratives can shape political responses. Journalistic reportage on new films often shows ‘halo’ and ‘recency’ biases that revolve around crude measures of box office performance (even in an era where foreign-territory distribution and DVD deals can represent the major proportion of a production’s final income) (de Vany 2004: 48). Further, many journalists prefer to concentrate on festival nominations and prizes and prominent critics’ views, leading them to unrealistic estimates of the likelihood of a given film’s commercial success (Williams 2010). Journalistic reliance on screen agency marketing as a story source can also obscure the role of independent screen producers, directors, and early investors. A different approach currently emerging from the screen ‘blogosphere’ would see journalists moving beyond crude box office measures of profitability and conducting post-implementation reviews of new films. Nikki Finke’s *Deadline Hollywood* blog (<http://www.deadlinehollywood.com>) provides one successful example of this approach.

A second lesson emerges from an analysis of the extant literature on Australian screen, which has understandably tended to focus its attention on the core texts of Australian screen: the film and television productions themselves, and the work of Australian directors. One consequence of this has been relatively little examination of the role of cross-border, macroeconomic and structural conditions in the development of the local industry (the work of Tom O’Regan is an exception in the Australian context; see de Vany 2004, Wasko 2003, Gomery 1998, Maltby 1998 and Smith 1988 for examinations of these phenomena in Hollywood). In the Australian context, the cultural studies approach tends to address the evolutionary role of institutions only insofar as it informs an

engagement with the primary cultural texts (King, Verevia and Williams 2009). Fields such as cultural microeconomics can offer new conceptual frameworks for problem diagnosis and solution design in Australian screen studies, but have been little explored in this context.

On a policy level, a further conclusion can be drawn about the institutional legacies of 10BA and the FFC faced by Australian screen policymakers. Despite the intentions of the architects of those frameworks, such as Joe Skrzynski and David Court, the FFC appears to have suffered from ‘institutional capture’ by film government bureaucrats and the local industry, which Court has carefully re-evaluated (Court 1994), as well as ‘lock-in’ effects from other screen agencies and policy decisions. As a result, the FFC’s operations slowly evolved from a fairly pure investment bank model to a subsidy-based industrial policy approach. Meanwhile, the state-based screen production facilities proceeded on a parallel policy track, driven as much by political opportunism and ‘boosterism’ as any explicitly articulated policy framework.

In addition, despite its mandate as a new screen funding institution, the FFC operated from the beginning in an environment of conceptual continuity with past government screen policies. With the demise of the 10BA financing boom, a *monopsony* emerged (a market structure with a single buyer) in which the AFC and FFC (and to a lesser extent, the state-based screen agencies) were usually the sole buyers and/or major investors in Australian films, despite international co-production agreements. Under this market structure, the AFC, rather than private investors, provided the initial development funding for many projects, with the FFC ‘topping up’ the funding once the AFC hurdle had been cleared. Consequently, the FFC assumed significant counter-party, project and market risks, including adverse selection. As it turned out, the FFC did not recoup the anticipated revenues from successful projects to invest in new productions. Had there been several competing FFCs or investment banks, and viable levels of initial private investment, a different ecosystem or financing structure might have emerged.

6. Conclusion: New Directions for Australian Screen Policy and Further Research Opportunities

We conclude that the commercial misjudgments noted by Barber (2009) and Nowra (2009) are, in part, consequences of the FFC’s funding model, specifically in its asset allocation, project selection, diversification and risk management functions. Although we are not privy to the FFC’s internal deliberations, the Australian government’s 1992 *Moving Pictures Inquiry* excluded any in-depth discussion of the FFC’s investment process from its terms of reference and “from the comments it received about the company’s investment policy” (House of Representatives Standing Committee on Environment, Recreation and the Arts 1992: 11). A true investment bank would have demonstrated more regular and transparent reporting and feedback mechanisms on recoupment targets, and it would also have endured significant commercial pressures as the losses stacked up – pressures the FFC largely avoided, perhaps because of its tacit role as a government-owned industry financier. This omission may have inadvertently influenced the FFC’s organisational evolution as a “quasi-commercial entity” (House of Representatives Standing Committee on Communications, Information Technology and the Arts 2004: 178).

A review of other historical sources supports our tentative assessment. Film finance sources in the mid-to-late 1990s still often required the FFC and the AFC to shepherd a project through to completion, while alternative sources of private finance were highly dependent on institutional, macroeconomic and cross-border pressures, and vulnerable to sovereign risks (Reid 1999: 14-17). An example of this policy risk was the Film Licensed Investment Company Scheme, established in 1997 to provide concessional capital to shareholders, which ran for only three years before being wound up on 30th June 2000 (House of Representatives Standing Committee on Communications, Information Technology and the Arts 2004: 152-153). The major factors for low levels of domestic

investment canvassed in the 2004 Parliamentary inquiry into film subsidies included a “lack of audience appeal” due to a impoverished “domestic culture” of film production, in addition to “low budgets”, and poor-quality scripts (House of Representatives Standing Committee on Communications, Information Technology and the Arts 2004: 164-168, 179-182). In many cases, these inquiries reflected deeply-held assumptions and past orthodoxies, rather than any wider understanding of the sectoral reality of a highly competitive, trade-exposed marketplace.

The Committee noted that the FFC had revised its investment criteria for scripts, and it remains to be seen whether this will filter through to affect or improve the recoupment performance of the newly amalgamated body, Screen Australia. Do the current assumptions and orthodoxies need to be re-evaluated? What if entirely new approaches for the financing of nascent screen production were considered? As screen director Robert Connolly points out in a 2008 paper, existing Australian production practices, under the regulatory mandate of screen funding agencies, have become sclerified and rigid (Connolly 2008).

In contrast, screen agencies could take an investment management rather than a content perspective. This approach emphasises a diversity of investment *processes*, rather than attempt to micro-manage development or meddle with content and creative decisions. We propose four such alternative examples from other industries: 1) the *Australian Idol* series for artist and repertoire development in the music industry (content development as talent quest); 2) current interest in Government 2.0 mechanisms for stakeholder consultation (screen development as ‘wikinomic reform’ that employs the ‘wisdom of crowds’)(Tapscott and Williams 2006, Surowiecki 2004); 3) new proposals from experienced screen producers such as Robert Connolly (in essence, deregulation of screen development funding) (Connolly 2008); and 4) innovation tournaments such as the X-Prize Foundation (<http://www.xprize.org>) and the *Project Greenlight* television series (Terwiesch and Ulrich 2009). Furthermore, if script quality really is an endemic problem, then perhaps Australian policymakers might consider an auction system, such as already used for Hollywood ‘spec’ scripts (Wasko 2008: 48. Why continue to use incremental refinements if the underlying processes for project selection don’t work?)

Another lesson for screen industry policymakers and producers is to consider the 10BA and FFC periods from the perspective of Hollywood producers and studios. Hollywood producers took advantage of Australian location and production subsidies during an evolution in the structure of Hollywood industry, which saw new development deals and partnership company structures (Wasko 1998: 50-51, 53). Two pivotal acquisitions – Sony’s \$USD\$3.9 billion deal for Columbia Pictures Entertainment in 1989, and Matsushita Electric Industrial Company’s \$USD6.9 billion deal for MCA in 1990 - shook up the industry and foreshadowed the mid-1990s merger waves in media, finance and investment banking (Augar 2006, Balio 1998: 64). These acquisitions destroyed value in the merged companies, but they also imposed learning curves on Hollywood producers, particularly in respect to the global marketing and distribution of feature films, that later showed up in MBA courses on finance and tax arbitrage strategies in the screen industry (Trumpbour 1998, Desai, Mihir and Veblen 2002a, Desai, Mihir and Veblen 2002b). The result was an evolving Hollywood industry structure (Dowling 2005). In particular, Hollywood studios developed core competencies in risk management, global marketing and distribution, investment diversification through project portfolios, and distributor/exhibitor lock-in for film launches (McGahan 2004: 44-47), while outsourcing much of their core production needs to tax-friendly foreign locations and post-production facilities. Ironically, these core competencies are the very same ones that the government inquiries we examined above noted were areas of serious deficiency for the FFC and other Australian government screen agencies.

For their part, Australian producers were exposed to very different competitive pressures: pressures that emphasized good relationships with the monopsony providers of local film finance, the screen

agencies themselves. Thus, while Australian producers concentrated on proposing projects that would be likely to win the attention of domestic screen agencies, Hollywood embarked on a ‘race to the bottom’ scenario: a subsidy chase to jurisdictions that offered production subsidies and tax advantages. In effect, Australian producers competed for a small pool of captive grant funding, while Hollywood studios embarked on a complex cross-border strategy of cultural, geographic and tax arbitrage (Ghemawat 2007: 170, 174-180). Perhaps without fully realizing it, Australian crews and post-production facilities had therefore entered a ‘rank order tournament’ for labour, locations and production subsidies, which pitted Australian facilities against those in Mexico, Canada and various non-Californian US states (Christopherson 2008: 163, Miller et al 2005: 97-102, Lazear and Rosen 1981).

Finally, whilst our article reconnects with an earlier tradition of Australian screen industry research, it also identifies areas for future scholarly research. The publication of more fine-grained and disaggregated data from the FFC and other government screen agencies would assist the debate on domestic screen investment recoupment. Co-integration of data sets, including legacy data from different government agencies and historical sources, might reveal different patterns and testable hypotheses. Case studies and histories may also inform the re-assessment of the FFC’s decision-making processes, investment track record, and organisational evolution, in particular its relationship with other screen industry institutions. We also note other areas—such as behavioural economics, evolutionary finance, mergers and acquisitions studies, and the economics of the design and regulation of cultural markets—which may hold further lessons for screen producers and Australian screen policymakers.

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