

THE ECONOMIC IMPACT OF VIDEO ON-DEMAND SERVICES IN AUSTRALIA



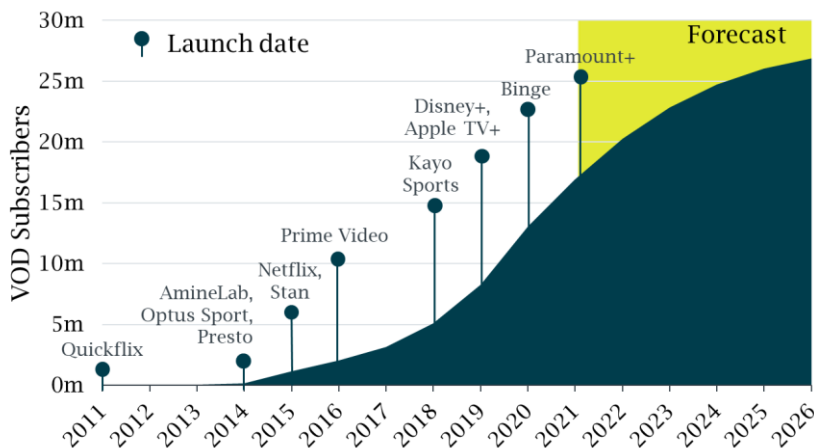
2022

THE ECONOMIC IMPACT OF VIDEO ON-DEMAND SERVICES IN AUSTRALIA

1. VOD services are starting to take off in Australia

Australia supports a vibrant video on-demand (VOD)* sector with consumers recently spoilt for choice of services. The popularity of the services, and the local content they offer, has been growing and there were nearly **13m** Australians holding a VOD subscription in 2020 (Figure 1).¹ Though the sector is relatively young, with VOD services launching later in Australia compared with other countries, already **72%** of internet users in Australia use VOD at least once a week,² spending **40%** of their time on VOD services watching local content.³

FIGURE 1 GROWTH OF VOD SUBSCRIBERS OVER TIME



Source: Ampere

Note: VOD subscribers include any VOD subscription customers that pay a fee. Launch date is the year the service could be first used in Australia. Figures from 2021 are forecast

VOD related revenue is increasing. Revenue generated by Australia's broadcasting and online video sector grew by **9%** between 2010 and 2020, following the entry of VOD services,

* The term video on-demand (VOD) refers to professional and curated online video content and does not include user-generated platforms such as YouTube. Alternative terms can be used to describe video on-demand services, including direct-to-consumer services (DTC), online curated content (OCC) and online subscription services.

EXECUTIVE SUMMARY

Video on-demand (VOD) services were launched later in Australia compared with other countries but already make important direct and indirect economic contributions to the country's audiovisual (AV) industry. VOD services make significant investments in Australian content and the AV industry, creating jobs and promoting local content. VOD services are in high demand from consumers. This drives investment by VOD services in high-quality productions made in Australia that they can then showcase to global audiences.

These investments bring benefits to the economy and society more broadly. Investments in training or infrastructure spill over to the AV sector as a whole, spur tourism, enhance Australia's reputation and support wider social goals.

Investment in Australian content is already high. If policies are considered, total impacts need to be assessed and they should focus on maintaining incentives and ensuring Australia remains an attractive place to produce. Some policies can boost investment, but others can act as deterrents. We have found that tough policy restrictions reduce broadcasting exports and are associated with lower investment in content.

This White Paper summarises research Frontier Economics has undertaken into the economic impact of protectionist policies in video content production. It also highlights the economic impact that VOD services have in Australia, and the implications for policymakers who wish to encourage and benefit from such investments.

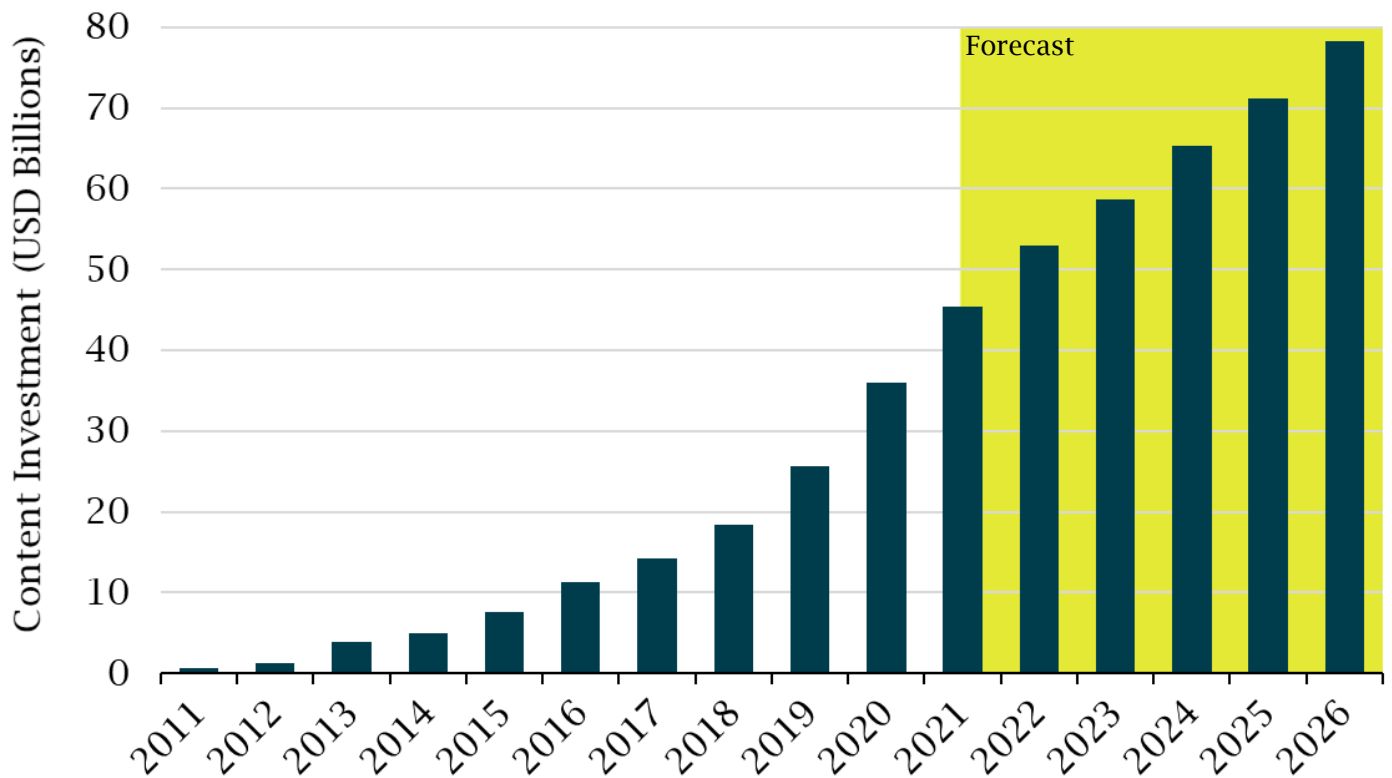
which now include Netflix, Stan, Binge, Disney+ and more. Since 2011, the revenue of VOD services has risen to **\$940m (AUD1.4bn⁴)⁵**, and it is projected to rise to **\$2.5bn (AUD3.6bn)** by 2025.⁶

GLOBAL INVESTMENT, LOCAL IMPACT

2. VOD services are generating a creative content boom

VOD services invest heavily in content to support their services globally. In 2020, they directly invested **\$36bn (AUD52.3bn)** in VOD content worldwide, covering original and licensed titles. This sum is likely to increase to **\$78bn (AUD113bn)** by 2026.

FIGURE 2 GLOBAL VOD CONTENT INVESTMENT 2011 TO 2026



Source: Ampere

Note: VOD content investment includes content spend by both subscription VOD and ad-based VOD companies

The significant increase in content investment in the pipeline includes:

- The Walt Disney Company’s plans to invest **\$14bn-16bn (AUD20.3bn-23.3bn)** per year in global VOD content by 2024;
- ViacomCBS’s plans to ramp up investment in VOD content to **\$5bn (AUD7.3bn)** in 2024;⁷
- A pledge by WarnerMedia’s parent company, AT&T, to invest **\$4bn (AUD5.8bn)** in HBO Max, including HBO Max original programmes which are available on various platforms in Australia including Binge, in the three years through 2022;⁸ and,
- Netflix will spend **\$28bn (AUD41bn)** a year by 2028.⁹

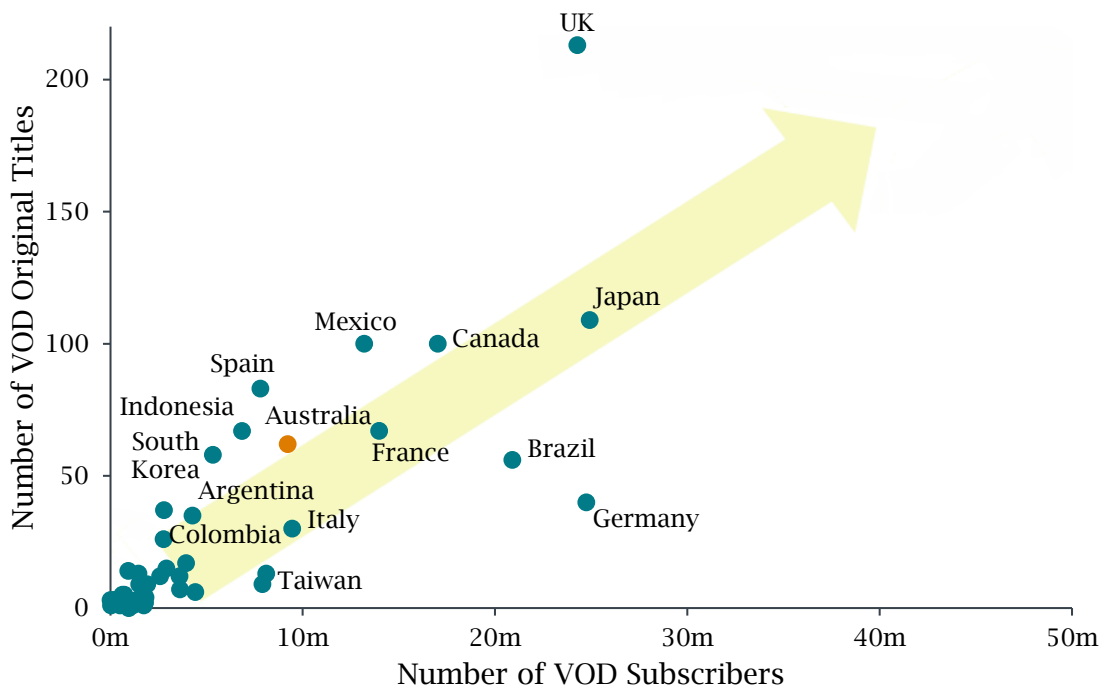
3. VOD services are investing in Australian content

Frontier Economics’ research has found that there is strong consumer demand for Australian content and that this drives investments in Australian content by VOD services and independent producers. As a country’s VOD service subscriber base grows, so do the incentives to produce local content.

Hence, the overall geographic distribution of VOD investment in original titles is broadly proportionate to each country’s number of VOD subscribers (Figure 3). This relationship holds in Australia. Subscribers are not the only determinant of investment in local content as success of previous content exports from the country (US, UK, South Korea, Canada), commonality of the spoken language (such as Spanish or English), or comparatively lower local production costs (Mexico, Indonesia) can also determine investment.

It is important to note that leading content providers invest in Australian content and the Australian industry not only for their VOD services but for all their distribution channels, including linear and theatrical distribution. In 2019, The Walt Disney Company, NBCU, WarnerMedia and ViacomCBS collectively poured **\$45bn (AUD65bn)** into content spending and creation globally (excluding sports) across their distribution channels, which they will partly monetise on their VOD services (Disney+, Peacock, HBO Max and Paramount+ respectively).

FIGURE 3 RELATIONSHIP BETWEEN VOD SUBSCRIBERS AND MARKET-SPECIFIC VOD “ORIGINAL” TITLES



Source: Frontier analysis of Ampere and Media Partners Asia data

Note: VOD subscribers include any global subscription VOD customers in 2019 who paid a fee. The 2019 values of VOD subscribers are used as they are the most comparable to the VOD originals data which covers investment pre-pandemic. Pre-pandemic data has been used because of the uneven impact of the pandemic on AV industries across the world. A title has been included as a VOD original title if it was produced by the VOD service and released only on the VOD service. The sample of titles reflects the catalogues of VOD services available in the following markets: Argentina, Australia, Brazil, Canada, Colombia, India, Indonesia, Mexico, Korea and Taiwan. VOD services included in the sample of titles are: Netflix (18% of titles), Amazon Prime Video (18%), Hotstar (7%), Wavve (7%), Foxtel Now (6%), iflix (5%), Eros Now (5%), WatchaPlay (4%), HamiVideo (4%), Hooq (4%), Claro Video (3%), friDay (3%), myVideo (3%), myVideo (2%), Looke (2%), SonyLiv (2%), VIU (1%). Others (inc. Globo Play, CraveTV, Vidio, Stan, Disney+, Apple TV+ and Crunchyroll - 10%). The data includes content titles that were available between June 2017 and April 2020, and an additional set of titles that were available in October 2020 in Indonesia, so does not reflect the most recent releases. All markets that have had a VOD original title produced in their market are included in the analysis. China has been excluded as data was not available. Note that US and India are not included in the figure since they are outside the limits of the scale. See technical annex for further detail.

The relationship set out in Figure 3 is likely to continue to hold in Australia in coming years. In addition, since 2019, following the further entry of new VOD services in Australia, there has been a steady increase in subscribers, and corresponding new investment in local content with VOD services making significant investments in content in Australia, both individually and in partnership with traditional broadcasters.

- Amazon Prime Video, Disney+, Netflix and Stan spent **AUD629m** on Australian and Australian-related programs in the 2020-21 financial year¹⁰ (of which **AUD179m** was spent on Australian content¹¹ and **AUD450m** was invested in “Australian-related content”¹²). Much of this investment focused on commissioning new or acquiring Australian drama, documentaries and children’s programmes. The spend by the four VOD services increased compared to the 2019-20 financial year as investment in Australian programs increased by **17%** from **AUD153m** and investment in “Australian-related content” nearly quadrupled from **AUD115m**.¹³
- ViacomCBS, announced that it has invested in exclusive Australian productions for its recently launched Paramount+ including *The Last King of the Cross*, *Spreadsheet* and *6 Festivals*. ViacomCBS’s head of Australian content Bev McGarvey said at launch that “*We want to be able to use Paramount+ to tell strong Australian stories.*”¹⁴ Following the launch in October 2021, at the ViacomCBS Australian Upfronts, further local content investments were announced, including a new season of popular Australian drama *Five Bedrooms*, along with documentary series *Couples Therapy*, and a major new reality adventure series *The Bridge* that will be filmed entirely in Tasmania.¹⁵ At the event ViacomCBS’s Bev McGarvey said “*Our selection really captures the essence of what makes entertainment in Australia so powerful. There’s depth in the narratives and complexity to the characters; the production values are world class; and our cast and local crews only underline the diverse, talented bunch we are.*”
- Since launch in 2015 Stan has commissioned local productions with budgets totaling around **AUD300m**,¹⁶ and the Australian owned and operated streaming service is continuing to increase its investment in local television and film. The strategy will see Stan ramp up its output to deliver around **30%** of its first-run slate from original productions.
- Since 2019, Amazon Prime Video has commissioned **14** Amazon Original series in Australia, investing **AUD150m** in local productions and creating more than 2,500 jobs. Amazon is investing in a diverse range of Australian content, which includes comedies, documentaries, reality and scripted dramas. Tyler Bern, Head of Content, Prime Video Australia, said that “*We know that viewers in Australia want to see new, fresh, unique and authentic stories that they can connect with, and we’re committed to producing diverse Australian programming for Prime members globally.*”¹⁷
- Netflix invested **AUD110m** in the four years to 2020 in Australian original and co-produced children’s programs alone.¹⁸ And in 2020, Netflix invested in **16** new Australian titles such as its **AUD36m** investment in the recent original series *Clickbait*.¹⁹
- Disney in the fiscal year ending June 2021, in addition to filming two Marvel movies back to back in Sydney, funded the Australian crime comedy *Mr Inbetween*, brought *9 Perfect Strangers* with Nicole Kidman to Byron Bay and shot *Limitless* and *Shark Beach* with Chris Hemsworth in Australia. In addition, Disney+ Australia is now making *Shipwreck Hunters Australia* a six-part documentary series filming now off the coast of Western Australia.

- Screen Australia has found that investment by VOD services in drama content, some of which is outlined above, has increasingly been in high-end content as the average cost-per-hour of the titles has increased over the last five years.²⁰ High-end, high budget content can have larger economic impacts through job creation, increased exports due to potentially being more popular globally and through wider spending on inputs needed for production.

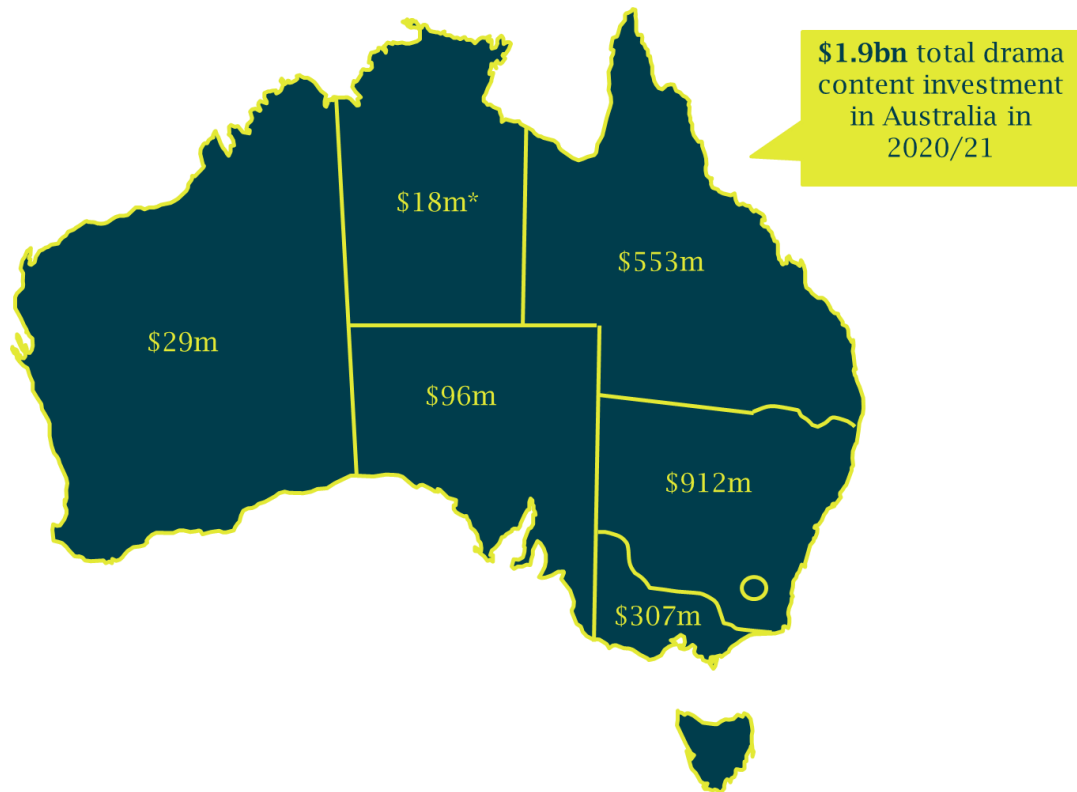
As illustrated, VOD services have committed to individual specific investments in Australian content. However, on top of this, VOD services and the media companies supporting them also engage in complex investment partnerships and co-productions.

4. VOD services are creating jobs and are delivering returns for the economy

The media companies offering VOD services create jobs directly in the production sector across activities within the AV ecosystem. These include VOD services, feature films, TV content production, physical production facilities, digital visual effects, and the distribution of pay TV channels. Additionally, research finds that **60%** of production costs are on average incurred in the general economy outside the AV sector, for example on catering, hospitality, construction and legal services.²¹ This spending broadens the employment benefits and the media sector's contribution to the Australian tax base.

- The Australian media sector is a significant segment of the domestic economy, employing approximately **90,000** Australians in 2018/19 and generating an estimated **AUD47.7bn** of domestic revenue.²²
- Investment in content, even content that is not considered Australian, can deliver returns for the local economy. In the 2020-21 financial year investment in foreign filming productions in Australia by Amazon Prime Video, Disney+, Netflix and Stan employed **56** Australian cast, **2,356** Australian crew and over **5,000** Australian extras.²³
- In 2020/21 a record **AUD1.9bn** was invested in Australia, across both Australian content and foreign filming, on scripted drama content for film and TV. This is an **84%** increase on 2019/20 and a **46%** increase on the previous highest amount invested in 2016/17. In addition, a record **AUD874m** of this was invested in Australian content.²⁴ The investment in content in 2020/21 was spread throughout Australia as shown in Figure 4.²⁵

FIGURE 4 SCRIPTED DRAMA CONTENT INVESTMENT IN 2020/21 BY STATE AND TERRITORY



Source: Screen Australia, Drama Report - Production of feature films, TV and online drama in Australia in 2020/21

Note: All values are in AUD. *The AUD18m in Northern Territory represents the scripted drama content investment across Northern Territory, Tasmania and Australian Capital Territory as it is combined in the Screen Australia report.

- Between 2017 and 2020, ViacomCBS's investment in global film and television production in Australia has delivered more than **AUD130m** to the local economy, supporting **990** jobs and more than **700** Australian businesses.²⁶ This included popular 2019 childrens film *Dora and the Lost Cities of Gold*, filmed on the Gold Coast. The cast included Eva Longoria who said of the local film crew, "Brilliant, they were so great, they had big project after big project, so...it was one of the most experienced crews I've ever seen just for the amount of work they're continuously doing there." While Isabela Moner (who played Dora) said, "they (the production cast and crew) were wonderful, Aussies are such good people. Specifically, I've never seen so many women crew members which is so cool, really, really, cool and it felt like such a great environment to be surrounded by."²⁷

Just one production can have a significant impact on the local economy.

- In 2016, Disney spent a reported **\$180m (AUD262m)** in Queensland shooting *Thor: Ragnarok*. The production, now on Disney+, created more than **2,000** jobs for local cast, crew and production office personnel.²⁸ In addition, the production of *Thor: Love & Thunder* (due for release in 2022), filmed at Fox Studios Australia in New South Wales, is estimated to have brought **\$178m (AUD259m)** to the NSW economy, created **2,500** jobs and used services from **1,650** local businesses.²⁹

- Apple TV+'s **AUD55m** investment in the original *Shantaram* series, which is still in production, will provide up to **1,000** jobs in Victoria during production.³⁰ The series is based on a popular Australian novel of the same name by Gregory David Roberts.
- Netflix's investment in *Clickbait*, which was written, co-created and produced in Victoria, brought more than **AUD36m** of new international investment and engaged around **540** cast, crew and extras and used the services of around **290** local businesses.³¹
- VOD productions can also bring economic activity outside city centres, to regional Australia. The Hon Paul Fletcher MP, (Minister for Communications, Urban Infrastructure, Cities and the Arts) has said Amazon Studio's filming of season 2 of *The Wilds* was expected to bring investment of more than **AUD73m** to the Australian economy and create more than **270** jobs for cast and crew.³² At a local level, filming at Deadman's Beach, Frenchman's Beach, South Gorge, Flinders Beach and on Southern Moreton Bay is estimated by Redland City Council to have provided a direct economic injection of more than **AUD800,000** to the island and Redlands Coast economy. The production saw **200** cast and crew staying on the island, resulting in about **4,000** hotel nights with local accommodation providers.³³ The show, which was co-produced by Amazon Studios and ABC Signature Studios, engaged Brisbane-based production company Hoodlum Entertainment as its service company in Australia.

5. Australians are finding the local content they demand on VOD services

Frontier Economics surveyed 1,107 internet users in Australia and found they demand a diverse array of content, both local and international, and that VOD services are delivering content consumers want and love.³⁴

Consumers in Australia feel it is important that VOD services provide local content and Australian consumers use VOD to watch local, Australian content. While the catalogues of VOD services offer subscribers a wide mix of content from around the world, **40%** of the content users stream is from Australia.



40% OF HOURS WATCHED ON AUSTRALIAN VOD SERVICES WAS LOCAL, AUSTRALIAN CONTENT³⁵



73% OF AUSTRALIANS CONSIDER IT IMPORTANT THAT THEIR VOD OR TV CONTENT SERVICES PROVIDE AUSTRALIAN CONTENT³⁶



44% OF AUSTRALIAN VIEWERS THINK THAT THEIR VOD SERVICES PROVIDE A GOOD, OR THE BEST LEVEL OF AUSTRALIAN CONTENT.³⁷ ONLY 15% DID NOT THINK VOD SERVICES HAD ENOUGH AUSTRALIAN CONTENT.



58% OF CONSUMERS ARE SATISFIED WITH THE AMOUNT OF AUSTRALIAN CONTENT ON THE VOD SERVICES THEY USE ³⁸

6. VOD services are bringing Australian content to a wider world

International VOD services are able to expand the reach of Australian stories to global audiences. VOD services offer an unprecedented global audience and reach diverse viewers, including niche audiences around the world who seek Australian content. Australian content producers consider not just their domestic audiences, but in addition how their content will appeal internationally. Indeed the Hon Paul Fletcher MP (Minister for Communications, Urban Infrastructure, Cities and the Arts) has argued that “*in the internet era, it is more important than ever to work out what your strengths are - and where you are going to be good enough to build not just a strong market share in Australia but a strong market share globally*”.³⁹ By meeting international demand for Australian made content, VOD services are supporting local producers and Australian exports and promoting the country’s artists and culture.

As of June 2021, there were at least **626** Australian titles available in the US on VOD services, 530 available in Canada, 515 available in the UK, 185 in France, 162 in Japan, 161 in Mexico, 155 in Brazil and at least 42 available in India.⁴⁰ Examples of Australian content that have been popular worldwide include:

- ABC and Netflix’s co-production *The Inbestigators*;
- Australian docuseries, *Love On The Spectrum*, which is produced by ABC in Australia and was picked up for international distribution by Netflix, helping increase awareness of the show;
- Australian animated TV series *Bluey* which was released internationally on Disney+; and
- Stan’s commission, *No Activity*, which has been distributed widely into several overseas markets, and the format rights to the series were sold to CBS for a US adaptation in 2017.

In particular, Australian children’s and young adult television programmes have benefited from the additional support and exposure VOD services can provide. Canadian-Australian director, producer and showrunner of *Dive Club*, a co-production between Netflix and Network Ten, Steve Jaggi highlighted the ability of VOD services to reach global audiences saying “*For a very tiny Australian teen show on a very humble budget to have gone out and... we actually broke through in over a dozen territories into the adult carousel Top 10 and it was on the kids carousel in over 50 territories. So, the number of eyeballs is obviously in the many, many millions*”.⁴¹ As well as the additional exposure, VOD services have been keen to support the Australian features of local content. Daley Pearson, who supported *Bluey*’s production, said that when he took the title to market there was feedback from other distribution outlets that they might need to change the distinctive Australian voices of the characters, but Disney were supportive; “*Disney and Disney+ were one of the ones who supported it, which was why we were really attracted to go with them... They really supported the show’s DNA*”.⁴²

CASE STUDY - CONTENT INVESTMENT IN AUSTRALIA: *THE INBESTIGATORS*



The Inbestigators is a comedy-drama about a kids' detective agency that was a co-production between ABC and Netflix and produced by Australian production company Gristmill.

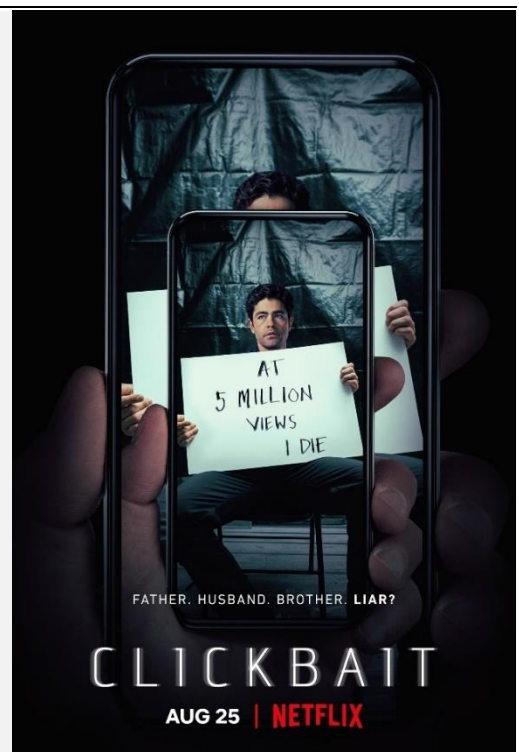
The creators, Robyn Butler and Wayne Hope, say that the partnership with Netflix allowed them to scale and shoot two seasons simultaneously.

The global audience for the programme was demonstrated to the creators when they received fan art and re-enactment videos from children in Brazil, Romania and South Korea who watched *The Inbestigators* on Netflix. Robyn Butler said, "That was extraordinary to us because everything in the show is so specifically Australian".⁴³

CASE STUDY - CONTENT INVESTMENT IN AUSTRALIA: *CLICKBAIT*

Recently released Netflix series *Clickbait* was the first Netflix original series to be produced in Victoria.⁴⁴ It was produced at Docklands Studios Melbourne involving a majority Australian cast and crew and it was supported by the Location Offset and Incentive fund, and Film Victoria's Production Incentive Attraction Fund. Australian co-creator Tony Ayres said that "We are equally delighted to produce this US show in Melbourne. It's an opportunity to showcase the international level of Australian talent both behind and in front of the camera."

The show hit the number one most watched spot on Netflix in more than 20 countries including Australia, the USA and the UK. Netflix helped this made-in-Australia content become a global success. Tony Ayres also said that "I think this proves that we can make work in Victoria that actually competes on the world stage, and can get the attention of the world."⁴⁵



CASE STUDY - CONTENT INVESTMENT IN AUSTRALIA: *WOLF LIKE ME*

Stan Original series *Wolf Like Me*, brought together some of Australia's top acting, directing and production talent to work alongside some of the biggest names in film and television from around the world. Australian actress Isla Fisher starred alongside Josh Gad. The show was produced by Made Up Stories and written and directed by Australian Abe Forsythe. Filmed in NSW, *Wolf Like Me* was co-commissioned by Stan and NBCUniversal's Peacock streaming service, which exhibited the title in the United States, while Endeavor Content is handling international distribution of the series.



CASE STUDY - CONTENT INVESTMENT IN AUSTRALIA: *THE TEST: A NEW ERA FOR AUSTRALIA'S TEAM*



Amazon Prime Video's first Australian Original was released in 2019. *The Test: A New Era for Australia's Team*, gave an insight into the inner sanctum of the Australian Men's Cricket Team through the players own voices.

The Test is produced by Cricket Australia Films in partnership with Australian production company Whooshka Media, involving a majority Australian cast and crew and directed by Australian Adrian Brown. Richard Ostroff, Head of Broadcast & Production at Cricket Australia, said that "*The Test: A New Era for Australia's Team captured the inside story of the Australian Men's Team during a remarkable period for the*

national game. Amazon Prime Video were terrific partners and collaborators on the project, which employed over 60 Australian production specialists over an 18 month period. We are grateful for their support and investment from Amazon Prime Video, which enabled this vital story to be told and distributed to a vast global audience."

The Test became an international success for Amazon Prime Video in cricket loving territories including India, New Zealand and the UK.

CASE STUDY - CONTENT INVESTMENT IN AUSTRALIA: *NO ACTIVITY*

Just two months after launch in January 2015, Stan commissioned its first local production, the comedy series *No Activity*, produced by Jungle Entertainment which returned on Stan for a second season and a Christmas special.

Its success led the Australian series to be distributed into a number of overseas markets and the format rights for the series, created by Trent O'Donnell and Patrick Brammall, were licensed to CBS for a US adaptation in 2017. Produced by Will Ferrell's Funny or Die production company, *No Activity (US)* ran for three seasons on CBS All Access before being renewed for an animated fourth season that premiered on Paramount+ in the US. Alongside the US adaptation, the format has been picked up for adaptation in markets including the Middle East, Japan, Spain, Germany, and the Netherlands.

Jungle Entertainment chief executive Jason Burrows said it was pleasing to see the original *No Activity* sold to prestige platforms including the BBC in the UK and Hulu in the US. *"It has also been very rewarding to see it become one of the highest selling comedy formats of all time, with seven different foreign remakes to date, including a US version starring some of the biggest stars on the planet."*⁴⁶



INVESTMENTS BRING WIDER ECONOMIC BENEFITS

7. VOD services' investments are spurring skills, innovation and infrastructure

Content investments by global VOD services and the media companies backing them create indirect economic benefits for the broader AV sector. Policymakers should consider these benefits when setting the policy and regulatory environment. The benefits include skills growth and knowledge sharing, growth in the productive capabilities and capacity of the sector from infrastructure investments, and greater diffusion of innovations. These wider benefits can also be accrued through co-production partnerships between VOD services and local producers or broadcasters.

The role that VOD services play in building and supporting the skills base and sector infrastructure is particularly important at a time where there have been reports of skills shortages and constrained supply of production infrastructure.⁴⁷

- **Training and skills:** VOD services run a range of training and skills programmes in Australia. For example:

- Netflix recently partnered with Screenworks and the NSW Government to provide free training for up-and-coming creatives. Backed by a **AUD500,000** investment by Netflix, the Regional Crew Development Program will also provide placements and work experience on real productions with the goal of creating new career pathways in the field for regional people.⁴⁸
 - Stan's recently launched partnership with the Australian Children's Television Foundation will include the production and development of Australian live action projects for young and family audiences. Stan also has active development initiatives in place with State screen agencies, Screen Queensland, Film Victoria, Screenwest, and the South Australian Film Corporation, with similar funds currently being explored with other States.
 - Disney, through ILM, and in partnership with the NSW Government co-invested up to **AUD6m** in the Sydney-based Jedi Academy, helping to create as many as **500** jobs over five years.⁴⁹
- **Innovation:** The visual effects company Industrial Light & Magic (ILM), owned by Disney, is a leader in innovative visual effects in film. Many ILM innovations have helped films win Oscars for visual effects. ILM continues to invest in offices and hubs around the world, including in Sydney. Recently ILM has been innovating by producing an end-to-end virtual production solution called StageCraft which allows for virtual reality testing and production. ILM has now built one, only the fourth in the world, in Sydney which will be available to be used on future productions.⁵⁰ Luke Hetherington, ILM Executive in Charge, Singapore and Sydney Studios said "*The opportunity to set StageCraft up right on the doorstep of ILM's Sydney studio was incredibly exciting. StageCraft is a great example of ILM innovating to help filmmakers tell their stories in new ways, and building that knowledge and those skills right here in Sydney is amazing.*"⁵¹
- **Sector infrastructure:** As well as incentivizing investment through increased demand for production space, VOD services invest in infrastructure too. For example:
 - Disney owns Fox Studios which is the largest production facility in the Southern Hemisphere. It provides a full working ecosystem including pre-production, physical production and post production. The studio has been utilised by a significant amount of Australian productions including scripted drama, light entertainment, documentaries and feature films. The lot includes an industry ecosystem of third party Australian businesses employing roughly **2,000** people.
 - Netflix's Post-Production Partner programme is profiting local firms such as Cutting Edge, Silver Trak Digital and Soundfirm. The collaborative scheme aims to improve the quality of post-production elements such as dubbing, audio description, scripting and quality control.⁵²
- **Wider benefits from co-productions:** VOD services have partnered with local players on co-productions of projects such as *Dive Club* which was recently co-commissioned by Netflix and Network 10 and *The Unlisted* (ABC and Netflix). Co-producing content with local partners can support positive outcomes for producers and consumers in a number ways. First, co-productions can more efficiently share risk and thereby increase the scope for higher quality and bigger budget

productions. Second, the close commercial relationship between VOD services and local producers supports the diffusion of innovation and skills around Australia’s AV sector. Third, co-productions enable Australian content to reach wide domestic audiences on free-to-air services, while also finding global audiences on subscription VOD services.

CASE STUDY – CONTENT INVESTMENT IN AUSTRALIA: *MR. INBETWEEN*



Mr Inbetween is available on Foxtel on demand © FX Networks LLC

Mr. Inbetween is a critically acclaimed Australian series that, for seasons two and three, was funded by Disney-owned FX and licensed to Foxtel for viewing in Australia. Globally, the series is available on Disney-owned Hulu in the US and Disney+ in many other countries around the world. The production’s entire cast, crew and writers were Australian with the production shot in New South Wales.⁵³

This production, similar to other case studies shown here, was a collaborative production

and highlights the complex investment relationships that exist between VOD services, production studios and broadcasters.

8. VOD services’ investments are producing broader benefits for Australia

VOD investments bear fruit beyond the AV sector. The creative industries generate disproportionately wide economic impacts. Specifically, the industry can connect people, cut across cultural and political divides, and act as a source of identity and expression. Content and stories are a powerful tool to aid national integration, deliver social messages and project Australia’s culture and influence on the global stage. Through diversified local investment, training partnerships and key content decisions, VOD services can help achieve broader social goals and positively impact the community.

- The Bunya Indigenous Talent Hub is a talent incubator and global networking program that was run in 2020 in partnership between Netflix and Screen Australia. It was open to Indigenous writers, showrunners, directors and producers who developed and pitched a film or television project to content executives from Netflix and other industry practitioners.⁵⁴
- Netflix has also partnered with the Australian Film Television and Radio School (AFTRS) to set up the Netflix Indigenous Scholarship Fund.⁵⁵ Netflix will provide **AUD515,000** to the Fund for a range of initiatives to elevate Indigenous creatives and voices in the Australian screen and broadcast industries and support Australia’s First Nations communities and storytellers. The fund aims to support individual careers and improve the inclusion and cultural capacity of the industry.
- Netflix and Australian charity Support Act launched a **AUD1m** COVID-19 film and TV emergency relief fund. The aim was to help and support casual workers who lost their jobs when productions were shut down or postponed.⁵⁶

Investing in content can attract tourists who want to see where their favourite show was shot. VOD services, with their ability to bring Australian content to a global audience, are exceptionally well placed to stimulate tourism and produce wider reputational benefits for Australia, long after a title's initial release. By showcasing Australia, VOD raises the country's international profile and reputation. Content-induced tourism is on the rise. A TripAdvisor survey suggested that **20%** of global travellers have visited a destination because they saw it in a TV show or movie.⁵⁷

- On-screen content attracts around **230,000** international visitors to Australia each year, driving an estimated **AUD725m** in tourism expenditure.⁵⁸
- Research has shown that content helps to create connections between viewers and locations through scenes on screen. The connections can lead to a growing cultural affinity with the country leading to more interest in that country, including products from that country and potential tourism.⁵⁹



HELP INVESTMENT, DON'T HINDER IT

9. Pro-investment policies can keep Australia's AV sector growing

Australia benefits when policies attract investment in content and in the wider AV ecosystem. This high-value-added activity makes a disproportionately large contribution to GDP, it provides skilled, well-paid employment, and supports a country's exports.

However, production of top-quality content is costly. It requires sector-specific infrastructure, state-of-the-art technology, complex production processes and large crews of highly trained specialists from many different trades. At the same time, content creation - like any art form - is a risky investment.

Policies such as tax rebates or grants that mitigate the risk and high fixed costs of content creation have been found to significantly increase content investments.⁶⁰ Australia has been successful in attracting international investment through a number of federal and provincial schemes such as the Location Incentive grant, the Location Offset tax rebate and the Producer Offset rebate.

- Since being launched in July 2019, **23** productions have been drawn to Australia through the **Location Incentive program**. These productions are expected to generate around **AUD1.7bn** of expenditure and, importantly, are creating a sustained pipeline of work for Australians, generating more than **15,800 jobs** for local cast and crew, and using the services of more than **15,200** Australian businesses.⁶¹
- Dr. George Miller, the director of the upcoming film *Furiosa*, said that federal and state incentives were pivotal to *Furiosa* being produced in Australia. The WarnerBros film will be shot in New South Wales and state premier Gladys Berejiklian said "*This is great news for New South Wales - Furiosa is expected to support more than 850 local jobs and bring around AUD350m into the New South Wales economy*".⁶²
- The **Producer and PDV offsets** supported **213** Australian children's drama, documentary and entertainment productions in 2020/21.⁶³

The addition of **AUD400m** to the Incentive grant and the increase in the Producer Offset from 20% to 30% for eligible formats in the last year have continued to send the right signals to global investors and kept

the incentives to invest high.⁶⁴ In addition, the **AUD50m** Temporary Interruption Fund supported the industry through the pandemic ensuring Australian content production was not lost.

Policymakers can also ensure a strong supply of skilled, high-value workers by supporting training programmes that will benefit both global and local players active in Australia. The government's improved incentives, along with the growth in investment driven by VOD services, has created strong demand for local and global content production in Australia which is now generating demand for more skilled workers and production infrastructure. A survey conducted by Screen Producers Australia confirmed this showing that over **80%** of producers surveyed faced increased challenges staffing their projects and over **95%** report increased crew costs.⁶⁵ Global content producers invest in Australia to access a highly skilled workforce as well as state-of-the-art studio infrastructure and a rich ecosystem of suppliers. This attractiveness needs to be maintained and built on to ensure high quality, high impact investments continue to be made in Australia.

INCENTIVES AND HIGH QUALITY INFRASTRUCTURE SUPPORT INVESTMENT IN THE AUSTRALIAN SECTOR

Disney+ original series *Nautilus* highlights how the combination of Australian incentives and high quality infrastructure and talent attracts investment.

Nautilus is to be produced in Australia with **AUD23.3m** of assistance from the Location Incentive grant program.⁶⁶ The series will be filmed in Queensland at Village Roadshow Studios and will also be supported by the Screen Queensland's Production Attraction Strategy, thereby showing the impact incentive policies can have.

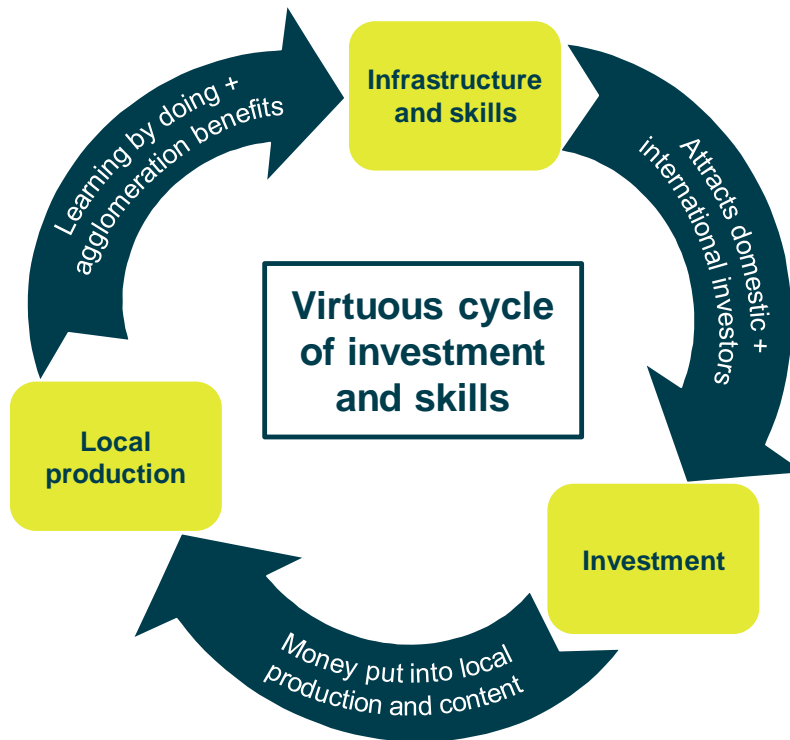
Kate Marks, CEO, Ausfilm said that *"it is promising to see that Australia has been chosen yet again to film another major international project, which is undoubtedly a result of the Morrison Government's Location Incentive program combined with state government support from the Queensland Premier and the incredible reputation of Australia's talented cast, crew and facilities."*⁶⁷

As a return on these incentives the production is expected to create more than **AUD172m** of local economic activity through jobs and local spending.



Government policies, including regional and federal grants and rebates to incentivise and support media investment, can have large multiplier effects on the wider economy and on the government's fiscal position. These can outweigh the costs of policies to attract investment. For example, by 2016-17 the production incentives had added **AUD3.86** in GVA for each dollar in offset awarded. In addition, the cost of the offsets had been recovered as the additional economic activity from the offsets paid an average of **AUD1.05** in taxes back to the government for each dollar in incentive granted.⁶⁸

A policy framework that encourages investment by VOD services in the AV sector in Australia could underpin a virtuous circle of investment.⁶⁹ Catalysing investment in infrastructure and skills enhances the industry's capacity and capabilities. This, in turn, makes the country an increasingly attractive location for new investment.



These policies can nurture the growth of self-sustaining “creative hubs of local production” with global producers and major studios incentivised to locate and concentrate activities in Australia, to the benefit of the local economy.⁷⁰

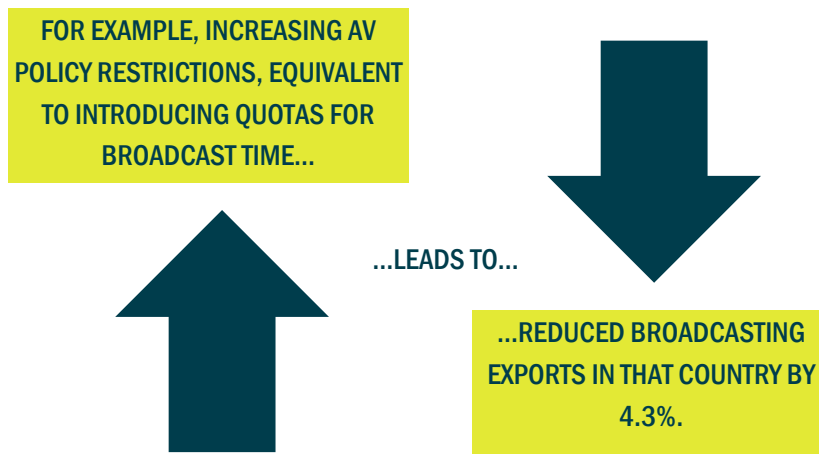
Investment by major global studios and VOD services in Australia has supported the development of a thriving local creative economy. The same global studios have established production hubs, investing in infrastructure to support production, post-production and VFX and their investments have encouraged investments by other players in the industry too.

- Disney’s Fox Studios in Sydney has attracted some of the largest and most iconic international feature films ever produced since opening in 1998. As well as increased production, the site has seen increased investment with studio expansions and has now attracted over **50** support businesses to be based on the studio complex providing services such as lighting, camera and textiles hire, casting and editing. The support businesses, plus the ILM academy and training facility nearby have helped it become a production hub in Australia.⁷¹
- Increased content investments across Australia have led to government and state infrastructure investments to create hubs. For example, a **AUD150m** investment to create a hub of studios in Penrith,⁷² Western Sydney and the expansion of the Docklands Studio Melbourne hub with a water tank super stage.⁷³
- Investments have been made to establish new film studios at Coffs Harbour and to build a Bryon Studios production facility near Ballina in New South Wales in response to rising demand.⁷⁴ Also a **AUD100m** investment has been proposed by local government to build a studio and sound stage in Fremantle, Western Australia.⁷⁵

Policies that discourage or constrain foreign investment or market entry, or reduce investment flexibility can disrupt this virtuous cycle. Instead of the local AV sector enjoying rising investment, cutting-edge infrastructure and ever-higher skill levels, more “protectionist” policies may hamper innovation and growth opportunities in the long run.⁷⁶

10. Our research finds that protectionist policies can hurt the economic potential of local AV industries

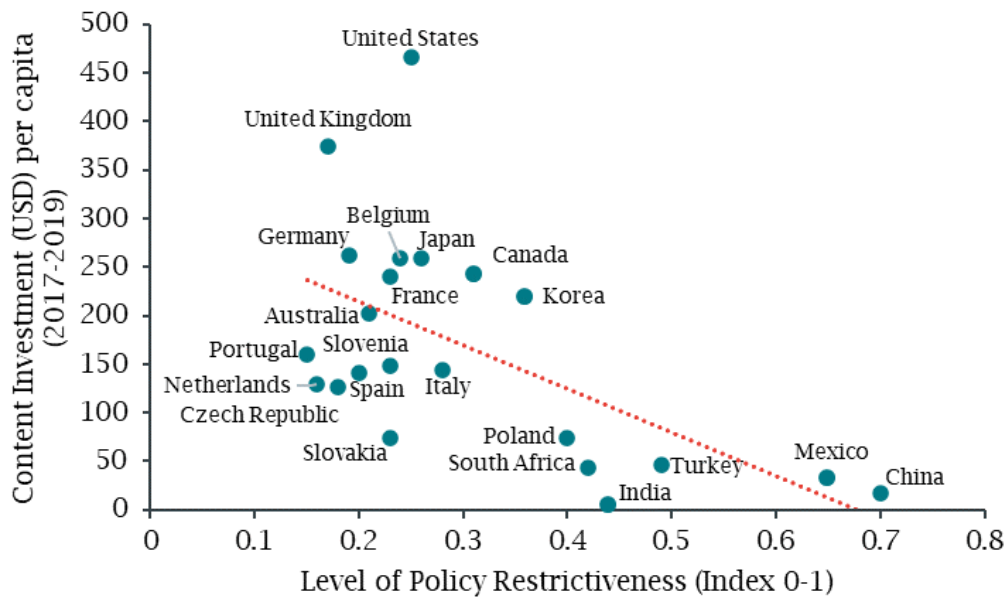
“Protectionist” policies intended to shield local companies from international competition could result in local industries that are inward-looking, less innovative and less able to produce high-quality content that is in demand internationally. Many countries have cultural policies aimed at promoting local content, but some come at a cost and prove ineffective at achieving the goals they pursue. Our analysis, which examined the relationship between protectionist policies and AV trade (i.e. licensing content internationally), found that higher levels of protection (for example the introduction of content quotas) **lead to reductions in AV exports.**⁷⁷ This implies that countries with more-protectionist policies are less able to monetise their content in international markets, or show off and promote their culture to audiences around the world.



11. Put up barriers and you may put off investors in content

Countries that have greater policy restrictions tend to have lower levels of investment in content. While there are many other factors at play,⁷⁸ Figure 5 below is consistent with the hypothesis that protectionist policies discourage content investment (at least for the countries selected). The result of lower content investment is inevitably lower employment and skills development in the sector.

FIGURE 5 RESTRICTIVE AV POLICY CORRELATES TO LOWER INVESTMENT (SELECTED OECD COUNTRIES AND CHINA)



Source: Frontier analysis of Ampere and OECD data

Note: All values of content investment are nominal. For each country, content investment data includes investment by commercial and public broadcasters and also by selected VOD services, where spend can be disaggregated by country. Excludes any investment in sports rights. Countries were selected based on data availability and include OECD countries and China. The level of policy restrictiveness is the OECD's broadcasting sector specific Services Trade Restrictiveness Index (STRI) which captures the level and range of non-tariff barriers in services trade within the broadcasting sector. The STRI is a widely used measure of policy restrictions on services used by academics and policy makers. The STRI is an index between zero and one attributed to each country, where zero would imply no policy restrictions, and one the highest possible policy restrictions.

12. Restrictions reduce incentives

Australia is home to a growing AV industry, though VOD services in Australia are relatively recent additions to the AV sector, with domestic and international VOD services launching later than in some other countries and new services launching each year. Policymakers can encourage this growth to continue in a way that continues to benefit the local creative sector and the broader economy. While protectionist restrictions (such as expenditure obligations, content quotas, conditional visas for foreign actors and broadcast quotas) have a number of legitimate policy objectives (such as supporting the creation or consumption of local cultural content, or helping the domestic AV sector) they can also have adverse impacts.

- Investment obligations are designed to ensure sufficient levels of investment in local content, but implementing them can have unintended consequences such as;
 - **Reduction in flexibility** of investment decisions may lead to investment in titles to fit a quota rather than to meet audience demand. Lower flexibility may also reduce the ability to experiment with content missing out on future potential production and content innovations.
 - Increased **pressure on production facilities** could potentially lead to cost inflation which may reduce the level of future investment.

- Investment quotas combined with restrictive local content definitions might lead to more **homogenous content and services** and less scope for innovation and less ability to scope services to specific consumer needs. Such homogeneity might impact competition and the ability of local or regional services to differentiate.
- Restrictions can drive up costs for domestic and foreign companies, reducing competition and raising prices for consumers.⁷⁹ This cost may be particularly relevant in Australia where production facilities and crew are already in high demand, so additional demand may just inflate prices in the near to medium term.
- Policy restrictions that erect barriers to inward investment deter the influx of international capital, talent and skills, and can restrict the adoption of new techniques and innovations that inbound investment brings.
- Onerous definitions of local content for the purpose of defining local content obligations, can discourage investment in local content and the local industry.⁸⁰ In the Media content consumption survey 2020, 'Made in Australia' was the criteria considered by most Australian adults (74%) as what makes media content 'Australian'. This could suggest that additional criteria beyond this may not only be restrictive for producers but also unimportant to consumers.⁸¹
- Broadcast-time quotas are designed to nudge consumers towards local content but implementing them for VOD services can be problematic.
 - Quotas applied to VOD services may **not be effective** in changing tastes, as consumers choose their content on demand.⁸²
 - Quotas can **distort incentives**, as services are motivated to focus on the *quantity* of local content rather than its *quality*, which could have less of an economic impact.^{83 84}
 - VOD services may **reduce the size of their overall libraries** in proportion to the volume of local content that they are able to license, leading to less choice for consumers and less investment in wider production by VOD services, without increasing actual volume of local content.
 - Quotas can **create barriers to entry** as they may disproportionately affect smaller VOD entrants rather than established VOD services with large domestic customer bases or content libraries.

Where the goal is to increase domestic capacity and capabilities, joint productions with foreign companies may be more effective than restricting entry or applying additional requirements on international services in domestic markets.

Restrictive policies may also have the unintended effect of increasing levels of piracy. Piracy drains a country's AV economy by reducing the returns on investment and blunting the incentives of creatives to innovate and produce new content. It also reduces the government's tax take as legitimate business revenue streams are hit. **24%** of VOD users in Australia have said that they would watch or download VOD content from unauthorised services if it was not otherwise available, to the detriment of both the country's economy and its culture.⁸⁵

In summary, some protectionist policies can increase costs, restrict investment and ultimately limit the content available to local consumers, with potentially further negative consequences for the creative industries in Australia.



VOD SERVICES CAN HELP AUSTRALIA'S AV INDUSTRY CONTINUE TO THRIVE

Australia has a vibrant film, television and video on-demand industry, and VOD services in Australia make a significant and growing economic contribution within that sector. Consumers are increasingly subscribing to VOD services, which invest in Australian content that audiences want to watch. VOD services also act as an international shop window for the country's culture, while bringing Australian stories to global audiences.

By carefully calibrating policy and regulations to incentivise investment while still allowing flexibility in investment decisions, Australia will enjoy wider benefits such as increased employment, higher economic output, increased exports, a growing skills base, and expanding sector infrastructure. This, in turn, creates conditions to attract new investment. Policymakers should therefore be mindful of potential unintended consequences of some types of protectionist policies. These can reduce incentives to invest, lower sector outputs and exports, raise costs and even increase piracy. By working with VOD services, producers and production companies, policymakers can create the right conditions to support investment and further expand the flourishing film, television and on-demand industry in Australia, thereby ensuring the creative sector in Australia will continue to thrive.

¹ VOD subscribers counts the number of paid subscriptions there are to VOD services in Australia. These are often used by more than one person, usually within the same household.

² Results are from an online consumer survey of 1,107 Australian internet users ("Kantar Survey"). The survey, designed by Frontier Economics, was conducted by Kantar between 29th September and 20th October 2021. See technical annex for further detail. Question: *How often do you watch online subscription services which offer professionally-produced full length movies, shows or series for a regular fee, such as Netflix, Stan, Disney+ or Binge? Please exclude services that show videos uploaded by individual users such as YouTube.* Base: All respondents (1,107)

³ Kantar Survey, Question: *When you watched your online subscription service(s) last week, how many hours did you spend watching Australian content?* Base: Respondents who watched subscription VOD at least once a week (802)

⁴ The average 2020 USD-AUD exchange rate has been used to convert USD figures into AUD. OECD Exchange Rates.

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