



COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



**HOUSE OF REPRESENTATIVES**

**TAX LAWS AMENDMENT (2010  
MEASURES NO. 5) BILL 2010**

**Second Reading**

**SPEECH**

**Wednesday, 2 March 2011**

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

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## SPEECH

**Date** Wednesday, 2 March 2011  
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**Questioner**  
**Speaker** Robert, Stuart, MP

**Source** House  
**Proof** No  
**Responder**  
**Question No.**

**Mr ROBERT** (Fadden) (10.08 am)—I rise to cast some comment on the Tax Laws Amendment (2010 Measures No. 5) Bill 2010. Whilst the TLAB No. 5 has seven schedules, I wish to constrain my comments to the schedule dealing with the film tax offsets. I think we all realised that the Australian film industry has developed and become incredibly diverse over the last 20 years. The federal government has continued to support the international film industry, and economic benefits have flowed from that. Indeed, I was with the Hon. Senator George Brandis SC in 2007 when the former Howard government announced the 15 per cent tax offset at the Village Roadshow Studios in my electorate of Fadden. Fadden contains one of only two significant sound stage areas and studios in the country, the other major studio being the Fox Studios in Sydney.

The success of that original 15 per cent rebate generated enormous interest from overseas. That, combined with a lower dollar—certainly relative to the dollar at parity at present—meant the industry was able to attract a large number of big-budget US feature productions that generated substantial economic benefits to the region. Now, unfortunately, we are competing against more countries around the world, and these countries since 2007 have consistently and constantly upgraded their rebates to attract production. We were leading the world in terms of offset rebates in 2007. We are now, unfortunately, dragging our heels. I dare to say Australia has even lost its competitive edge and we have certainly seen a substantial decline in international production. While several projects that have looked at Australia—for example, *Battleship* and *Green Lantern*—would have injected something like \$90 million into the local economy at least, those two major productions chose to shoot in other countries because, frankly, the 15 per cent rebate as well as the post-production and location offsets simply were not competitive.

International productions, I suggest, are imperative for the Australian film industry. They have the funds, for example, to build infrastructure. Warner Bros feature film *Fool's Gold* built a \$2.1 million water tank at the Village Roadshow Studios in the electorate of Fadden which then, of course, attracted productions like *Nim's Island*, *Triangle* and *Sanctum* to film in Australia, building on that substantial infrastructure that had previously been built. These three projects alone would have spent around \$60

million in Australia. *Narnia: The Voyage of the Dawn Treader* invested money in infrastructure at Cleveland Point, but still injected over \$70 million into the economy. The Australian film industry is a great revenue generator, especially when it comes to goods, services and employment in electorates around the country.

As Australia starts to lose its competitive edge we are also starting to lose experienced technicians and actors to overseas jobs, or people are simply leaving because the work is not there. It does not take rocket science to work out that this is creating a substantial skills shortage, where we simply cannot meet supply and demand for what international productions require, should international productions seek to come to the Australian market. Vendors who obviously benefit from these productions may reduce staff or, in some cases, close down. As the injection of international funds has the potential to sustain these businesses long term, the obverse is also true: the lack of injection of international funds will see a decline in these businesses. Education and training will not be available to universities, especially if the demand for those skills is not there. Those universities that offer film and television degrees will lack the experience and capabilities to move forward with their courses and training.

Luckily, domestic productions still exist, but their budgets are substantially smaller than those of the international blockbuster types of productions. Domestic productions also spend a lot less than international productions. It is estimated you would need about 10 to 15 Australian productions to generate what one international production could generate. Australia has spent 20 years growing the industry and we have had a major stake in the international market, backed up in 2007 by the Howard government's move for the 15 per cent tax offsets, which began to anchor some of that. The worldwide global response has seen our competitive edge now begin to slip. It would be disappointing to see the industry deteriorate to a level that it could not recover from.

Village Roadshow Studios has made a compelling case to me and has urged me to say to the Australian government that perhaps there is a need to review the PDV incentive from 15 per cent to higher amounts. This is especially important because of the high

Australian dollar and also what other countries around the world are doing. If you look at global incentives for film production you will begin to see why our current 15 per cent lacks the ability to draw big-budget productions from overseas. In continental United States of America, New Mexico has a refundable rate of 25 per cent; Arizona, transferable, 20 to 30 per cent; Oklahoma, rebate, 35 to 37 per cent; Kansas, 15 to 25 per cent; Alabama, refundable, 25 to 35 per cent; Georgia, transferable, 20 to 30 per cent; Kentucky, refundable, 20 per cent; North Carolina, refundable, 25 per cent; Pennsylvania, transferable, 25 per cent; West Virginia, transferable, 27 to 31 per cent; Michigan, refundable, transferable, 30 per cent to 40 per cent—and the list goes on and on.

Some argue that Australia began the revolution in providing incentives for big blockbuster productions in the film and television industry with our 15 per cent. The world has caught up at an astonishingly rapid rate. Let us look elsewhere. In Alberta, Canada, there are grants for 20 to 29 per cent, plus bonuses. It is the same in British Columbia and in New Brunswick, where the refundable amount is up to 40 per cent of the labour costs only. In Nova Scotia 25 or 50 per cent of the labour costs are refundable, plus a range of bonuses. Look across the world. Italy gives a credit of 25 per cent, Ireland gives upfront funding of 28 per cent and there are discretionary rebates of up to 50 per cent in Singapore. The days of Australia providing the most generous incentives to lure film and television here are rapidly coming to an end, which is disappointing. The world has caught up and it has caught up fast.

I commend the government on their *2010 Review of the Australian independent screen production sector*, which was released about a week ago. I urge the government to continue to review the current taxable offset rates and to continue to engage with industry to look forward. In terms of where the government are going now, I support their film tax offsets that this bill brings forward. I certainly support schedule 1, which is making changes to the eligibility criteria for accessing the film tax offsets. The minimum qualifying expenditure threshold for the post-digital and visual effects offset—what the industry calls postproduction—is reducing from \$5 million to \$500,000. I support the government, which believes that these measures better align the incentive with the standard industry practice for such work to be divided amongst several companies, usually in job lots of less than \$5 million.

I certainly support the government in its move for a location offset—that is, the removal of the requirement for films with qualifying Australian production expenditure of between \$15 million and \$50 million to have at least 70 per cent of the total of the company's production expenditure in the film

as qualifying expenditure in order to qualify for the offset. This makes the offset now available to smaller budget films that exceed the \$15 million threshold but still need or want to make a substantial part of the film elsewhere. This makes enormous sense, considering the location opportunities across the world, the opportunities for shooting in different parts of the world. It still makes Australia competitive and it still provides an option for film and television, especially big blockbuster type films, to come to Australia and to use Australian facilities in some way.

The measures within the bill, especially on the film tax offsets, are certainly supported by the coalition and enjoy my strongest support. I will conclude by asking the government, as part of its review of the Australian independent screen production sector, to also review the producer offset. I will be writing to the minister specifically about this. Currently, the producer offset has a minimum spend of around \$1 million and provides up to a 40 per cent tax offset for Australian spend. However, there is a limit to the number of episodes that you can qualify for. I believe the number is 65. We have the somewhat absurd situation now where the amazingly popular *Sea Patrol* has reached that limit. We all love *Sea Patrol*. I look at the advisers' box and I see a group of people who love *Sea Patrol*. *Sea Patrol* has hit 65 episodes. It has been filming for five years, under Village Roadshow, on the sound stages in my electorate of Fadden. Now they are seeking to wind down and will not be producing any more episodes because the producer offset is not available for them.

The beauty of *Sea Patrol* is not only in injecting local money into the economy. The Navy generously gave an Armidale class patrol boat for many months for the filming of this series. I joined the military in 1988 as an Army officer. I went to the Australian Defence Force Academy. I look at all of my Navy mates, all the naval midshipmen—naval officers now—who joined with me. So many of them joined because, at the time, back in the eighties, *Patrol Boat* was being aired on our screens. It was the same thing: the military had given a patrol boat. People saw that and said, 'You know what? I would love to go and join the Navy.' As we deal with recruitment issues and a range of challenges, especially within Navy at present, here we have a prime opportunity—a show based around a patrol boat and around naval officers, sea men and women, going to sea. We are going to lose that. We are going to lose the opportunity to show the great things about the military and serving on one of our Armidale class patrol boats. It is a great recruitment opportunity that we are going to lose simply because *Sea Patrol* has hit the 65-episode limit under the producer offset.

I say to the minister, whom I have a fair amount of respect for and who I believe will understand these issues: can we have a look at the issue of the episode limit in the producer offset so that we do not come to the point where we lose something like *Sea Patrol* that has great ancillary benefits not just for the industry and the economy but also for the wider application of its recruitment opportunities and how it makes people see the military as a career opportunity. I will certainly be writing to the minister to ask him to look specifically at the issue of *Sea Patrol* and, more widely, the producer offset and the 65-episode limit. I will find out how that limit got there, the rationale for it. In the current world of an exceptionally high Australian dollar, where production incentives across the world have grown beyond all measure since 2007, now is the time to review a range of these offsets to make the Australian industry more competitive.