The film and television production industry will benefit significantly from spending by pay TV drama channels on new Australian programs, the ABA has concluded in the report of its investigation into Australian content on pay TV.

More Australian drama likely for pay TV

The ABA has released the report of its investigation into Australian content on pay TV. The report to the Minister for Communications and the Arts assesses the current requirement that predominantly drama channels spend 10 per cent of their program budget on new Australian drama. It also examines other options for regulating Australian content on pay TV.

'Expenditure on the four major movie channels accounts for the bulk of program expenditure for all drama channels. As subscriber numbers grow and expenditure increases, the 10 per cent obligation for new Australian drama is likely to provide larger amounts for the financing of new television programs and films,' said Peter Webb, ABA Chairman.

The ABA considers the current requirement could be improved by making it more flexible, allowing a wider range of programs to qualify.

The expenditure requirement could also be enforceable, and its administration improved. This should include greater accountability and enhanced reporting requirements.

The ABA's report provides options to assist the Minister in his review of Australian content on pay TV which, under the Broadcasting Services Act, must be conducted before 1 July 1997.

For more information about the Minister's review is available from the Department of Communications and the Arts contact Charles Spence on (06) 279 1702 or Heather McKean on (06) 279 1759.

Current requirements

Section 102 of the Broadcasting Services Act provides:

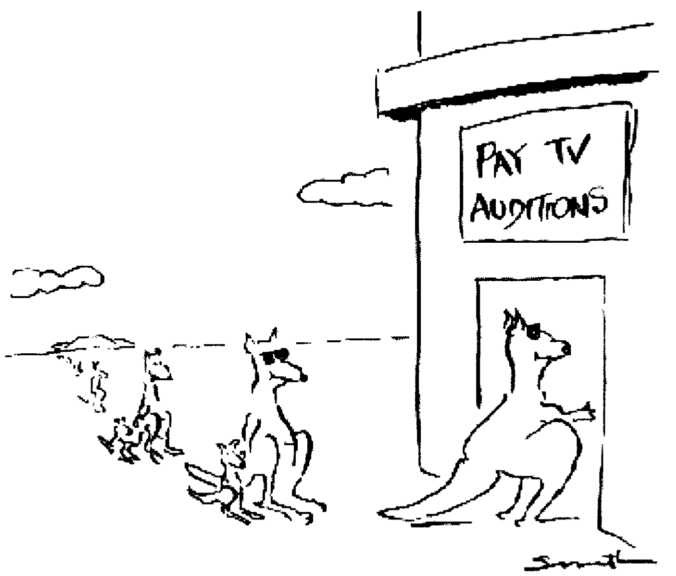
> Each subscription television broadcasting licence is subject to the condition that, if the licensee provides a service devoted predominantly to drama programs, the licensee will, for each year of operation, ensure that at least 10% of the licensee's program expenditure for that year in relation to that service is spent on new Australian drama programs.

ABA investigation

On 17 September 1996, the Minister for Communications and the Arts, Senator the Hon. Richard Alston, directed the ABA to conduct an investigation into matters relating to Australian content on pay TV.

The ABA was required to report, on:

- the nature of Australian programming on pay TV;
- the practical operation of s.102 of the Act;
- the implications of increasing to 20 per cent the level of expenditure required under s.102, and the maintenance of an 'expenditure model' for Australian content regulation;
- the implications of extending Australian content requirements to non-drama channels; and
- alternative mechanisms for encouraging Australian content on pay TV.



Minister's review

The ABA's investigation provides information to the Minister which will assist in his review of Australian content on pay TV, required under s.215(2) of the Act. A fundamental question to be addressed by the Minister's review is the contribution the pay TV sector should be required to make to developing and reflecting a sense of Australian identity, character and cultural diversity.

In conducting its investigation the ABA consulted widely with the pay TV industry, including pay TV broadcasters and channel providers, representatives of the commercial television industry and the production industry, and relevant government agencies.

Financial data

In assessing the costs and benefits of the current drama expenditure requirement, the ABA has drawn heavily on a study by the Bureau of Transport and ▷

Communications Economics (BTCE) which forecasts the order of expenditure resulting from the s.102 licence condition, the capacity of the Australian film and television production industry to supply Australian programming, and the impact of the requirement on the viability of the pay TV industry.

Compliance information about actual expenditure on new Australian drama is limited to an initial reporting period and 11 drama channels. Total spending on new Australian drama in the period ending 30 June 1996 was $1.74m, representing an aggregate spend of 7 per cent rather than 10 per cent.

The ABA's compliance information and the BTCE study confirmed the pivotal role of 'new movie' channels in ensuring support for Australian drama production. There are four movie services which are packaged in Australia by two channel providers. Expenditure on the four movie channels accounts for the bulk of total program expenditure for all drama channels. By 2000-01 the BTCE forecasts total programming costs of $284m for pay TV drama channels, with movies comprising $232m.

ABA conclusion

The movie channels' high levels of program expenditure will increase as subscriber numbers grow. The 10 per cent obligation for new Australian drama will grow in corresponding fashion. By 2000-01 this is predicted to be around $23m and up to $40m by 2004-05. Expenditure from these Australian-made movie channels will be largely directed to Australian feature film production, thus achieving the objective underlying s.102.

Relatively modest program budgets severely limit the production of new Australian drama by non-movie drama channels. Australian drama expenditure by 14 non-movie drama channels is predicted to be around five million dollars in 2000-01. Hence the support these channels will provide to the Australian drama production sector, both separately and as a group, is relatively small. Any Australian content requirements should encourage the production by these channels of new Australian programs which better match their channel niche.

More flexibility

This can be achieved by broadening the definition of eligible programs from new Australian 'drama' to new Australian 'programs'. Allowing a range of new Australian programs to qualify as expenditure by drama channels would provide wider production industry support and encourage greater Australian representation on these channels. However, repeat or library material should not be allowed to count towards the requirement.

Movie channels will spend on Australian drama features while other drama channels require a diverse range of Australian programs to suit their budget and niche. A flexible expenditure requirement for pay TV will support the production of these programs, and will complement the Australian Content Standard for commercial television which supports made-for-television drama.

Increasing the requirement

The ABA has concluded that doubling the level of obligation for movie channels packaged in Australia would be problematic for the pay TV industry. This is based on the BTCE analysis that a 20 per cent requirement for new Australian drama could result in financial problems for these channels, which are one of the main drivers of pay TV in Australia.

However, it would seem reasonable to impose such an increase on non-movie drama channels around the year 2001, when these channels are forecast to generate positive cash flows. Unlike movie channels, whose obligation increases as the pay TV industry grows, achieving an increase in Australian drama expenditure by non-movie drama channels will require an increase in the level of the obligation. This proposal could be better evaluated then.

The ABA concludes that Australian content expenditure requirements should not be extended to non-drama pay TV channels.

It also concludes that the application of the same or similar Australian content requirements as apply to commercial free-to-air television to pay TV would involve practical problems in the multichannel environment. The ABA notes the low level of support for transmission quotas compared to an expenditure requirement for Australian content regulation on pay TV.

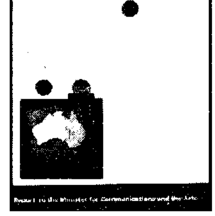
An enforcable scheme

Expenditure to date on new Australian drama by the pay TV industry has been in the context of an unenforceable scheme, as few of the pay TV licensees to whom the condition applies actually purchase programming. This is the role of channel providers. Expenditure on new Australian drama by pay TV broadcasters and pay TV channel providers has therefore been on a voluntary basis in accordance with guidelines developed by the ABA. This is not satisfactory.

If the requirement for expenditure on new Australian programs is to operate effectively, priority should be given to developing an enforceable scheme, that applies to those entities in the pay TV industry that make program expenditure. Improvements should also be made to the administration of the regulation, including greater accountability. This would be by means of a specialised accounting standard giving greater certainty about what constitutes 'program expenditure' and enhanced reporting requirements that allow more information to be publicly available.

Further review

The ABA has acknowledged the volatility of the pay TV industry during its start-up phase, and that experience with the current requirement is limited. A further review of Australian content on pay TV could be undertaken by the Minister or the ABA in around three years time. Such a review should, by then, have sufficient available information concerning relevant expenditure on Australian programs and an analysis of the impact of any Australian content requirement on each of the pay TV, film and television production, and commercial television industries.



Copies of the ABA's report, price $10, are available by calling Robyn Selby on (02) 9334 7846.