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Afternoon Session: Worldwide Production Incentives Update

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JAY DOUGHERTY: Hello, everyone. Let's come in and get settled in. We had intended for you to bring your lunches back inside, but it's just too darn nice a day out there, and it's a lovely place to sit. I don't know if any of you have been to the Loyola campus before. It's designed by Frank Geary. We're very proud of it. So I'm not surprised people wanted to sit outside and enjoy it. However, we're a little behind schedule now. We may end up going a little bit over. I hope that's okay with people. We'll try to wrap it up maybe by 2:45 p.m. instead of 2:30 p.m.. Hopefully that won't put anyone behind their rest of their day. So we're going to get going. I'm going to introduce you in a moment to Robin James. Robin is going to give an overview of trends in production incentives, and an overview of the area. Robin is the Chief Executive Officer of the Pacific Film and Television Commission. So he's here in that capacity to participate on our next panel, which will be a simulation involving a budget for a film; the film that's described in your materials. You have the top sheet, and the description of the film. Ezra will introduce the speakers, but Stephanie Austin will be the producer discussing with our selection of film commissioners here what sorts of things they can offer a producer looking to produce a film like this. But before we do that we want to invite Robin James to come up and give us a little overview of what's going on in the cutting-edge of production incentives. Robin is also the President of the AFCI, and he and the organization have been

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incredibly supportive of this program, so we're very grateful to that. Let's welcome Robin.

ROBIN JAMES: Thank you very much, ladies and gentlemen. This first presentation is in my capacity as president of the Association of Film Commissioners International. And what I'm going to do is give you a brief overview of the way incentives have developed, and what their impact has been upon the film industry globally. It'll be fairly brief. I suspect that you know a lot of this stuff already, but I guess this is an opportunity to have a look at it again. The matter of incentives has been particularly significant to film production companies for at least five or six years. It's become even more significant as more and more states and countries introduce very, very generous incentive packages —the kind of packages that other industries would die for. But the interesting thing about it is that it's relatively new in a global context, and it's relatively new in the United States in particular. The thing is that at the end of the day film and television production is very much bottom line oriented. Costs have risen dramatically. Above the line costs have risen very significantly. And one of the few places that costs can be cut is below the line. And this is where incentives come into play. Incentives can make a big difference to the below the line budget, particularly, on major productions. Lower budget productions also can't ignore incentive offerings. The thing is whether you have a relatively low budget and, of course, relativity is the key. For example, in Australia where I come from a relatively low budget is about $5 million. In the United States relatively low could be $20 million. But incentives definitely have a part to play. Incentives are always based on the amount of expenditure that happens in the jurisdiction. Not always, though. Louisiana, for example, at one stage was actually offering incentives for production that took place outside its jurisdiction, but that's another story. But usually it's based on whatever is spent. Incentives and tax rebates are presently the predominate focus of the industry. And you better believe that every major studio has formed a unit. His job is to scout the globe looking for production incentives that match particular productions that they may have upon their slate. Most major studios, as I said, have distinct divisions looking purely at the incentives business. Some of them are very active, Disney in particular. Disney has a great reputation for saving money, and finding the last dollar. And they have a unit that works very, very hard at finding suitable incentives throughout the globe. Ten years ago, incentives were only available, generally, in Canada, USA and Australia. It was (inaudible) . . . back in the United Kingdom, which was available to all producers whether they were local or international. But it was basically Canada, a couple of U.S. states and

Australia that offered incentives to what were euphemistically called runaway production, which basically means production that comes from L.A.—from Hollywood. Other countries, France, Germany, Italy, etc., had equity investment programs for their local filmmakers, but didn't, at that stage anyhow, offer incentives for runaway production. Now the levels on offer are unprecedented from states and territories across the world. And the thing I find absolutely intriguing is that what was once extreme is now commonplace. And sitting behind me on this panel is Janet from Michigan, and Janet's government, only this week, announced a 40 percent, or in some cases a 42 percent tax incentive, which I find absolutely extraordinary, but that's what they've done. Similarly, in New York the government has announced a 30 percent incentive, plus 5 percent from New York City, equaling a 35 percent incentive, which I also find extraordinary, but that's what's on offer. In this current environment it's hardly likely that location driven production will be the only production leaving the U.S. If the location is such that the director has to have it, and he or she manages to persuade the producer of the rightness of their view, then it'll be about the location to a greater extent than it is about the incentives. So for everything else it's about the incentives. New sources of equity for financing films are being sourced from around the world and have shifted away from traditional sources. And, I guess, with the excitement in the U.S., in particular, triggered by the subprime market there will be some difficulties in raising finance, particularly, for major production. The hedge funds, of course, always play a big role in that, and there may be a cutback in that finance, as well as cutbacks and other forms of finance. Whatever happens, finance will cost more for production. So incentives, free money, will become even more significant. As I've said, government based film financing, and it's always government based, you know, governments have to be persuaded to make this commitment; are becoming increasingly important. But governments also have other priorities, like having hospital beds for little children and things like that, rather than giving money away to the film industry. So it's kind of getting more and more difficult, I suspect, to compete at some of the levels that are currently projected in terms of incentive availability. That's just my view. I've been wrong before about that. I was wrong before when we were talking about 15 to 20 percent incentives, and they've doubled. So who knows, but it seems to me that with economies that are probably going to slow down a little bit over the next few years, the governments will be looking very carefully at incentive packages for film. The time may come, should the incentives war continue, that some of the states, territories and countries that currently have them on offer will drop from the table. I guess we'll probably see that. If it's going to happen, we'll probably see it happening towards the end of this year, or early next year. But, as I said, with the announcement from Michigan and from New York, there's no evidence at the moment that the war is over. We're still in the battle. Of the types of incentives on offer, the most common is a cash rebate, a refundable tax credit, a grant, immediate deductions or a wage rebate. And some of these offers are fairly complex, particularly, the tax rebates. The eligibility expenditures are often defined in different ways. For example, in my country eligible expenditure includes the flight to Australia, but not the flight home. And I still haven't worked that one out. Other common schemes include frequent film bonuses. If you come back to a particular jurisdiction you're entitled to something like frequent flyer points, bonuses. And that seems to work pretty well. Incentives or rebates can be permanent, but most are temporary with sunset dates. No treasury is going to give a blank check to its film commission to provide these incentives indefinitely. They're usually under review. But if you manage, as a film commissioner, to keep the matter under the radar they often can continue much longer than anticipated. But governments always have concerns about their commitment to a subsidy driven industry. Governments aren't that keen at the end of the day on supporting a subsidy driven industry. But with film they're prepared to make an exception it seems. Incentives are most valuable when they're packaged with film infrastructure, locations, postproduction facilities and local cast and crew. At the end of the day it is the package. Incentives alone usually don't necessarily drive the location of the production. However, Paul Starkey from Disney, I think, stood at this very table and told the story about how he moved a movie from one state to the next in the U.S. because the state next door had offered a higher incentive. So it was a great story. And, I guess these are the realities with certain types of production, but usually it's a package because the exterior locations are a very important part of that package. It's very difficult, for example, to shoot a jungle movie in downtown Los Angeles. Not impossible, and I have no doubt it's been done, but usually you need some jungle. States and countries without a solid and consistent production slate may offer lucrative incentives, but producers must worry because they're bringing in a crew and building film infrastructure. If you've got studios, for example, that's a great asset, no doubt about it, because studios are going to become more and more important as time passes. There are more and more opportunities for production companies to use visual effects. *Avatar*, which is the next big thing from James Cameron, for example, is shot almost exclusively in studios here and in New Zealand. So I think that sort of infrastructure is still very, very important. Mind you, the number of studios that we have is expanding rapidly globally. Generous deals exist in some states, e.g., Louisiana for those investing in the state's film infrastructure. The Louisiana one is very, very good, and that's been mentioned here previously by the previous director, the Film Commissioner there, Mark Smith. And Louisiana's doing very well at the moment. I'm told by one of my colleagues that something like thirteen films have been there in recent times. So it's still doing very, very well. I threw up a picture on the projector here of a tank that we developed in conjunction with the Warner Bros. production *Fools Gold,* in my home state of Queensland. We contributed with the owners of the studio, Warner Bros. Studios, about half the cost of developing that facility, specifically for that project. But, of course, it'll be used for other things. Now, on to what the expert says. Now, this is very interesting. Ann Markinson has done a study of incentives. I guess Ann could be classified as a non-believer. She believes that they're costly, that they absorb public sector resources that are not available for other pressing public responsibilities. She also believes that legislators throughout the United States, but also internationally, should increasingly scrutinizing film incentives. California has resisted incentives, and probably will continue to do so. I understand there are budgetary challenges in this state as well as other factors at play, but California has resisted it. But, I guess, one of the key issues is key point two: the true impact of film incentives is unknown. Are they beneficial at the end of the day? Do they make a difference? And Ann's view is that they may not. She says, for example, we don't know if producers would have come to the same locations without incentives. That many filmmakers make location choices on the basis of the particular environment, and on the basis of other costs, we've already noted. Only a certain segment of the film market is available for the influence behind incentives. But, I think, her points are interesting, but debatable. Not everyone would agree with this. Key point three: some governments are towering their incentives to build capacity and train a workforce rather than just subsidizing filmmakers to come, and then leave. And New Mexico is a very good example of that. Governor Bill Richardson in New Mexico makes no bones about the fact that he wants to build the complimentary infrastructure for the development of the film industry in New Mexico, and that's why the incentives were so generous, and why they're one of the first states in the U.S. to offer to it. What this does, of course, is to create permanent expertise if it works. It creates permanent expertise and studio space rather than just short-term, temporary jobs, and cash injection into the region. Case study one: New Mexico. We'll just look briefly at these. New Mexico is the second U.S. state behind Oklahoma to pursue film projects with tax breaks. In 2001, one year before film incentives were enacted, production expense was $1.5 million. In 2007, New Mexico's production expense was $476 million. So, hey, it works. I don't know whether these are audited production figures, but they're certainly impressive production figures. The new $75 million production infrastructure, Albuquerque Studios, is now the crown jewel in attracting major film productions to New Mexico. Politicians and film experts lured the facility in New Mexico with what the developer called visionary incentives including tax rebates, no interest loans and training credits. The new studio has the lightest offering to steal movie business from other states offering increasingly more generous tax breaks. So the race is on in terms of the U.S. states offering incentives. And, one of the interesting things here, a few years ago at a presentation there was a big map of the U.S. up there, and there were just a couple of states that were highlighted as offering incentives. Then, last year it exploded all over the U.S.. In fact, I think the majority of American states now offer it. Governments are beginning to realize that if they offer incentives for films to be made in their jurisdictions they might face parallel demands for festivals, conventions, and so on. This could get expensive. And that includes things like film festivals. Everybody seems to want, and have an international film festival in their backyard. There are an awful lot of them around the world. And, of course, they expect governments to support them. Similarly, for things like movie conventions, etc., etc., politicians like to have them in their jurisdictions because there is a lot of color and movement, and they might get their picture in the paper with an actor. So it tends to bring additional pressures with it. But these are not necessarily detrimental to the film industry, but certainly bring an extra cost. There's also a growing problem with questions of content and misuse of film incentives. All film commissioners got a chill up their spine when the former Louisiana film commissioner was indicted for channeling incentives to particular people. This could happen in any industry, but unfortunately it happened in film. And now some U.S. states are putting conditions on how their state's incentives will be portrayed in movies, subsidized by public money, which could be the thin age of the wage when governments start interfering in creative decisions. So although some states and nations are engaged in the bidding wars to attract film buying and creating subsidies, many of us are skeptical about the returns on such bids, and we're entitled to be skeptical. Although, we don't support incentives. Economic analysis and parameters have been constantly changing since 2006. Fifteen out twenty-nine regions, including Australia, made significant changes to their schemes. And these schemes are going to be moveable first. The changes usually mean there's more money available. Case Study two: the Australian federal government introduced two new tax offsets after intense and united industry lobbying in a bid to ensure production incentives remain effective, and internationally competitive. Australian incentives, like a lot of incentives outside the U.S., have got to take into account the fact that there's distance to travel, associated costs, etc., compared with shooting in the U.S. or shooting in the neighborhood, and Canada. And also foreign countries have to be more aggressive in the way in which they attract production compared to many U.S. states. The are some challenges facing film commissions. Without sunset dates, there's a risk that tax credits may be instantly superseded by another state or country, or repealed by dissatisfied legislature. There are some legislatures in significant states within the U.S. that are even reviewing their funding for their film commissions. So it can be dicey. Governments can be reluctant to increase incentives and tax rebates or amend them as frequently as the market demands. This produces expectations that have risen. There are also exchange rate barriers. This is a big problem, of course. The American dollar is weak against a basket of countries around the world, particularly against the Euro. Not so much against the U.K. pound, although, the U.K. pound is strong. Certainly, the Australian dollar, where I come from, used to be fifty-five to sixty cents to the Australian dollars, now it's ninety-two. So this is good for American states in keeping production at home, but it means that foreign countries trying to attract production have to work out an awful lot more incentives. There's the risk of empty production infrastructure. You do get studios which are empty for long periods of time, and that's always a big embarrassment not only to the film commission and the studio, but also the government because the governor can't stand up there and talk about his relationships with celebrities. So these are factors. Strict eligibility criteria may need relaxing to increase competitors, and that is happening to some extent. And incentives that look too difficult and challenging can often turn production companies away because they've got so many options. In conclusion, California as the epicenter view diminishes as filmmaking risks losing increasing amounts of runaway production without the introduction of competitive incentives. There was an article in the *L.A. Times* this morning about an event that the California Film Commissioners held in competition with the AFCI event, which was quite interesting. They're making the point that they can still get production in their jurisdictions without offering incentives, but I'm yet to be convinced. Even New York, the historic home for production, has to pass a significant new tax credit despite having the most significant infrastructure outside of California.

And the reality is if New York has to do it, even though it's has the infrastructure in place (studios, postproduction facilities, a skilled crew base, etc.) it still has to offer an incentive to have production to base itself there. Finally, as film commissioners, our job is to bridge the gap between film production and economics. As long as film production is acknowledged and embraced as an attractive means of economic growth, the current competition we see in global incentives will continue and potentially increase. The film commissions do play a very significant role. It varies from state to state, from country to country, in the whole business, and the standard of film commissioning also varies. We're working as an organization to improve that to make it professional. We have an AFCI University now, for example, with people doing Masters classes in the arts, the black arts of being a film commissioner, but these days you've got to be a film commissioner with very deep pockets. Thank you.

EZRA DONER: Thank you so much, Robin, for that terrific overview of production and finance incentives. One of Robin's statistics is how New Mexico's production rose from a million and a half dollars to 475 million in the course of a few years as incentives were implemented. In the last few years Connecticut enacted incentives, and production has moved there rapidly, some at the expense of New York. When those production locations decisions are made they're often made by studios, by production finance executives at the studios working with producers and under the watchful eye of management. And today we're going to try to recreate what that process might be with a film producer, and with film commissioners here whom I will introduce in a moment. Our commissioners are Susan Simms representing Florida, but based here in Los Angeles. Jan Lockwood who is the Commissioner for Michigan, which recently enacted very substantial incentives; Kamil Othman of Malaysia; Alison Small of the U.K. Film Council; and, of course, Robin. And our film producer is Stephanie Austin, to my right here. Everyone's bios are in the materials. Stephanie produced, among other films, *Sahara* with Matthew McConaughey and Penélope Cruz, which was produced in locations around the world with incentive benefits, and she's also a producer of *Shanghai Nights*, *Terminator 2*, and many other high budget films. If you look at the materials, it's behind the tab which says 'Panel 2.' And if you flip past blue page you'll see the first of three documents, which Stephanie put together for this program. The first one is the hypothetical of what the film project is. It is Soft Money 4, The Blockbuster. And Stephanie and I talked about the design ahead of time, and the approach was to have a film somewhat in the vain of one of the *Ultimatum Bourne Conspiracy* films where someone's on the run, and they could be on the run in San Diego or Singapore or they could be in Rome, or Detroit just depending on where where the production decides to shoot—often where the incentives are. The next page is a set of the assumptions, which Stephanie put together for this process, and the budget is after that. And I will ask Stephanie to introduce the critical assumptions and the top sheet, and after that we will ask the commissioners one by one to tell us what they can do for this production if the production is brought to their jurisdiction.

STEPHANIE AUSTIN: So welcome. With great apologies to Robert Ludlum and Universal Studios as Robert urged me to create this artificial idea of what this project might be. So I'm the beleaguered producer who needs to save millions of dollars, and the genetically altered ex-CIA black ops operative with memory loss, good looks, and extraordinary abilities is going to use his super assassin powers to outwit a new generation of trained killers trying to eliminate him before the defunct and discredited program comes to light. And it's this pursuit that our hero is now going to be forced to travel to locations to be determined by our panel in order to help get the movie made, and to save money. And for any producer in this room, I'm sure you've had that mandate.

EZRA DONER: Our hero is saving the world and we're saving money, right?

STEPHANIE AUSTIN: That's right. That's right. So you'll see that we've backed into a budget that's $100 million, and unlike a lot of situations I've been in recently, the above the line is actually smaller than the production period. Frequently that's not true anymore. But, in the interest of having an impact for the panel's idea is to have an impact. The below the line period is actually over $50 million, so that's where most of these incentives actually have an impact. Postproduction is at twenty-one days, which is kind of brief, but about $70.5 million, a little over that. And it's a studio picture. There's no bond fee or contingency, or anything like that, but there is a little bit of overhead in there. So you can see that it's a seventy-two day shoot. Twenty of those days are on stage, and we have thirty-six second unit days.

EZRA DONER: So, Stephanie, just starting with the story itself, and without regard to incentives, where might this production shoot simply based on story elements?

STEPHANIE AUSTIN: Well, funny you should ask. Well, given this scenario and basing it somewhat on the *Bourne* concept, it could shoot in New York. It can shoot in Rome. It can shoot in Seoul. It can shoot in any location that obviously has something that provides enough production value, because it's basically features some guy just being chased from exotic location to exotic location. So, it would be a matter of interpreting what is an exotic location. I know that I have been asked to basically rewrite a script based on what incentives are available to give my notes to the studio. So this is not actually an uncommon activity.

EZRA DONER: I think the point is in the assumption that, although it could shoot in different locations, it does need a minimum of a few locations. It can't all be in one location. Well, who should we ask first? How about Michigan, which has recently enacted . . .

STEPHANIE AUSTIN: Yeah, let's put Janet on the spot.

EZRA DONER: Yeah. And, Janet, could you tell us the status of the incentives in Michigan, and what you might offer?

JANET LOCKWOOD: Certainly, but I would like to preface that with the information that I never saw this puzzle until right this moment. For some reason I didn't receive it.

EZRA DONER: Would you like to take a moment?

JANET LOCKWOOD: No, it doesn't matter.

STEPHANIE AUSTIN: I bet she's going to get the movie anyway, so it's okay.

JANET LOCKWOOD: The Michigan film incentive is 40 percent cash back across the board; 42 percent above the line or below the line; 42 percent if you shoot in one of our 103 core communities, which are not necessarily distressed in the least. They were chosen by politicians. Everyone wanted one in their district, and so some of the core communities are very lovely indeed, but the point is if you shoot in those you get an extra 2 percent, for a grand total of 42 percent across the board. There are some caveats. Non-resident crew is reimbursed only at a 30 percent cash return. Maximum salary per person, per production is $2 million, which means if you pay Tom Cruise $25 million, lovely, but I'd only give you $800,000 on your first $2 million. It has a $50,000 minimum spend. It has no cap anywhere except those I've mentioned and it sunsets in 2015. Included in the package besides the first bill, Public Act 77, we have a 25 percent credit on infrastructure plus equipment, and builds in Michigan up to $20 million a year. It's not refundable, but you can roll it over for a period of ten years. There's an angel investor credit. That actually has fallen on a lot of hard times. We're fixing it, tweaking it, but that's for a 25 percent tax credit for investments in Michigan films. There's a small workforce development program I've patterned after New Mexico, but the Michigan Treasury said, "Oh dear, we're giving them the farm already. We need to make this a tax credit as opposed to cash." But I'm working on tweaking that back. And there's a low no interest loan program from $500,000 to $15 million, which sounds better than it might be if you read the fine print, and that is your loan is actually 80 percent of the 40 percent that you're going to get from Michigan. It can still be a nice piece of change. There's one small thing that I never remember to emphasize because they tossed it in at the last minute, one-half of a percent of whatever you're going to get back goes to the Michigan production fund, which is really my office. You don't have to pay me. We simply keep back one-half of a percent. So you don't really get 40 percent, you get 39.5. I know it makes a huge difference. But, hey, you never know. And that is the gist of the Michigan film incentive. And you might ask, those of you who follow economics, how Michigan, which is currently in a constant race with Mississippi for the highest unemployment, could afford to do this, and our very aggressive governor, Jennifer Granholm, simply decided last fall she wanted the best incentive program in America, and so a bunch of us put it together. And the legislature, which had been well-educated last year by our much smaller incentive said, "Yes," and voted 147 to one to pass it. And we shall see what we shall we.

STEPHANIE AUSTIN: Thanks for joining us. Janet, I have a couple of questions. Can you talk about the availability of crew and equipment, since your incentive is applicable to that?

JANET LOCKWOOD: Right, right. And that'll be interesting. I am about two and a half crew deep, and that's in the Detroit area. And I'm a union state (IATSE, Teamsters, SAG) and I have all three in my state including the executive director of SAG who manages both Michigan and Pennsylvania, a splendid woman named Lucia Fishburne. And we have about a two and a half deep union, probably another deep non-union. Yes, they are mixed sometimes, although I don't encourage it, nor do the unions. Oh, and there's also a small cadre in Grand Rapids, which is on the west side of my state. And that's more rural, it's very near Lake Michigan with 3,000 miles of coastline. Some people like to shoot over on that side of the state. I have one large stage. By the way, my IATSE is the size it is because we are a big commercial state; we have been for years. It's size has reduced considerably from the nineties, but we're still a healthy commercial state, and so, because of that, infrastructure grew up. We have a number of stages. I think we have seventeen in the state, most of them are under 10,000 feet. I have a couple that are 10,000 and I have one that's 15,000, fourty-two to the grid. Still not big enough for some of the things you do, but it's certainly a good size A-stage. We also have good sound equipment places. We have excellent grip and electric. And we have one very good camera, a couple of lesser cameras. No Panavision, of course. That's only out of Texas and California, I think. So my infrastructure's interesting especially in the stages, and we have a number of stage people including those who built the New Mexico stages who are talking to me this very period of time in L.A., and beforehand, about putting facilities up. I've also had some major studios come in and look at what we have in the way of warehouses. This, will no doubt, lead up to at least one more stage, but not for six months or so. It's not going to happen right away. So the infrastructure, I have nothing to compare with Patty Kaufman's in New York or what you have here in Los Angeles, or even what they have in New Mexico, but the governor signed these bills Monday of this week. So it's very new. The application is now online, and we've already approved seven films. I have eighty-four scripts on my desk that have come in during the last three weeks.

STEPHANIE AUSTIN: Oh, me too.

JANET LOCKWOOD: I'm not bragging, it's just facts. And this is all quite overwhelming. I'm usually the film commissioner who says, "Hi, give away, give away," and no one ever stops, but yesterday it was volume. And so does that help answer . . . my infrastructure is okay. It's not like what I want.

STEPHANIE AUSTIN: Right. And those are soundstages, they're not warehouses?

JANET LOCKWOOD: No, no, these are soundstages I was talking about. I have another 300 IATSE Detroit that have done commercials for so long. We've got to retrain them to do films.

STEPHANIE AUSTIN: Right, right. And when you say the sunset's on the deal in 2015, the application process, does it have a particular window? Because if you don't have any actual ceiling for this all eighty-four of these scripts could conceivably . . . .

JANET LOCKWOOD: No, you and I both know that a lot of these scripts, even though they're well-meaning, they're not going to probably see the light of day right away. They're not funded. They came from producers and directors and so forth, but still I don't think they're all going to be produced . . . . No, that'd be horrifying, wouldn't it?

EZRA DONER: I'm going to be the co-producer for a moment. Assume I filed all my paperwork with you, and put aside the possibility of a loan, when do I get my money?

JANET LOCKWOOD: It's dependant on you, really. We are going to require a simple audit, same as Louisiana, done by a Michigan CPA, paid for at your expense. If all of your i's are dotted and your t's are crossed, and once you turn in . . . I hired a production accountant for my office whose been working on films for twenty years because I figured I needed someone who could tell me that I don't want to work with this producer because he never pays his bills, that kind of thing. But if between treasury and the film office your paperwork looks good, thirty to ninety days maximum.

EZRA DONER: Is it typical that the submission would be made after answer print?

JANET LOCKWOOD: No, not necessarily at all. You may file for your incentive once you're finished shooting in Michigan. We encourage you to do your post, everything in Michigan. But, candidly, there are some posts you probably can't do in Michigan yet. So, but no, as soon as you're done start the paperwork.

EZRA DONER: Thanks. Just to be clear if you decide one of your exotic locations is going to be Lansing, but then you're going to go around the world to your other exotic locations, you can still qualify just for whatever shoot you do in Michigan? You don't have to have some percentage of the overall . . . .

JANET LOCKWOOD: You do not. You don't have to have a certain percentage of Michigan crew, nor do you have to have a certain percentage of Michigan shoot days. But it's to your advantage the more you have the more you get.

STEPHANIE AUSTIN: And just one more thing. Because this is a scenario where the locations are really of a very important core part of the production, could you just give us an idea of something that we might not know about in Michigan that's very unusual or that would provide some of these very exotic backgrounds?

JANET LOCKWOOD: First, I have two peninsulas, which many people don't realize. The Lower Peninsula, which looks like a mitten. The Upper Peninsula cuts across the top joined by the Mackinac Bridge, a five-mile long suspension bridge. The Upper Peninsula looks like America did a hundred and fifty years ago. There are far more trees and deer, and wolves than there are people. The largest town up there is Marquette; it has twenty-five thousand people. It's a fabulous look. Crew is limited, but we're working on it. It touches the northern peninsula . . . Upper Peninsula touches Wisconsin and Minnesota. We're surrounded by four of the Great Lakes, so we have three thousand miles of fresh water coastline. Lake Michigan, in particular, looks much like the ocean. People who come there to shoot, and they have, in the past before this incentive war began, are always amazed because we did a World War II submarine movie there that was badly marketed I shouldn't say, but we have a World War II submarine there in Muskegon, Michigan on the west coast, and we dragged it out into the middle of Lake Michigan for a lot of the filming at sunset, and it was really a time warp thing. It was very beautiful. It looks like the ocean. We also have massive sand dunes up in the Silver Lake area on the west side that resemble an African desert, as opposed to the saltwater flats in Utah, because these dunes dip. You can film there as a desert. You don't want to pull too far back because then you see the huge expansive Lake Michigan, but because the dips are so low, you can do some amazing desert shooting up in the dunes. Of course, we have a lot of villages and cities, ghost towns, and pine forests. People think of Michigan as Detroit. And Detroit is really a phenomenal place to shoot. I don't know if anyone in the audience has shot there, but the architecture there is fabulous. And, yes, it does have some distressed areas. As a film commissioner I, of course, encourage them to keep their distressed areas, and they're slowly but surely gentrified, and I'm very bothered by that. But, that's just because I like it visually for all of you. It's a very film-friendly state. We have next to no permits. Seriously. Michigan is very rural. It's the cherry capital of America. We have thirty-five vineyards, etc. Things you probably didn't realize about Michigan. It's a lovely place, really, except it's supposed to snow on Sunday, and that's not lovely, is it?

EZRA DONER: Thanks so much, Jan. Stephanie, what region would you like to look at next for this production? Which commissioner?

STEPHANIE AUSTIN: Well, how about Susan. She's been real nervous about this.

SUSAN SIMMS: Well, and clearly I had no reason to be, so silly me. I was mostly nervous about the materials, and as it turned out that turned to be a good call on my part. I was completely prepared to fall on my sword over the whole PowerPoint that you'll notice you're not seeing because I thought I would mess it up, and in fact, it got messed up before it actually got here. There was this whole section, however superficial, about super secret spies, and isn't Florida the place you want to make your super secret spy movie, and who made the last super secret spy movie there, and Casino Royale pops up, and you go ooh, and then we say, but of course, there's nothing as signature super secret spy as da da da, and then there's *True Lies*, and oh, who shot that? Oh, Stephanie. And everybody claps and laughs, and that was pretty much the high point. And, yet, that's not here. So we have to go with the pesky substance thing. My state, Florida, has a tax rebate, just cash. My state has no personal state income tax, which makes my state very interesting. Florida has more first graders than any other state in the United States. And Florida has more senior citizens than any other state in the United States. So the money for our incentive doesn't come out of a tax base because there isn't one, so it comes out of that general fund. So there are those pesky first graders, senior citizens and the movie people. What photo op do you want to be in? Somehow, however, they've come up with our incentive from 15 to 22 percent, which we're pretty darn excited about, actually. We have that whole other hurricane issue that rears its ugly head on occasion, but there's no extra charge for that, so don't be afraid. One year some people had to run for their lives.

JANET LOCKWOOD: But it was only once.

SUSAN SIMMS: No, because actually *Real World* had to run three times, but, got the highest ratings ever, is all I'm saying. So fine. So, I guess the legislature felt sorry for us. We moved our incentive up to 20 percent, and then thought the next year we'd mission creep it up, that's special ops talk, for a full year. What we did was have everyone and their grandmother come and shoot. We had the biggest year ever during hurricane season, and so we ultimately created a six-month period of production, just not the six months we would think. So anyway, we have an incentive, a fiscal year that starts July 1st. Your proposal, such as it is, means that you would be shooting in our off season. You would qualify for 20 percent, and when I left the house you were getting $8.8 million, and then I got a call in the car that said, "We found $400,000." And I said, "No, I've already printed it. Go away." So it could be better. What our incentive coordinator did was took the budget, took the parameters that Stephanie created, did a worse case scenario wherein she gets $7,630,593. That was worse-worse case. That's before everyone placed Pylon. That's on another sheet. At 20 percent, you'll see it's $9.9 million, which would be so great if our cap wasn't $8 million. So what they did was, and what we did, in collective group think ,because there were bigger minds than mine working on this thankfully, you qualified for the $8 million for the state incentive. You qualified for an additional $500,000 and some change for the sales tax rebate. We have $300,000 that you qualify for from our digital media because Florida is a hotbed for game design, creation, and production. And, in fact, Madden NFL, Tiger Woods, and NCAA award 2008, three of the top three games, were all created in Florida with our incentives. So we pretty much know what we're doing on that one. And then we had at least two other markets, Pylon, with $100,000 that they're calling a closing fund, which sounds like a slush fund, but I'll go with closing fund, bringing us to $8.8 million as a grand prize winner. Now, here are a couple of things just for you guys that don't know. I live in a parallel universe to my friend here because I have the third largest crew base and the third largest talent pool in the United States. And last year they were all happy as clams working and working. Life was good. But the previous two years I was the air traffic controller on speed, and we have 1100 IA members, and I would call the red phone to the IA business manager twice a week because our crew was all over. They were in Louisiana. They were in New Mexico. They were in the Carolinas. "When does that film wrap in Albuquerque?" "Don't let them take that picture in Charlotte." "Got to have them back in Tampa." I mean, it was just craziness. We lost a film to our friends in North Carolina. The head of production actually was sitting in my living room, not that they do that, but he had a shoot three blocks over, and just stopped by because if you want to lose a film you want to do it in person, and he said, "I'm so sorry to tell you that we went with North Carolina." And I said, "Well, you know, me, too." I said, "But at least I know your crew's going to be great. Your crew's going to be great." And said, "Why?" And I said, "Well, because it's the same guys you were going to have in Orlando, but now they're going to be in . . . ," and you could tell he thought I was, kind of, funny and like the crazy lady, but he called me three weeks later and said, "Okay, I'm looking. It's 407, 407, 904, 407." And I went, "Yeah, those are my peeps." So for that reason, the bad news, just so you'll know because we just like cut to the chase, we do not rebate on above the line. We don't because of the pesky schoolchildren. So we do not rebate on out of state residence because if there are 1100 crew people in the state of Florida needing a job, and we use taxpayer dollars on that very nice guy from L.A., who is probably my neighbor, I would have a very short career. And so that's just not going to happen until such time as, unfortunately, we hemorrhage our entire crew base, and then we've got a reverse problem. But, if you were coming to my stat, you would get your cash rebate. This is so easy I can't tell you. We have a lot of return business. Everything's on our website. There's a sample budget that you see. So you don't have to worry if am I going to tell you something counts, and then you're going to call somebody in Tallahassee, and they say it doesn't count. It's on paper. It's there. You can go look anytime. The application is super easy; its four pages. The last page is some Miss America question, "What does the incentive mean to you?" I don't know why that's on there. And then it tells you how to set up your books, so you don't do it at the end, you do it at the beginning. You can back into everything, so at the end you're not flipping out and going, "Oh no, what's a resident?" I mean, it is so, so, so easy. And I said the other day we should just go to the Fox lot with the chopper and just drop the money out because they've done, in the last year, direct to video, a TV pilot, they came for the first season, set in Florida, that shot in Florida, that's shocking in itself, and they start season two in three weeks, and they're sharing the convention center in Miami that they're getting for a nominal fee with the Fox movie *Marley & Me* starring Jennifer Aniston and Owen Wilson. So they've broken the code. They're doing it, and lots of people are doing it. And, lastly, I would say that I live here in Los Angeles, and so I'm your neighbor, and I'm going to see you in the frozen food section at the store, and Hollywood Bowl, and Marshalls, and wherever. If you are making a $100 million movie, maybe not at Marshalls, but I'll be at Marshalls. And so I have had a job, which this is probably the kiss of death, three governors and five film commissioners because I will see you again. So if I tell you that something is that's the way it is, then that's probably the way it is because otherwise I would live in Florida again. Thank you.

EZRA DONER: Susan, we may come back to you for some questions later. Robin has to leave shortly, so we're going to find out about shooting in Australia. Stephanie, any particular question?

STEPHANIE AUSTIN: For Robin?

EZRA DONER: Yes.

STEPHANIE AUSTIN: Well, because I was associated with *Fools Gold* for many months and building that wonderful tank, but that was an instance where the rebate, the incentive, made all the difference in where the film was shot.

ROBIN JAMES: That's true. Also the currency differential was more attractive when you started than when you finished.

STEPHANIE AUSTIN: It was. It was, but without that incentive they would've been in the Florida Keys and Bahamas where the movie was actually set.

ROBIN JAMES: Absolutely. Yeah, that's very true. What can I say, Stephanie? I'll tell you what I will say, something, $100 million movie, nearly $40 million in above the lines. Forty million dollars to actors, producers, directors, and then $60 million to make the movie.

STEPHANIE AUSTIN: Usually that scenario is even worse.

ROBIN JAMES: I know. That's the movie business. Now, as I mentioned previously, I'm from Queensland, which is the northern most side of Australia. There it is on there. A great place to visit. Lovely beaches. We've got the great Barrier Reef. Great white sharks. And in the bottom right hand corner are the studios, which are on the Gulf Coast just south of Brisbane, which is the capital. And there are some pictures to give you a little bit of an understanding of what it looks like. Now, for a movie such as this, obviously, the project, if it's going to be as exciting as Stephanie says it is, will need a great variety of locations. The director wants cityscapes, jungles, deserts, chase scenes, great white sharks, crocodiles, you name it; it's all there in this state. So, obviously, it could be particularly exciting. Now, let me get down to the really exciting stuff such as infrastructure. There's a range of capabilities there. There's some illustration. There's the tank there on the bottom, which is terrific, and it was used in *Fools Gold*. It was also used in another movie a family movie called *Nims Island*, which was released here recently by Walden. And it's going to be used again very shortly in other major feature films. It works very well. We have animatronics specialists including an Academy Award winner, John Cox, who years ago made *Babe*. Some of you will remember that movie. But he does wonderful visual effects; very wonderful prosthetics and animatronics. So there's a whole range of capabilities there, which obviously are very important. Some of the films that have shot there recently and television series include: the *Pacific*, which is the sequel to *Band of Brothers* for HBO; *Nims Island*, which I mentioned; *Starter* Wife, if you follow *Desperate Housewives* on TV you couldn't have missed *Starter Wife* with Debra Messing; *Fools Gold* from Warner Bros., which was released here a couple of months ago; and, *The Ruins* from DreamWorks, which I think is being released at the moment. Now, the bottom line: the incentives. It's not easy following Janet, I must say, or even Susan, for that matter. The federal incentives, a location offset, a 15 percent offset for large film, miniseries, and television series made in Australia, 15 percent. Isn't that miserable? I can't believe it. I'm embarrassed. The production must have a minimum expenditure of $15 million in Australia even to qualify to access the 15 percent. For production with a value of between $15 and $50 million, the Australian expenditure must represent at least 70 percent of the production's total worldwide expenditure. I did make a comment previously, and I'm not from the federal government, although I qualify. I did make a comment previously about how irritating it is for producers when things get complicated. Well, the Australian government's made it complicated. You'd have to get the slide rule and the calculator out to work out 70 percent of the production's total expenditure. But we move on. There is a 15 percent offset for postproduction, as well. It's available if postproduction is done in Australia, for postproduction digital video work. It has to be a minimum expenditure of five million. Now, there's a state incentive, and that amounts to between about 3 to 5 percent of the budget, plus a rebate of state payroll taxes, which is usually around about 2 to 3 percent of the budget. So, if you add those two together you're getting close to about 20 percent all up. However, there's a secret weapon, which I haven't put up yet because I'm very pleased with this. It's a question of how it would work. The Australian government recently introduced a 40 percent rebate for Australian filmmakers making Australian films, and there are a lot of very successful Australian directors who make Australian films, but they release in the global market. Many of you know Peter Weir.

He did *Master and Commander* and a whole range of other movies. Bruce Beresford., Academy Award winner. George Miller who recently did *Happy Feet*, and a range of other major movies that released. There's a swag of these people. They're eligible for this 40 percent tax offset provided other things are equal. The other thing is principally that it be perceived as an Australian film. Whatever that means, you know, koala are rampant, or kangaroo or something. I don't know. But it has to be perceived as an Australian film in order to qualify for that 40 percent, and that's very generous. But wait, there's more. On top of that there's a state incentive of between about 3 and 5 percent, so that brings it up to between 43 and 45 percent, plus the rebate of the state payroll taxes because there are no state taxes apart from the payroll tax, which is another 2 percent. So there you're looking at between 45 and 47 percent. But wait, there's even more. There's also a federal bank called 'The Film Finance Corporation' whose job is to give away buckets of money to Australian filmmakers. And I can invest if that investment is required up to 20 percent of the budget, which brings it up to 65 percent . . . between 65-67 percent of the budget for an Australian film. Whatever that means. So currently, that's the reason I have to leave, is that there are some very excited studios in Hollywood that I've been talking to, and I've got to talk to one shortly. They want to know how they can get their mitts on this money. So that's what I'm doing.

UNKNOWN MALE: How many months of residence does it take (overtalking - laughter) . . . ?

ROBIN JAMES: Good point. Good point. I'll get back to you on that. But it's insane. It's uncapped currently. There's no cap on it. It's crazy, but that's what it is. So on that note I'll bid you farewell. Thank you.

EZRA DONER: We're going to continue now, and turn our spotlights on Kamil from Malaysia, and tell us what you can do for us.

KAMIL OTHMAN: Thank you. I suppose the first thing that I would like to share with you is that the incentives model for Malaysia is absolutely different from everything that we've heard so far because it's based on the premise that they're coming over to Malaysia because the script dictates or it requires a location like the one their shooting in the country. So it's not about really trying to attract per se, but in the script there are already elements of Malaysia, for instance. So that's the first premise that we go on to. The next is whether the production is meant to be a full-fledged production coming from here, or whether it is something that requires a collaboration with a Malaysian partner because this, too, will bring into play two different kind of incentives. Number one, if the

Hollywood production or from anywhere, it doesn't matter, would come, and the whole intention is that part of the film needs a Malaysian backdrop, and you are doing a location recce, then you will be supported all the way in a sense that there's already an organization, which is basically mine. What we do is that we will help all location recce in the country. So you might you want a place that looks like China or Hong Kong, or places like that because the thing about Malaysia is that it's a melting pot just like the United States, except that it's a melting pot of really Asian cultures and Asian faces. And we are very near India as well, so just next door kind of thing. A lot of Indian productions come over to shoot on location in Malaysia. So basically that's the premise we work on, that this production, a blockbuster, requires some scenes which require a Malaysian backdrop. For that, you'll get assistance all along the way. Now having said that, supposing that you say aha, this looks like the right thing that you wish, the next step is to get a local sponsor, they call it, and this is the local sponsor that then will ensure one thing: you deal with only one party. And I'll tell you the reason behind this. A couple of years back, I think about six years ago, *Anna and the King* was about to be shot in Thailand, and then, due to the sensitive subject matter, the Thai authorities refused to allow that film to be shot there. And, guess what, producers just looked south and there was Malaysia, similar to Thailand in all aspects. So the crew was there, and everyone was there. Jodi Foster was there, Chow Yun-Fat , the whole group. So, they said, instead of cracking our heads let's meet the Malaysian government. But at that time there was no film commission. There was no nothing, so everything had to start from scratch. So to cut a long story short, *Anna and the King* came over to Malaysia, and this it was given what we call a status of one of those ICT companies, which means that there's a bill of currency in Malaysia that would give you the status of what it called the MSC status. You'll find that in my notes. If you have this status, essentially any expatriate crew can move in and out of the country without the normal work permit problems, and you can bring in your equipment without any customs duty problem, and so on and so forth. So that's what happened. So, since then, what has happened is that, although there are not that many films that have been coming in, there are a lot of documentary filmmakers and European filmmakers that have been coming in. The last big one is Ang Lee's *Lust, Caution*. Parts of it were shot in Malaysia. And when that sort of thing happens you get the help that you need. So the emphasis is not so much on tax rebates, and so on, as the fact that we will try to make your production as easy as possible by you not having to deal with too many people and to spend too much money just thinking about it. It's like fly over, meet just this one stop center, which is the company that I represent, and then you will get all the help you need, and then the decision is yours. So that's basically the situation. The other situation that's also getting a lot of interest at this moment is when L.A. based scripts are coming over to Malaysia and they become, at the end of the day, a core development. Now, that brings into a new set of incentives, which is basically a direct domestic investment. Now, what you need to do is have that Hollywood, or the U.K. or European company, start a joint venture with a Malaysian partner, and form a company in Malaysia. The purpose of that is to make a film. Once when that happens a new set of incentives will come into play. And what are these incentives? It's not incentive in the sense of what I've read from Michigan and Florida. It is an incentive, believe it or not, for training because the government sees a production as a hands-on, get your hands dirty, training ground for the Malaysians who are involved in this industry. So it's a very roundabout way, but somehow I've managed to live with it for the last few years. There's a new government in power. And they still haven't got a film among them, which means that I've got to start all over again. But, generally, what happens is that, yes, the emphasis is not so much on tax rebates, payroll rebates and so on and so forth because we haven't really gotten to that stage yet. Soon, maybe after I've gone. But we will try to make your location recce and your filming, if necessary, as easy as possible. And you don't have to deal with too many people, just deal with one. And because we are a government agency it means simply, very simply, that a film producer will not be meeting con men. This is what happened with *Anna and the King*. I don't mind being honest with you on this. Because our program was still new there were things like corruption, under-the-counter payment, and producers had to deal with a dozen people, and so on and so forth. But, obviously, now that will not happen anymore because it is by law now that you will have to approach one body, and we are the body that will then route you to the right people. And we will be with you all the way in the sense that you will meet a Malaysian who is supposed to supply you, let's say, with a dozen elephants. We'll be there to make sure that it's something like $1 Malaysian dollar suddenly becoming $1 U.S. dollar or something. Right? And, of course, the other advantage is that for the cast and crew, it's almost like coming to Malaysia for a holiday. I mean, just to give you an idea, for instance. Apart from Carl's Jr., a value meal from McDonalds is only about $2.50 U.S.. So, I mean, if that's a big deal. But Malaysia is a Muslim country, but a lot of people have come over. And it's one of the few countries in the world like Dubai and Abu Dhabi, in a way, where at the end of the day it's not so much the rules that tell you that you can't drink alcohol and all that, it's between you and God.

So basically any Muslim can walk into a 7-Eleven and walk out with a 6-pack, and the law will not do anything to you because it's your right. It's just between you and the Man upstairs. And the stories about deforestation and all of that are not true. There are still lots of jungles and forests. I think maybe in some ways the weakest part of Malaysia is that we, as a country, don't know how to market ourselves, but for those who have been there it's an experience. I'm not saying that because I'm Malaysian, but it's only because that I've seen other parts of Asia where, for instance, language, English is not a problem at all. I mean, road signs and all that. Well, what else can I tell you? *Survivor* was shot there. Malaysia is divided into two, East Malaysia and West Malaysia. *Survivor* was actually shot in the eastern part. And it has a small population, $24 million. So pollution has not come up to alarming levels yet, and the streets are quite deserted. For instance, to shoot the sequel of *I Am Legend,* you wouldn't have to pay anyone to move out. And there are also places that have the old world charm; the old Far East of the Suzy Wong era. So if you'd like to make a movie on the old Hong Kong, try to get that kind of spot in Hong Kong right now. You'll probably be lucky you can get it, but in Malaysia you could; colonial houses, World War II—that kind of situation.

STEPHANIE AUSTIN: So in terms of saving me millions of dollars, really, it would come more as in terms of lower wages and exchange rates, and the cost of goods. Are there any considerations like free location scouting or hotel rooms or transportation, or thing like that, because it's run by the government.

KAMIL OTHMAN: Right. Sorry. I didn't mention that. Not the whole Malaysia, but there are certain states in Malaysia. Malaysia is the country which has about thirteen states just like the U.S., thirteen separate states. Now, we have made a deal with five of these states to provide free location recce, and if the cast and the crew were to be there, there are hotel rates that can be negotiated. I'm not saying entirely free, but you will be getting the best location possible, but at a discounted price, and so on and so forth. So that's one. And the other thing is that a set construction, for instance, is not a problem. You can really have some savings in that. Now, let me just have a look here. The kind of savings you would have even in camera hiring. I mean, Salon Films is there, and so a lot of companies that come over actually rent their Panavision cameras from Salon because Salon Pictures is in Kuala Lumpur. And then you've got your transportation. Now, there are a lot of savings in that as well because the states that I mentioned to you earlier would actually provide free transportation. And even that's for recce. So if you're talking about three tons of equipment coming in from the Kuala Lumpur Airport into a remote area, that's taken care of. Living expenses, I think I didn't go too much into that except that what I'm paying for the hotel in Santa Monica here I can get a suite in Malaysia, if that gives you any idea.

STEPHANIE AUSTIN: All right. Thank you.

EZRA DONER: Terrific. We're going to try to stay as close to our schedule as we can because of our late start. Alison, you and Stephanie know each other already. And Stephanie has worked closely with U.K. Film Authorities. Stephanie, is there anything particular that you would like to ask Alison as a fit that she can respond to?

STEPHANIE AUSTIN: Well, I think that a big problem for you currently is just the exchange rate because I think there's always been a very aggressive incentive program, clearly, at least for the last decade. How do you confront that or can you?

ALISON SMALL: It's an obvious question, really. Obviously there is absolutely nothing more we can do about the exchange rate. We've been doing some research back home as to what this already means about the exchange rate. Robin mentioned earlier that just recently our relationship with the Euro is changing. So, obviously, one of the offsetting points at the moment is that within Europe we are becoming cheaper than even, say, Ireland or France or Germany, or any of our European partners and competitors. So that's one thing. The other thing that just I want to say about the pound is that the relationship with the dollar is fairly stable. It has been fairly stable. Some of our competitive countries' exchange rates do fluctuate much more wildly than us. So I think although it's high, you sort of know where it's probably going to for a while. It's not going to make any major, drastic shifts, we hope. And that's all, really. But, I mean, I think it's true the exchange rate is what it is, but I do think that at the moment, anyway, the incentive program sort of helps us to get back on an even playing field, so that our tax relief is able to keep us with a look in often. But, if you factor that in then we feel we're okay competitively. One of the things I wanted to talk about, though, is about the cultural test. Is that okay if I move on?

EZRA DONER: Yeah.

STEPHANIE AUSTIN: You're very proactive in that, so that cultural test it isn't quite as cut and dry as it appears to be.

ALISON SMALL: No. Absolutely. I mean, the incentive has a cultural test, but I think one of the problems with it is that that the perception of it, really, is that it has be very culturally British, like beefeaters and Sherlock Holmes. The perception is the film has to be that before it can shoot in the U.K., which is not the case. So I just wanted to look at your film quickly. I've made some assumptions about it. In the information packets we've got a copy of the cultural test, so I wanted to go through it and see whether your film compares to the cultural test. So before we actually look at the test, some of the assumptions that I've made about the film is that, as you have said, it's been rewritten to shoot in U.K. studios and on locations in the U.K. One of the important assumptions that I've made is that about half of the film is actually set in the U.K. And then also the U.K. will double for some other locations because the script demands that. I've also made the assumption because it happens that post music recording and visual effects are not done in the U.K., not because we can't because we absolutely can. You don't need to bring anything to the U.K. And I think our post and visual effects is world class. But I've just made the assumption that that does happen. I've also made the assumption that the director is American. So perhaps the director wants to come back to L.A. to do post here, but we see that happening, and it can happen which I think is the point. You can still get the tax relief and do those things. I've made the assumption that the script writer's American, that the producer's American. Often you'll get an American producer who does have a European passport, which changes things, but I'm making the assumption the producer's American. I've made the assumption that characters in the film are a mix of U.S. and U.K. characters, and also I've made the assumption that the British lead character is a woman, which is important. So if we look at why I've made those assumptions we need to look at the cultural test itself, now, and sort of run through that quickly. The cultural test has thirty-one points. And to pass the test you need to get sixteen points. You need to pass the test in order to access the tax relief in the U.K. The thing that I would look at first if I was going to consider shooting in the U.K. would be the cultural test and see if you could pass that. So let's have a look. There are four sections in cultural test: cultural content, cultural contribution, cultural hubs, and cultural practitioners. The first part, is the film set in the U.K.? Now, that's why I assume that 50 percent of the story is set in the U.K. So if 50 percent of it is set in the U.K., we get two out of four points there. So, two points. The lead characters, not the actors, but are the characters British citizens or residents? How are you going to prove that a character is a British resident? I'm not sure how you would do that through the script. But anyway, I have assumed that one of the two leads is a British character. So we get two points for that. Is the film based on British subject matter or underlying material? No, I don't think this is. It could be, but in my assumption it's not. So we don't get any points for that. Is it recorded in English language? Yes. So, in Section A, I've given this film eight points.

Section B, Cultural Contribution, is the section in the test that I would is most open to interpretation. This is where you can pick up points if you need them. I've said that I assume the main British character is a woman. That's important because in this script she defies some kind of stereotype. We can pick up a point for that here in that it's reflecting a diverse British culture. That's one point. I'm not going to go into any more detail. We'll see if we need to pick up more points there, and we'll come back to it. Section C, Cultural Hubs. If 50 percent of studio work, all the location shooting, all visual effects, all special effects are done in the U.K. we can get two points. Now, regarding special and visual effects. The visual effects are going to go back to L.A., but 50 percent of the studio work and the location shooting is going to be done in the U.K. So, two points there. Post music, no. So we've got two points in Section C. Section D, director? No. Script writer? No. Producer? No. Composer? Yes. Lead actors? One of them, yes. We'll get a point there. I've assumed that 50 percent of the cast, not the extras, but the cast are U.K. or European. Sorry. In Section D, this is really important. It's not just for the U.K. Under Section D, for practitioners, they can be European as well, not just British. So you could have 50 percent of the cast from Europe. So we get a point there. D-7, under cultural practitioners, we only need one lead For head of departments, we need one lead cinematographer, production designer, costume designer, one of those absolutely . . . probably all of them, but we only need one. So, yes, we've got a point there. And, lastly, 50 percent of the crew is going to be British. So we get five points in Section D. We've got sixteen points already.

STEPHANIE AUSTIN: This is very similar to a real scenario that Alison helped me with last year. And we wanted to go through this exercise because it points out how the cultural test is not as daunting as it appears, and it's actually quite flexible.

ALISON SMALL: Yes, I think that's the point. There is flexibility within it, and if you're below fifteen points then maybe you have to make another decision about doing a bit more work in the U.K., or indeed about changing the script, as you mentioned earlier. Sometimes that does happen; you write more of the script for the U.K. and then you can pick up additional points. So that's the point. We don't need to go back to Section B and pick up more points in there, although you can. That's something that you can do. One of the other things that I'd like to say about this, if you're considering doing this exercise, please do talk to us or do talk to the department at Film Council that actually provides the certificate for you to say you passed the cultural test because they are really proactive, and really willing to help producers get through this.

STEPHANIE AUSTIN: And come up with lots of suggestions for you in terms of how you might alter the numbers that you need.

ALISON SMALL: Yes, absolutely. Yeah. I have a figure of what we might get at the end. Assuming we've done that, so you've got a British film production company in the U.K. The film is going to be theatrically released. And you spent more than 25 percent in the U.K. Then I come to $15.2 million on this film because it's about where work is used and consumed. So, all of the above the line work is in the U.K., and the film shoots in the U.K. I've taken out the visual effects.

STEPHANIE AUSTIN: And at the current exchange rate.

ALISON SMALL: That's dollars. Sorry. So $15.2 million.

SUSAN SIMMS: Which is close to 8.8 million pounds. Just thought I'd point that out.

STEPHANIE AUSTIN: And, Susan, you forgot to put in the 2 percent for . . . .

SUSAN SIMMS: Well, I assumed that your super spy guy was not family-friendly; some potential profanity, perhaps smoking. However, I would like to say that if one of his special ops' guys is either the Rock or John Travolta, you get $400,000 additional dollars per. It's another $800,000. And a darn fine super spy team.

JANET LOCKWOOD: I did take time, not that I haven't been listening very closely to my fellow, to do a rough figure. I believe you get back between $28 and $33 million.

STEPHANIE AUSTIN: I guess I'm going to Michigan.

EZRA DONER: I think that decides it. We have to be out of here by 3:00 p.m. We have taken more time than we expected. I want to thank you. If anyone wants to stay and ask questions you can ask from the floor here. If anyone needs to leave you may want to leave now. Should we do it that way?

STEPHANIE AUSTIN: Yeah.

JAY DOUGHERTY: I just want to thank you, thank our sponsors again, and Entertainment Partners. There's a booklet out there with material on many incentives around the country and the world, which I welcome you to take with you. So thank you very much. See you next year at Soft Money 5. And we welcome more questions over the next few minutes if you'd like.