



Making sense of the numbers

Partial economic assessment of MOUs for the 5% Uplift
of the New Zealand Screen Production Grant
Final report

September 2022

Authors: Mark Cox and Hillmarè Schulze

All work is done, and services rendered at the request of, and for the purposes of the client only. Neither BERL nor any of its employees accepts any responsibility on any grounds whatsoever, including negligence, to any other person.

While every effort is made by BERL to ensure that the information, opinions and forecasts provided to the client are accurate and reliable, BERL shall not be liable for any adverse consequences of the client's decisions made in reliance of any report provided by BERL, nor shall BERL be held to have given or implied any warranty as to whether any report provided by BERL will assist in the performance of the client's functions.

Preface

This report presents the findings of a truncated programme of work, by Business and Economic Research Limited (BERL) for the Ministry of Business, Innovation and Employment (MBIE), to evaluate the economic effects of the MOUs for the 5 percent Uplift of the New Zealand Screen Production Grant. It was intended to undertake a more comprehensive programme, but this proved to be impossible. Specifically, circumstances prevented the completion of interviews with all identifiable signatories to the MOUs that are a feature of the Uplift scheme (the scheme). Similarly, it was not possible to gather insights and information from the individuals who it was thought were likely to have benefitted from internships and mentorships associated with the MOUs. For these reasons, the report is referred to as a partial assessment.

Nonetheless, the work undertaken has provided some useful insights into what benefits the scheme has delivered and what their value has been. In addition, it collected some suggestions as to how the scheme could become more effective. Furthermore, although this was not a specific objective of the assessment, the key screen industry players who agreed to be interviewed contributed important opinions on what conditions are necessary to enable New Zealand to attract more international screen productions.

Executive Summary

About the assessment

International screen productions in New Zealand can be awarded an extra five percent of qualifying production expenditure in funding (Uplift), over and above the standard 20 percent rebate of the New Zealand Screen Production Grant (NZSPG). Productions must be invited to apply for the Uplift, and their application then be approved by a panel assessing the Significant Economic Benefits of their application. If successful, productions then enter into a Memorandum of Understanding (MOU) with the New Zealand Government, specifying the activities and deliverables to which they will commit in exchange for the Uplift.

To date, there have been eight MOUs, and this report presents the results of a partial assessment of the economic effects of the six MOUs that were within scope. The assessment was partial because it was not feasible to complete the information gathering to complete the work as planned. Nevertheless, the work has produced some useful findings about the effects of the MOUs.

The work was partly based on analysis of the expenditure associated with the productions for which an MOU was developed. It also involved analysis of the findings from a set of interviews with parties to, and beneficiaries of, the MOU activities and deliverables. Interviews were also held with other players in the New Zealand screen sector who were thought likely, as observers, to have insights into the effects of the MOUs.

Findings from analysis of the expenditure data and interview findings

The principal findings of the assessment have been:

- The six productions that were the subject of an MOU between August 2015 and March 2022 were, on average, very much larger, in terms of their production expenditure, than the 109 international productions that received the standard rate of the NZSPG.¹
- Typically, the MOUs committed the Uplift recipients to:
 - deliver various forms of screen content to New Zealand agencies for promotional purposes, and to cooperate in promotional events
 - provide internships or mentorships for New Zealand screen professionals
 - transfer technology and skills to New Zealand production service providers.
- Two of the MOUs provided for the inclusion of a New Zealand character in the production, and one resulted in significant infrastructure investment.
- The studio representatives interviewed indicated that the MOU activities and deliverables would not normally be provided as part of a production that did not receive the Uplift. This implies that the economic benefits flowing from the MOUs were largely “additional,” i.e. would not have eventuated in the absence of the MOUs.
- The studio representatives also indicated that the Uplift funding resulting from the MOUs was an important factor in the decision to bring their productions to New Zealand, although other factors (including the availability of sound stages and high calibre production professionals) were also important.

¹ Note - Often PDV-only productions are smaller, so it could skew the comparison.

- The findings from the other interviews (with the beneficiaries of the MOU activities and deliverables, and related New Zealand screen sector players) were consistent with those carried out with the interviews with the studio representatives.

Key conclusions based on this partial assessment

The analysis of the production expenditure data and the interview findings indicate the following conclusions:

- The activities and deliverables flowing from the MOUs have the potential to generate significant and enduring economic benefits
- Most of the benefits can only be described, rather than measured, and this means that the value for money of the Uplift cannot be stated
- The Uplift has played an important part in influencing the decisions to bring productions to New Zealand that might otherwise have gone elsewhere.

However, it is also advised that these are heavily qualified conclusions because the information gathering work underlying the assessment was truncated. Further information gathering and analysis would be required to confirm them.

Contents

1	Introduction.....	1
1.1	About the 5 percent Uplift of the New Zealand Screen Production Grant.....	1
1.2	Productions associated with Memorandums of Understanding.....	1
1.3	Objectives of the assessment.....	2
1.4	Intended methodology.....	2
1.5	Extent to which the methodology was completed.....	2
1.6	Structure of the report.....	3
2	Features of the MOUs.....	4
3	The Uplift in context.....	6
4	Summary of the information gathered from interviews.....	7
4.1	The interviewees.....	7
4.2	Interviews with the studio representatives.....	7
4.3	Interviews with NZ signatories to the MOUs.....	9
4.4	Interviews with the other informants.....	10
5	Assessing the economic effects.....	11
5.1	The counterfactual.....	11
5.2	The ongoing effects of the MOUs.....	11
5.3	The Meg – a case study.....	12
5.4	Temporary expenditure-related effects.....	12
6	Conclusions.....	14
6.1	The effects of the MOUs and their value for money.....	14
6.2	Overall conclusions.....	14

Tables

Table 1	Key features of the MOUs.....	4
Table 2	Expenditure and grant funding for international NZSPG-supported productions.....	6

1 Introduction

1.1 About the 5 percent Uplift of the New Zealand Screen Production Grant

The New Zealand Screen Production Grant (NZSPG) was established in 2014, and offers a rebate of 40% for qualifying domestic productions, and 20% for qualifying international productions. An additional 5% rebate (5% Uplift) is available for live action productions that meet a Significant Economic Benefits (SEB) Points Test. International productions must be invited to apply for the Uplift, and their application is then considered by a panel assessing their likely Significant Economic Benefits. If successful, productions then enter into a Memorandum of Understanding (MOU) with the New Zealand Government, specifying the activities and deliverables to which they will commit in exchange for the Uplift.

The purpose of the NZSPG International Grant is to provide economic and industry development benefits to New Zealand by incentivising screen productions that would not otherwise have been made here. The 5% Uplift is reflective of the fact that screen productions can raise New Zealand's profile internationally, attract high value tourists, and profile our innovative and creative people and technologies.

It is expected that productions in receipt of the 5% Uplift will be well placed to market, promote and showcase New Zealand. Productions that are approved for the 5% Uplift by the Significant Economic Benefits Panel enter into a legally binding Memorandum of Understanding (MOU) providing for activities and deliverables. Payment of the 5% Uplift is conditional on these deliverables being delivered by the production within the timeframe specified in the MOU.

Applicants for the Uplift must be a special purpose vehicle (SPV), registered in New Zealand and established principally in relation to making the production.

1.2 Productions associated with Memorandums of Understanding

Eight international productions have been subject to an MOU. Six were considered for this project.

Ghost in the Shell – released in 2017

Mortal Engines – released in 2019

Mulan – released in 2020

The Meg – released in 2018

Pete's Dragon – released in 2016

Power Rangers (Dino Charge) – streamed in 2015

The other two productions were agreed as out of scope of the assessment for the following reasons:

Amazon Untitled project - Season 1 – the five percent incentive was withdrawn following Amazon's decision to shift production offshore after Season 1

Avatar sequels– production of the first sequel is ongoing (scheduled for release late in 2022).

1.3 Objectives of the assessment

The assessment was designed to examine only the economic effects of the MOUs for the 5% Uplift side of the NZSPG, rather than the effects of the NZSPG funding as a whole. The two key objectives were to:

1. Inform government partners as to whether the MOUs have delivered the anticipated economic benefits, and
2. Inform the approach MBIE may take to future Uplift MOUs, and advise future policy to inform Uplift MOU terms.

MBIE's specification for the assessment also indicated that the principal questions were:

- a) What activities occurred under the MOUs?
- b) How did the activities compare with the activities agreed to in the MOUs?
- c) Were any of the activities / deliverables itemised in the MOUs difficult to complete? And, if so, what particular activities/deliverables?
- d) Did the Uplift grant cover the cost of fulfilling the terms of the MOUs? And, if not, how much extra spending was needed?
- e) What were the direct and indirect/spill over benefits of the activities?
- f) In what ways has / will the New Zealand economy benefit from the activities and deliverables resulting from the MOUs?

1.4 Intended methodology

The methodology recognised that the 5 percent Uplift is likely to have both short-term and ongoing effects. The short-term effects will be generated by “additional” production expenditure induced by the MOUs. In this context, additional production expenditure is expenditure in New Zealand that would not have occurred in the absence of the 5 percent Uplift. The extent to which this happened is explored in section 5 of this report. The ongoing effects will be generated by the activities and deliverables that occurred as a result of the Uplift.

The methodology was designed to collect information from all parties to the MOUs, as well as organisations and individuals that benefitted from, or participated in, MOU activities and deliverables. Interviews were also held with a set of other informants who worked for organisations that had a role or stake in promoting the development of the New Zealand screen sector. The plan was that the information would then be analysed to generate quantitative and qualitative estimates of the Uplift scheme's economic effects.

1.5 Extent to which the methodology was completed

To obtain the information alluded to above, a total of eleven interviews were held. The names of the organisations of the interviewees are shown in section 4. Data on the Qualifying New Zealand Production Expenditure, and the associated grant funding, was provided by the New Zealand Film Commission (NZFC).

It was not possible to interview representatives of the studios responsible for two of the productions: *Ghost in the Shell*, and *Mortal Engines*. Nor was it possible to interview any of the 20 or so individuals who participated in internships or mentorships agreed to as part of the MOUs. The latter represented a significant gap, given the importance of workforce development in the health of

any industry, and noting what the studio representatives said about the importance of the availability of high calibre production staff in decisions about where productions are filmed.

The work plan for the assessment provided for the delivery of an emerging findings report on the completion of the intended information gathering, prior to the analysis of the information to generate estimates of the economic effects of the Uplift. Although the information gathering did not go as far as was intended, this partial assessment report includes some, largely qualitative, analysis of the effects.

If it had been possible to complete a larger programme of information gathering, the findings would also have included quantitative and qualitative analysis of the economic effects of the MOUs.

1.6 Structure of the report

Section 2 summarises the key features of the MOUs, focusing on the activities and deliverables to which they committed the studios in return for the Uplift funding.

Section 3 puts the Uplift productions into context, by comparing their Qualifying New Zealand Production Expenditure (QNZPE) and grant funding, with the QNZPE and grant funding for productions that did not receive the Uplift.

Section 4 sets out the findings from the interviews with the studios, beneficiaries of the MOUs, and a range of other informants who had insights into the operation of the Uplift scheme.

Section 5 draws on the interview findings, and the QNZPE data, to consider what the economic effects of the MOUs have been.

Lastly, section 6 draws some conclusions about the effectiveness of the MOUs in relation to the objectives of using them.

2 Features of the MOUs

Table 1 summarises the activities and deliverables that were promised by the studios in return for the Uplift funding. For the reasons shown in section, 1.2 the table does not include details of the MOU for the Avatar sequels and the Amazon project.

It should be noted that the New Zealand Film Commission (NZFC) was a signatory to all of the MOUs, as well as being a specified beneficiary from a number of them; for example, through official partner recognition and delivery of screen materials for its own promotional purposes. Tourism New Zealand (TNZ) and Education New Zealand (ENZ) were signatories to the MOUs where they were specified beneficiaries, in a similar fashion to the NZFC.

The table indicates that, typically, the MOUs have contained undertakings by the studios receiving the grant to provide various forms of screen content and other publicity materials to the NZFC, and/or other New Zealand agencies, for promotional purposes. They generally also commit the studios to provide internships and/or mentorships to New Zealand film professionals, to enable them to broaden their experience². They will often include commitments to transfer technology to New Zealand firms contracting on productions. On occasion, they have provided for the inclusion of identifiably Kiwi characters in the filming. One MOU also provided for the investment in a significant amount of production infrastructure.

Table 1 Key features of the MOUs

Production	Studio	Activities and deliverables specified
Ghost in the Shell	Paramount	<ul style="list-style-type: none"> • Tourism NZ, NZFC and Callaghan Innovation given official partner recognition • TNZ hosted tourism experiences for cast and used associated imagery • Paramount also provided film and related content for upload to electronic press kits • Skills and talent development (via production mentorships) • Showcasing (e.g. credits and promotions) for NZ fashion sector providing costume for the production • Familiarisation of NZ crew to new lighting and camera technology
Mortal Engines	MRC Holdings	<ul style="list-style-type: none"> • Promotion of film, education and innovation in NZ, using a facilitator from production team • Official partner recognition, via on screen acknowledgements and promotions, and provision of content for Education New Zealand • Supply of materials to promote benefits of a production to NZ stakeholders

/continued

² We note that the Significant Economic Benefits points test changed in 2017, removing the requirement for a skills or internship aspect under the criteria.

Table 1 (continued)

Mulan	Disney	<ul style="list-style-type: none"> • Support for a 2-day 'Women and inclusion summit' to profile the growing role of women in the screen sector • Marketing activities, incl. screen credits, content, PR and social media content for use to promote NZ as a great place to film, plus PR and social media content • Profiling for NZ UAV (drone) and VR technology used in filming, plus one-day technology sharing forum, plus invitations for NZ companies to bid for UAV and VR services • Paid professional & training placements (production roles), plus production internships
The Meg	Warner Bros	<ul style="list-style-type: none"> • Official partner recognition for ATEED and NZFC, incl on-screen credits • Partner global publicity campaign, and visual media to promote NZ as a great place to film • Placement of NZ in the production through casting of a prominent NZ character • Paid mentorships • Investment in NZ infrastructure at Kumeu Film Studios • Investment in innovation, technology or knowledge transfer, through contracting NZ tech companies in the production process
Pete's Dragon	Disney	<ul style="list-style-type: none"> • TNZ and NZFC promoted through Official Partner recognition, press releases / social media / screen credits etc • TNZ hosted cast and crew at tourism experiences, and received footage and stills to use in own campaigns, plus testimonials from cast/ crew • Mentorships for: NZ screen writer, Associate Producer and Marketing & publicity liaison person
Power Rangers (Dino Charge)	Saban Entertainment	<ul style="list-style-type: none"> • NZ to be promoted as a destination for the film industry, including through behind-the-scenes materials: • Production showcase for NZFC website and content for ATEED delegation to US • Power Rangers profile at Comic Con, featuring NZ • NZ actor and NZ references • Internships (paid roles) for writing and directing.

Source: NZFC

3 The Uplift in context

The data in Table 2 is for the period August 2015 to March 2022, within which Uplift grant payments were approved. It shows that the combined QNZPE for the six productions covered by the assessment that had grant funding approved was a fraction over \$0.75 billion, with an average of \$125 million.

The final column of the table also shows the Uplift component of grants approved. (Payment of the Uplift for Mulan is not yet reflected in this table given current discussions on fulfilment of the MOU terms.)

Table 2 Expenditure and grant funding for international NZSPG-supported productions³

Production	Total QNZPE, \$million	Total grant, \$million	Of which, 5% Uplift component, \$m
Ghost in the Shell	122.2	30.6	6.1
Mortal Engines	209.3	52.4	10.5
Mulan	201.9	40.4	0.0
The Meg	99.1	24.8	5.0
Pete's Dragon	87.5	21.9	4.4
Power Rangers (Dino Charge)	32.5	8.1	1.6
Total for Uplift productions (N=6)	752.5	178.2	27.6
Mean for 6 Uplift productions	125.4	29.7	4.6
Total for non-Uplift productions (N=109)	1880.4	375.9	-
Mean for 109 other productions	17.3	3.4	-
Total productions (N=115)	2632.9	554.1	-

Source: New Zealand Film Commission⁴

To put the Uplift into context, the table also shows the total Uplift-supported QNZPE as a proportion of total (Uplift + non-uplift) QNZPE. Within the scope of this report, uplift-supported productions represented 29% of the total QNZPE over this period, and 32% of the grant.

Interestingly, the source data show that 23 of the non-Uplift productions during the period in question had QNZPE of greater than the \$30 million mandatory minimum required to satisfy section A of the SEB points test. The relevance of this finding is that it implies that there may be scope for increasing the number of productions that receive the Uplift, if that were deemed to be desirable. However, it should be noted that Section A of the SEB points test is only one of four parts of the test, and that the 23 productions would not necessarily have passed the other three parts, even if they had been invited to apply for the Uplift, or had been interested in pursuing the possibility.

³ The table includes grants for Post, Digital and Visual effects (PDV) projects.

⁴ [LBSPG & NZSPG-Intl Grants Approved \(1 Jan 2010 - 30 June 2022\).pdf \(nzfilm.co.nz\)](#) – retrieved 05/08/2022

4 Summary of the information gathered from interviews

4.1 The interviewees

Interviews, via Teams, were held with representatives of the following organisations:

Film production studios party to MOUs

- Warner Bros
- Disney
- South Pacific Pictures

NZ signatories to MOUs

- Tourism New Zealand
- Education New Zealand

Other informants

- Screen Wellington
- MBIE
- Australia and New Zealand Screen Association (ANZSA)
- Kumeu Film Studios
- Screen Auckland
- New Zealand Screen Infrastructure Group.

It should be noted that, although the interviews were structured, they tended to flow freely, and this meant that not all the interviewees answered all the questions put to them. It was also the case that some of the interviewees did not clearly distinguish between the MOUs and other aspects of the Uplift scheme, including the grant itself and the design of the SEB points test.

4.2 Interviews with the studio representatives

It should be noted one of the respondents was responsible for two of the productions.

How much of what was delivered was over and above what would have been delivered in the absence of the 5% grant uplift?

In response to this question, one respondent said, “*Very little*”. Another said “*Some, but nowhere near the same extent*”. The third respondent said “*Most would not have been delivered*”, noting that, without the MOU, there would have been fewer interns and little, if any, promotional material transferred.

In other words, the interviewees considered that activities and deliverables that flow from the MOUs were largely additional. That is to say, they were directly attributable to the MOUs. However, it should be borne in mind that this conclusion, like others in this report is based on a small sample size.

Were there any difficulties in delivering what was promised in the MOUs? If so, what were they?

The responses here were mixed.

One respondent said *“Most was easy. However, the script needed to be revised to satisfy the MOU. There were also some communication problems, and some of the marketing deliverables were a bit of a hassle.”*

Another said *“Some of what was promised was difficult to deliver because COVID restrictions made it difficult for personnel to travel to New Zealand. COVID also made it difficult to provide the technology transfer that was promised”.*

The third said that *“It was an added layer of work, for example finding interns who had the potential to be in the industry in the long term and providing all the promotional and press materials”*

How easy was it to work with the other MOU signatories?

All three respondents indicated that it was easy to work with the NZFC on the productions in question. One also commented that the NZFC was demanding in ensuring that the conditions of the MOU were fully observed, although this was not unreasonable. Another commented that it had experienced frustration when trying to negotiate in relation to other productions that did not receive the 5% Uplift.

Did the 5% grant uplift cover the cost of fulfilling the terms of the MOUs?

One respondent said that the cost of the activities and deliverables was small relative to what the studio received in grant funding. Another said that it did, but that it was hard work. Another said that the cost was fairly close to the grant received.

It was evident, however, that the respondents were talking about the effort they expended, as well as the money they spent.

How has the NZ screen sector benefitted from the MOUs?

One respondent found it difficult to say, but another mentioned that the profile of NZ as a tourism destination, and as a good place to make movies, had been raised. Another mentioned that the infrastructure developed as part of their MOU had subsequently been used by other studios for other productions. The third commented that New Zealand’s reputation for film production talent had been enhanced.

What difference, if any, did the 5% grant uplift make to the decisions to bring the productions to NZ?

One respondent said that the 5 percent Uplift was *“Absolutely critical. The 20% rate of NZSPG is not enough by itself, and NZ has lost productions because of it. However, the grant funding is not everything. Other things have to be in place – infrastructure, production staff, crew”.*

Echoing this, another respondent said that the extra 5% was *“a factor, but not necessarily the deciding factor”*, again mentioning the importance of production staff and crew.

Another said that *“The Uplift was important in terms of choosing New Zealand. I can’t say that the extra five percent swung the decision, but I can point to productions that didn’t come to NZ because they were not invited to apply for the 5% Uplift”.*

Other comments

Overall, there was a strong desire for greater certainty on the amount of funding that would be available, and one of the respondents commented that “*Productions need certainty in deciding where to locate, but New Zealand doesn’t offer this*”.

However, it was clear from the interviewees’ comments that an attractive grant regime was not, by itself, sufficient to make New Zealand a competitive location for international screen productions. The respondents either hinted, or directly stated, that having both the right calibre and quantity of production professionals, and good filming infrastructure, were equally important conditions.

4.3 Interviews with NZ signatories to the MOUs

The responses summarised here were from TNZ and ENZ. TNZ was a signatory to the MOUs for *Ghost in the Shell* and *Pete’s Dragon*. ENZ was a signatory to the MOU for *Mortal Engines*.

Did what the MOUs actually delivered match what was expected?

The answer was Yes in both cases. One of the respondents said that what was delivered was “*beyond our expectations*” and that they were “*spoiled for film content*” that they could use in their promotions.

How were the MOU deliverables used?

In both cases film content and behind-the-scenes/location footage were used to promote NZ as a place to visit or study. However, the advent of COVID 19 and the subsequent had limited the effectiveness of the promotional activities.

What have been the benefits to NZ?

Both the respondents referred to the Equivalent Advertising Value (EAV) of what was delivered to them as a result of the MOUs. In the case of one MOU, the EAV was more than 70 times the agency’s spend⁵. In the case of another, the EAV was around 35 times the agency’s spend. The actual EAV for the two productions was around \$15 million. The agency concerned was clearly pleased with the EAV that had been achieved.

One of the agencies was able to measure how their promotional activities had raised awareness of NZ in its target markets, but neither was able to indicate whether, or to what extent, enhanced awareness had translated into decisions to visit or study in NZ. However, it was also commented that the onset of COVID had had a severe impact on the number of tourists and international students coming to New Zealand.

How could the MOUs be improved to enable them to deliver greater benefits?

One of the respondents did not have sufficient insights to answer the question, but the other made three suggestions. The first was that compliance with the terms of the MOUs could be stricter. Related to this, the second was that the studios could be required to nominate a representative to ensure that what was promised was actually delivered. The third was that greater emphasis should be placed on providing access to key cast members, and on providing clear visibility of NZ filming locations.

⁵ Total spend by Tourism NZ and Education NZ

Other comments

One of the respondents commented that lack of box office success was a major factor in limiting the benefits from the MOUs, but recognised that this was a problem that didn't have an obvious solution.

4.4 Interviews with the other informants

The other informants were mainly from organisations nominated by MBIE or the NZFC, because it was thought they might have relevant insights to share about the MOUs. As was stated in section 1, all of the organisations had a role or a stake in the promotion of the New Zealand screen sector.

All of the informants said that they were familiar with the Uplift component of the NZSPG and the contents of the MOUs in general. However, they were a diverse group, so the interview questions tailored individually.

The discussions tended to flow freely and touched on issues that were beyond the scope of the assessment. Like the studio representatives, the other informants did not necessarily differentiate clearly between the effects of the MOUs and other aspects of the Uplift scheme. The summary here focuses on the question of how well the MOUs have worked in terms of delivering economic benefits.

One respondent noted that a particular MOU had resulted in some vital filming infrastructure that had been used subsequently for other significant international productions, and this was confirmed by another of the informants. A brief case study of the effects of the MOU in question is presented in section 5.3.

The same respondent also highlighted the important contribution of the MOUs in helping to develop production talent in NZ, via internships and mentorships. Another respondent commented that *“it is a mixed bag. The Uplift generates production expenditure that might otherwise have gone elsewhere. However, the productions that obtained the Uplift did not necessarily generate ongoing benefits, such as the development of enduring strategic partnerships to bring further productions to New Zealand”*.

Two other respondents were distinctly negative in the appraisals. One said that *“The scheme isn't working well. The funding is vital, but it is not enough by itself”*. The other said that *“It hasn't worked well for the studios (i.e. where the filming takes place) or for New Zealand. There needs to be more focus on using the MOUs to develop the screen sector”*.

5 Assessing the economic effects

5.1 The counterfactual

In undertaking an assessment of any policy intervention, it is important to consider the counterfactual: whether the effects of the intervention were attributable to the intervention, or whether they would have occurred anyway in the absence of the intervention. This assessment was designed to consider this question, and it provided some answers, even though the intended information gathering was not completed.

5.2 The ongoing effects of the MOUs

It will be noted from section 4.1 that the studios representatives' responses highlighted effects that were largely "additional", i.e., most of the activities and deliverables that flowed from the MOUs would not have occurred in the absence of the 5 percent Uplift. However, it is not possible to quantify the exact extent of the additionality.

The additional activities and deliverables have the potential to generate effects that represent the true economic value of the MOUs. All four productions that were covered by interviews with their respective studios involved the delivery of materials that could be used to promote New Zealand as a location for film making or tourism. The materials included such things as film content, location footage, behind the scenes content, and screen credits. All four also involved the provision of internships or mentorships for New Zealand production and creative talent. TNZ and ENZ both benefitted from the delivery of promotional materials for their own use.

Although the effects referred to in the preceding paragraph are potentially important, their eventual economic value can only be described in most cases, rather than quantified and expressed in dollar terms. As was noted in section 4.3, three of the MOUs resulted in the delivery of film content and other materials to TNZ and ENZ had a known EAV. However, the ultimate value of what flowed from the EAV, in terms of extra tourist visits and overseas student registrations is not known. The two agencies had not evaluated the effect of the MOUs in this way. In addition, the response to COVID largely negated the effectiveness of the film content and other promotional materials.

What is known from desk-based research is that films that achieve box office success can lead to large increases in tourism activity, especially where they include extensive location footage. For example, TNZ has reported that 16 percent of international visitors in 2015, equivalent to more than 500,000 international visitors that year, cited *The Hobbit Trilogy* as the initial reason they considered a trip to New Zealand. The estimated expenditure of these visitors was almost \$2 billion. *The Lord of the Rings* series had a similar effect, and some overseas economies are also known to have experienced a boost in tourism activity after they provided locations for the filming of commercially very successful movies.

The Lord of the Rings and *The Hobbit* also led to the establishment of Hobbiton, as a stand-alone enterprise, which was attracting well over half a million visitors annually and providing around 250 jobs before COVID. However, these productions were major box office hits, and it is probable that less successful films would have very little impact on visitor numbers.

Focusing on a different type of benefit, the four MOUs covered by the interviews with studio representatives also resulted in a total of 14 internships and mentorships for New Zealanders. Studio representatives discussed the importance of New Zealand being able to supply high quality production professionals. Internships and mentorships have potentially added to the skills base of

the New Zealand screen workforce; however it was not possible to verify this as part of this assessment, due to not being able to identify and access any of the interns or mentees to explore how they felt their experiences developed them and furthered their careers, and whether they were still working in the screen industry.

5.3 The Meg – a case study

The MOU associated with The Meg is different from the others covered by the information gathered, in that some of its key additional effects can be measured in dollar terms.

The MOU required Warner Bros to invest in a sound stage, backlot and water tank facilities in what would become Kumeu Film Studios. The site and the building where the investment took place was previously used for industrial purposes.

Warner Bros indicated that the infrastructure investment would not normally be delivered for a production, and it is understood from representatives of Kumeu Film Studios that the cost of the investment by Warner Bros, and further investment after production of The Meg was completed, was around \$25 million.

It is unlikely that this investment would have occurred in the absence of the Uplift. Warner Bros indicated that the extra 5 percent funding was absolutely critical to the decision to bring the production of The Meg to New Zealand. The standard 20 percent rate of the NZSPG was not sufficient.

It should also be noted that the water tanks at the Kumeu Film Studios are unique in New Zealand, and that they were subsequently used to film parts of Mulan, the first Avatar sequel, and Season 1 of the Amazon Untitled Project. These productions have had a known QNZPE, but it does not necessarily mean that the QNZPE would have been lost to New Zealand without the tanks.

When needed, conventional swimming pools and temporary tanks can be used to shoot scenes that feature water. However, the management of Kumeu Film Studios explained that purpose-built tanks for screen productions are considerably more suitable, because they provide an environment that for actors can tolerate for longer periods than is possible in conventional or temporary pools. Water tanks constructed especially for filming can be kept at a temperature that is comfortable for actors, and which do not need potentially irritant pool chemicals.

Using the Kumeu tanks reduces the time needed to film sequences that feature water, with the result that production costs are reduced. Consequently, the tanks enhance New Zealand's offering as a screen production location.

5.4 Temporary expenditure-related effects

The effects considered in section 5.2 and 5.3 have the potential to endure, but there are also possible temporary effects associated with the MOUs.

Although it was not a key objective of the assessment, the question arose during the interviews with studio representatives of whether the decision to bring the productions in question to New Zealand hinged on the offer the 5 percent Uplift. The importance of this point is that, if the extra 5 percent in grants made the difference between productions coming to New Zealand, or being taken elsewhere, then logically the entire production expenditure in New Zealand would be attributable to the Uplift.

Although the responses of the studio representatives made clear that other conditions (i.e. infrastructure and talented production personnel) needed to be favourable, they implied that the 5 percent Uplift was “*absolutely critical*”, “*a factor*” or “*important*”. One interpretation of the responses is that they imply the granting of the Uplift was a necessary, but not sufficient, condition for bringing the productions to New Zealand.

In reality, given that other factors were at play, exactly how much would have been lost in the absence of the Uplift cannot be known. Had the assessment progressed further, it would have been possible to undertake some scenario modelling of the economic effects of the scheme. The modeling would have been based on Computable General Equilibrium (CGE) analysis, to take account of possible price and displacement effects associated with the additional production expenditure.

6 Conclusions

Even though the assessment was only partial, the information gathering yielded anecdotal information to support the potential benefits of the MOUs, informing some useful early insights into the economic effects of the MOUs. However, it has not been possible to substantiate anecdotal information with analysis, and early insights must be seen in this context.

6.1 The effects of the MOUs and their value for money

Information gathered from the interviews with the studio representatives implied they thought that most potential ongoing economic effects would have been lost in the absence of the MOUs.

Of the four MOUs where it was possible to interview studio representatives, all involved the provision of internships or mentorships. These internships and mentorships are likely to have made some contribution to the enhancement of the skills base in the New Zealand screen sector, and to have helped to increase the attractiveness of the country as a location for screen productions. However, this insight would need to be confirmed through further interviews with and relating to the interns and mentees.

All of the MOUs in question also involved the delivery of a range of screen content that could be used to promote New Zealand as a film location. Further, three resulted in the transfer of screen content that could be used by New Zealand agencies to promote the country as a place to visit or study.

One MOU resulted in investment in filming infrastructure that has subsequently been used for other international productions. The infrastructure in question has already been used for other significant international film productions and appears to have the potential to attract more international productions to New Zealand in the future.

Several of the MOUs also featured technology and skills transfer. It is assumed that the transfer took place because payment of the Uplift was approved, but it is not known how significant the effects of the transfer were, or are likely to be.

The value of these effects has not been able to be quantified through this exercise. COVID impacts such as border closures may also have impacted the size of potential economic effects (e.g., no tourists due to border closures). However, it should be noted that the cost of securing the effects, in terms of the dollar amount of Uplift paid to date for the three productions covered by the information gathering has been \$11 million.⁶

It is reasonable to seek to understand whether the additional ongoing economic effects of the activities and deliverables flowing from the MOUs are greater than the amount of Uplift paid, as this is an expectation set through granting an uplift application. It should also be recognised that the Uplift can make the difference between a production coming to New Zealand or going elsewhere. As was argued in section 5.4, the granting of the Uplift could be regarded as a necessary, albeit not sufficient, condition for choosing to locate the production in New Zealand.

6.2 Overall conclusions

Referring to the two objectives of the assessment stated in section 1.3, the first broad conclusion is that the MOUs have evidently had some effect, in terms of generating actual economic benefits for

⁶ This relates to the uplift component for the combination of Pete's Dragon, the Meg and Power Rangers

New Zealand. However, it was not possible to quantify the benefits to enable conclusions to be drawn on the economic impacts of the Uplift.

It is also difficult to draw conclusions in relation to the approach MBIE may take to future Uplift MOUs and their terms. This is partly because the sample size for the assessment was very small, with the result that the effects and relative effectiveness of different types of term in the MOUs was not clear.

One feature that the MOUs had in common was a commitment to provide different types of screen content and official partner recognition that the NZFC, TNZ and ENZ could use for their own promotional purposes. TNZ and ENZ were able to ascribe EAV to what was provided, but (partly because of COVID) they were unable to demonstrate the extent to which the EAV led to more tangible effects, such as increased tourist and student numbers.

Another feature the MOUs had in common was a commitment to provide internships or mentorships for early career New Zealand production professionals. Based on what the studio representatives said, this sort of workforce development activity is important in helping to maintain the competitiveness of the country's screen production sector, but it did not prove possible to investigate exactly how effective the internships and mentorships were in this respect.

One of the MOUs stood out from the others, in that it provided for some significant infrastructure investment that has evidently enhanced New Zealand's offering as a location for screen productions. It may be desirable to use the MOUs to leverage further infrastructure investment.

Several of the MOUs featured technology and/or skills transfer, but it was not possible to assess its significance and, consequently, how strongly it should feature in future MOUs.

The information gathering also shed some light on what was perceived to be missing from the MOUs. The studio representatives voiced a desire for the MOUs, and the Uplift scheme more generally, to be used to create more certainty for their decision makers, as well as the potential for firmer ongoing relationships with the New Zealand authorities. In a similar vein, several of the other informants argued that the MOUs could be made more effective in generating economic benefits if they could be used to forge strategic relationships with the New Zealand agencies responsible for promoting screen production activities.

These desires are understandable, although it is open to debate whether the MOUs are the most appropriate vehicles for addressing the desires.

On a final note, it is re-emphasised that these broad conclusions should be regarded as tentative on the grounds that the research leading to it was less extensive than had originally been planned.