

The Senate

Environment and Communications
References Committee

Game on: more than playing around

The future of Australia's video game
development industry

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List of recommendations

Recommendation 1

5.14 The committee recommends that the Australian Government introduce a funding scheme based on the former Australian Interactive Games Fund.

Recommendation 2

5.20 The committee recommends the introduction of a refundable tax offset for Australian expenditure in the development of game titles. A review of the operation of the offset should be undertaken at least two years after the offset commences.

Recommendation 3

5.26 The committee recommends that the Australian Government encourage, and contribute financial assistance for, the creation of shared working spaces modelled on The Arcade in other locations. This support should be contingent on co-funding provided by a state government and further evidence that the state government supports the growth of a video game development industry in its state.

5.27 The committee further recommends that the Australian Government consider the viability of establishing an innovation hub for video game development and other technology startups in a regional centre.

Recommendation 4

5.29 To encourage the further uptake of 'serious games' in health care, education and other sectors, and production of these games by the Australian video game development industry, the committee recommends that the Australian Government facilitate dialogue between video game industry associations and groups that use, or could potentially use, serious games.

Recommendation 5

5.33 The committee recommends that the Australian Government consider the tax implication of crowd-sourced funding for startups, including whether temporary tax relief should be available for income that new businesses gain from crowd-sourced funding.

Recommendation 6

5.39 The committee recommends that the Australian Government develop a discussion paper and consult on the utility of the Export Market Development Grants scheme for businesses that operate in the digital economy.

Recommendation 7

5.44 When considering and reviewing measures to support the industry, the committee recommends that the Australian Government take into account whether the industry is improving the diversity of its workforce and is providing fair employment conditions.

Recommendation 8

5.48 The committee recommends that the Australian Government commit to rolling out 21st century broadband infrastructure.

Abbreviations

ABS	Australian Bureau of Statistics
AIGF	Australian Interactive Games Fund
ALRC	Australian Law Reform Commission
BrIGDA	Brisbane chapter of the International Game Developers Association
EMDG	Export Market Development Grant
FSI	Financial System Inquiry (2014)
FTTN	fibre-to-the-node
FTTP	fibre-to-the-premises
GDA	Game Developers' Association of Australia
GFC	global financial crisis
IGDA	International Game Developers Association
IGDA Melbourne	Melbourne chapter of the International Game Developers Association
IGEA	Interactive Games and Entertainment Association
NBN	National Broadband Network
NDES	National Digital Economy Strategy
NISA	National Innovation and Science Agenda
NPEA	National Programme for Excellence in the Arts
OMDC	Ontario Media Development Corporation
QAPE	qualifying Australian production expenditure
QUT	Queensland University of Technology
R&D	research and development
SIGDA	Sydney chapter of the International Game Developers Association

SME	small and medium-sized enterprises
UK	United Kingdom of Great Britain and Northern Ireland
US / USA	United States of America
VET	vocational education and training

Chapter 1

Introduction

Terms of reference

1.1 On 22 June 2015, the Senate referred an inquiry into the future of Australia's video game development industry to the Environment and Communications References Committee. The terms of reference for the inquiry are as follows:

The future of Australia's video game development industry, with particular reference to:

- how Australia can best set regulatory and taxation frameworks that will allow the local video game development industry to grow and fully meet its potential as a substantial employer;
- how Australia can attract video game companies to set up development operations in Australia and employ local staff;
- how export opportunities from Australia's local video game industry can be maximised; and
- any other related matters.¹

1.2 The reporting date for the inquiry was initially 1 April 2016. However, on 15 March 2016, the Senate agreed to extend the reporting date to 29 April 2016.

Conduct of the inquiry

1.3 In accordance with its usual practice, the committee advertised the inquiry on its website and wrote to relevant individuals and organisations inviting submissions. The date for receipt of submissions was 18 September 2015.

1.4 The committee received 111 submissions, which are listed at Appendix 1. The public submissions are also available on the committee's website at www.aph.gov.au/senate_ec.

1.5 The committee held public hearings for this inquiry in Melbourne on 19 February 2016, in Brisbane on 10 March 2016 and in Sydney on 11 March 2016. A list of witnesses who appeared at the hearings is at Appendix 2.

1.6 Following the Melbourne hearing, the committee undertook an inspection of The Arcade, a not-for-profit collaborative workspace created specifically for game developers and creative companies using game methodologies and technologies. The committee expresses its appreciation to the Game Developers' Association of

1 *Journals of the Senate*, 2013–15, No. 99 (22 June 2015), pp. 2744–45.

Australia for facilitating this valuable inspection, as well as to the businesses located at The Arcade that assisted the committee on the day.

Acknowledgement

1.7 The committee thanks all of the individuals and organisations that contributed to the inquiry.

Structure of the report

1.8 This report comprises five chapters. The matters covered in the remaining chapters of the report are outlined below:

- Chapter 2 provides an overview of key aspects of, and developments in, the Australian video game development industry, which will inform the discussion in the remaining chapters of the report.
- Chapter 3 focuses on government support programs and tax incentives that are relevant to the industry. The chapter outlines the government programs that are available in Australia, or have been available, before providing an overview of key programs and incentives in place in other countries. The rationale for government support of the video game industry is also discussed.
- Chapter 4 examines policy proposals and other matters that submitters and witnesses called on the Australian Government to consider.
- Chapter 5 contains the committee's conclusions and recommendations.

Note on references

1.9 In this report, references to the committee *Hansard* transcripts are to the proof transcripts. Page numbers may vary between proof and official *Hansard* transcripts.

Chapter 2

Overview of the Australian video game industry

2.1 Australia has been home to a video game development community for decades, with the origin of an established industry traceable to 1980.¹ As with many industries, since that time the video game development industry experienced periods of growth and significant setbacks. The industry is also subject to strong competition from studios in other countries.

2.2 This chapter provides key background information about the state of the video game industry in Australia and globally.² In particular, available data about the size of the industry and the people who play video games are presented. Developments in the industry following the global financial crisis of 2007–08 are also discussed. Finally, the chapter outlines some other factors that are relevant when assessing the industry.

Types of games and Australia's video game playing population

2.3 The results of research and various surveys were provided to the committee indicate that a large number of Australians play video games for entertainment. For example, a study of households in 2015 conducted by Professor Jeffrey Brand and Mr Stewart Todhunter for the Interactive Games and Entertainment Association (IGEAs) found that:

- 98 per cent of Australian homes with children under the age of 18 have a device for playing interactive games;
- 68 per cent of Australians play interactive games, and of this game playing population:
 - 78 per cent were aged 18 years or older, 71 per cent were working age (18–64 years), 23 per cent were aged 50 and over, and seven per cent were aged 65 years or older,
 - the average age was 33 years, and

1 Witnesses advised that the Australian industry began in 1980 with the establishment of Beam Software, which was also produced the first Australian game that sold over a million copies. See Mr Antony Reed, Chief Executive Officer, Game Developers' Association of Australia (GDAA), *Committee Hansard*, 19 February 2016, p. 1 and Ms Fiona Cameron, Chief Operating Officer, Screen Australia, *Committee Hansard*, 18 March 2016, p. 10.

2 This chapter does not provide a comprehensive overview of the history of the industry, or the various successes and failures that have occurred within it. Several submissions to the committee document these matters clearly and eloquently, particularly the submissions from industry organisations and academics. The committee invites readers that are interested in these matters to peruse the written submissions, and relevant research papers attached to them, that the committee has published on its website: www.aph.gov.au/senate_ec.

- 47 per cent were female;
- as part of their normal media usage, Australians spend an average of 88 minutes a day playing interactive games; and
- 27 per cent of players have tried making interactive games using software and nine per cent have studied or plan to study interactive games subjects.³

2.4 Another aspect of the video gaming population is the people who use products known as 'serious games'—that is, games intended for non-entertainment purposes. Professor Stuart Smith of the University of the Sunshine Coast provided the following definition of a serious game:

...a mental contest, played with a computer in accordance with specific rules, that uses entertainment to further government or corporate training, education, health, public policy, and strategic learning objectives.⁴

2.5 Professor Smith explained that serious games are used in a variety of sectors, including health, education, defence, emergency planning, politics, engineering, urban planning, manufacturing and service delivery. He added:

Application areas are as diverse as engaging a person recovering from stroke in repetitive rehabilitation arm movements, to delivering critical incident response training to emergency personnel through to educating a child living with cancer about the impact of chemotherapy on their health or another about the impact of genocide in Darfur.⁵

2.6 IGEA also addressed the social contributions that serious games can make by highlighting research undertaken by Neuroscience Research Australia involving 'a games-based stepping exercise designed for people with [multiple sclerosis], to help improve their balance and their mental skills'. IGEA submitted that the research 'is an excellent example of how games-based technologies have real world applications, and can improve people's lives'.⁶

2.7 Mr Ron Curry, the Chief Executive Officer of IGEA provided additional examples of health-related serious games, including games used to assist in dementia care and *Sound Scouts*, a game that helps to identify hearing problems in pre-school aged children. Mr Curry added that the hearing game is a successful diagnostic tool

3 Interactive Games and Entertainment Association (IGEA), *Submission 9*, p. 5; J Brand and S Todhunter (2015), *Digital Australia 2016*, IGEA, www.igea.net/wp-content/uploads/2015/07/Digital-Australia-2016-DA16-Final.pdf (accessed 16 December 2015), p. 9.

4 M Zyda (2005), 'From visual simulation to virtual reality to games', *Computer*, vol. 38, no. 90, pp. 25–32; cited in Professor Stuart Smith, *Submission 80*, p. 4.

5 Professor Stuart Smith, *Submission 80*, p. 4.

6 IGEA, *Submission 9*, p. 22. Professor Jeffrey Brand, a Professor of Communication and Creative Media at Bond University, discussed this project in detail. See *Committee Hansard*, 10 March 2016, pp. 8, 12.

because the children 'enjoy playing it'. He argued that the game 'drives a targeted, cost-effective health sector outcome'.⁷

2.8 The use of games for education was also highlighted. The Game Developers' Association of Australia (GDAA) suggested that games 'will become more prevalent in Australian classrooms with the rollout of the digital technology curriculum into primary and secondary school'. The GDAA noted that this occurred followed similar initiatives in the United Kingdom and Estonia.⁸ The Brisbane Chapter of the International Game Developers Association (BrIGDA) noted that educational games can be designed for use 'off the shelf' for matters such as history, or can be designed for specific purposes, such as 'to teach students about core curriculum topics'.⁹

2.9 In addition to games being used in primary and secondary education, the potential for games in tertiary education was noted. Professor Jeffrey Brand from Bond University informed the committee that an economics course at the University of Queensland uses a game to 'help model microeconomic processes'.¹⁰

2.10 Other uses for serious games include games designed to promote safety, such as road safety games that encourage careful driving, or relate to problems in the community, such as games about bullying.¹¹ An example of a game designed to identify 'talent and personality capabilities of a potential employee' during recruitment was also provided.¹²

2.11 The committee was also advised that the potential for serious games and other applications of game technology is likely to increase significantly with developments in virtual and augmented reality technology, and the mainstream deployment of this technology.¹³ Mr Curry stated that augmented reality and virtual reality 'are the next big steps in the industry'. He provided the following example of the potential benefits associated with the technology:

Imagine if you were a doctor studying surgery and you could put on a mask and look like you were performing surgery. For all intents and purposes, that is what you are doing but, thankfully, it is not on a human; it is on a digital human being.¹⁴

7 Mr Ron Curry, Chief Executive Officer, IGEA, *Committee Hansard*, 18 March 2016, p. 2.

8 GDAA, *Submission 55*, p. 6.

9 Brisbane Chapter of the International Game Developers Association (BrIGDA), *Submission 71*, p. 3.

10 Professor Jeffrey Brand, *Committee Hansard*, 10 March 2016, p. 9.

11 See BrIGDA, *Submission 71*, p. 3; Mr Ron Curry, IGEA, *Committee Hansard*, 18 March 2016, p. 1.

12 Professor Jeffrey Brand, *Committee Hansard*, 10 March 2016, p. 9.

13 See Mr Nathan Anderson, Executive Producer, Start VR, *Committee Hansard*, 18 March 2016, p. 18.

14 Mr Ron Curry, IGEA, *Committee Hansard*, 18 March 2016, p. 8.

Industry statistics

2.12 To demonstrate the economic potential associated with video game development, submissions emphasised the increasing number of people who play video games both in Australia and globally, as well as the growth in the size of the global video game industry.

The global industry

2.13 IGEA cited an estimate that placed the global value of the interactive game industry in 2014 at approximately US\$77 billion. According to IGEA, the same research forecasted that the value of the industry would grow to US\$96 billion by 2018. Mr Tony Reed, Chief Executive Officer, GDA, stated that the compound annual growth rate for the industry 'is almost 10 per cent'. Mr Reed observed that the growth rate of the industry:

...is certainly significantly higher than any other creative sector, but it is higher than most manufacturing industries as well. Our audience grows daily. There are billions of people playing games and new people joining that fray every day.¹⁵

2.14 IGEA submitted that the value and growth of the global video game industry compares favourably to both:

- the film industry, which has an estimated value of US\$107 billion and a 4.4 per cent annual growth rate;¹⁶ and
- the music industry, which IGEA advised is estimated to account for US\$52 billion by 2019, with an annual growth rate of 0.8 per cent.¹⁷

2.15 The size of the global industry is not widely understood. Mr Curry make the following observation:

When we are talking about games that are being released that are bigger than all box office hits, I guess it is a bit mind-boggling for those who are not engaged in the industry to understand how big it is.¹⁸

15 Mr Antony Reed, Chief Executive Officer, GDA, *Committee Hansard*, 19 February 2016, pp. 4–5.

16 This figure includes box office, home entertainment, sell-through, video on demand and rental, but excludes actual advertising and rental.

17 IGEA, *Submission 9*, p. 4. The figures cited by IGEA are from PricewaterhouseCoopers, *The Australian Entertainment and Media Outlook 2015-2019*, 14th Edition, 2015.

18 Mr Ron Curry, IGEA, *Committee Hansard*, 18 March 2016, p. 6.

2.16 The anticipated widespread utilisation of virtual reality technology is also expected to boost economic activity in video game and related industries. The committee was informed that the industry for virtual reality and augmented reality 'is estimated to be worth \$150 billion by 2020', a significant increase on the current industry revenue of \$2 billion to \$3 billion. Mr Nathan Anderson, a cofounder and the Chief Executive Officer of Start VR, commented that the expectation is that virtual reality 'will be as transformative and ubiquitous as the internet or smart phones'.¹⁹

2.17 Professor Brand added that the market 'for interactive games products in a knowledge economy is mind-boggling in size and scope, particularly as the game industry, compared to other media and technology industries, 'is in its infancy today'.²⁰

Australian industry statistics

2.18 In Australia, retail sales in the interactive game industry were approximately \$2.46 billion in 2014, an increase of 20 per cent from 2013.²¹ Sales were essentially divided between traditional retail sales (\$1.214 billion) and digital sales (\$1.248 billion). The value of digital sales is growing significantly, with the 2014 figure constituting a 39 per cent increase on digital sales in 2013 (in particular, downloads of mobile games increased by 56 per cent).²²

2.19 Although the market for video games in Australia is growing, the size of the domestic video game development industry in Australia has decreased. The following tables use the most recently available Australian Bureau of Statistics (ABS) data (2006–07 and 2011–12) to provide an insight into the income, expenses, production and overall employment in Australia's video games industry. In particular, Table 2.1 indicates that although the number of businesses increased between the two years surveyed by the ABS, those businesses generated less overall income and employed fewer people.

19 Mr Nathan Anderson, Executive Producer, Start VR, *Committee Hansard*, 18 March 2016, p. 17.

20 Professor Jeffrey Brand, *Committee Hansard*, 10 March 2016, p. 8.

21 This figure excludes revenue generated from interactive game development or exports.

22 IGEA, *Submission 9*, pp. 4–5.

Table 2.1: Digital game developers in Australia, assorted statistics for 2006–07 and 2011–12

	2006–07	2011–12
Businesses at end June	45	84
Employment at end June ⁽¹⁾	1431	581
Total income	\$136.9m	\$89.4m
End-to-end digital game development income	n/a	\$44.4m
Income from game development services	\$116.9m	\$43.4m
Income from government funding	\$1.7m	n/a
Total expenses	\$128.5m	\$80.1m
Operating profit or loss before tax ⁽²⁾	\$8.5m	\$9.3m
Operating profit margin ⁽²⁾	6.2%	10.5%
Industry value added ⁽²⁾	\$98.2m	\$71.6m

(1) Includes working proprietors and partners of unincorporated businesses

(2) The ABS noted that for (a) operating profit before tax, (b) operating profit margin, and (c) industry value added categories, estimates can include positive and negative values, reflecting the financial performance of individual businesses. In this case, the aggregated estimate can be small relative to the contribution of individual businesses.

Source: ABS, *Film, television and digital games 2011–12*, cat. 8679.0, June 2013, [www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/E612C796E7A5461FCA257BA50012F64A/\\$File/86790_2011-12.pdf](http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/E612C796E7A5461FCA257BA50012F64A/$File/86790_2011-12.pdf) (accessed 23 September 2015); Digital Game Development Services, Australia, 2006–07, cat. 8515.0, April 2008, www.abs.gov.au/ausstats/abs@.nsf/mf/8515.0 (accessed 23 September 2015).

Table 2.2: Production of digital games, 2011–12

<i>Platform</i>	<i>Productions</i>	<i>Production costs (\$m)</i>	<i>Average cost per production (\$'000)</i>
Consoles (including handheld consoles)	14	17.1	1217.1
Mobile and web platforms	188	13.9	74.0
PC and Mac	27	5.0	186.0
Multiple platform	16	13.9	845.8
Total	245	49.9	203.4

Source: ABS, *Film, television and digital games 2011–12*, cat. 8679.0, June 2013, [www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/E612C796E7A5461FCA257BA50012F64A/\\$File/86790_2011-12.pdf](http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/E612C796E7A5461FCA257BA50012F64A/$File/86790_2011-12.pdf) (accessed 23 September 2015).

Table 2.3: Digital games developers' sources of income, 2011–12

Category of income	Income	
	\$m	%
End-to-end digital game development income		
Consoles (including handheld consoles), PC and Mac	6.7	7.5
Mobile and web platforms	37.7	42.2
Total	44.4	49.6
Digital game development services income		
Consoles (including handheld consoles), PC and Mac	24.0	26.8
Mobile and web platforms	19.4	21.7
Total	43.4	48.5
Royalties income for digital games	0.6	0.7
Other income	1.0	1.1
Total	89.4	100.0

Source: ABS, *Film, television and digital games 2011–12*, cat. 8679.0, June 2013, [www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/E612C796E7A5461FCA257BA50012F64A/\\$File/86790_2011-12.pdf](http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/E612C796E7A5461FCA257BA50012F64A/$File/86790_2011-12.pdf) (accessed 23 September 2015).

2.20 Other data about the size of the industry based on research and surveys were provided to the committee. The GDAA advised that it is aware of 225 businesses in Australia's game development industry.²³ The GDAA added that the results of a 2014 industry survey indicated that:

- at least 827 people were employed in full-time, part-time, casual and contract positions; and
- industry revenue from local companies in 2013 totalled approximately \$64.5 million, an increase of around 14 per cent from the previous year's figure of approximately \$56.5 million.²⁴

2.21 Victoria has the largest share of Australia's video game development industry, with an estimated 48 per cent of the national industry located in that state. Outside of Victoria, sizeable segments of the industry can be found in Queensland and New South Wales; these states are reported to account for 19 per cent and 18 per cent of the national industry respectively. South Australia (eight per cent of the national

23 GDAA, *Submission 55*, p. 6. The GDAA explained that this figure is based on its database of game development and supporting companies that only records companies registered with the Australian Securities and Investments Commission.

24 This figure excludes the revenue of multinational studios that were based in Australia, as these studios did not provide revenue results as part of the survey. GDAA, *Submission 55*, p. 4.

industry) and Western Australia (seven per cent) have smaller, but nonetheless active, video game development communities.²⁵

Australia's industry compared to industries elsewhere

2.22 Overall, Australia's video game development industry is small compared to the world's largest industries, which, in order of size, are located in the United States of America, Japan and Canada.

2.23 The GDAA submitted that, in 2012, the video game industry contributed nearly US\$6.2 billion to the gross domestic product of the United States and employed 'more than 146,000 people in 36 states'.²⁶

2.24 In Canada, which features the third largest industry, there are 329 interactive game development studios and approximately 16,500 people employed in the industry.²⁷

2.25 The United Kingdom is another example of a country with a sizeable video game industry. The GDAA advised that, in 2013, the total economic contribution of UK-made video games²⁸ included £1.4 billion in gross value added and support for 23,900 full-time equivalent jobs. The industry also contributed £429 million to government revenue.²⁹

2.26 Despite the significant difference in overall population, the size of New Zealand's video games industry appears to be similar to Australia's. According to the New Zealand Game Developers Association, 568 full-time employees are employed in the industry, with industry revenue of NZ\$78.7 million in 2014–15 (also, revenue in 2014–15 was three per cent higher than the previous year).³⁰

2.27 In addition to the comparisons that can be made about the overall size of Australia's industry relative to those in other countries, it also appears that the size of the studios in Australia are, on average, smaller than those found elsewhere. Mr Benjamin Britten, who represented the Melbourne Chapter of the IGDA (IGDA Melbourne) and is the Technical Director of the Melbourne-based studio Mighty Games Group, commented on this issue. Mr Britten observed that globally,

25 GDAA, *Submission 55*, p. 6; Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 3.

26 GDAA, *Submission 55*, p. 4.

27 IGEA, *Submission 9*, p. 12.

28 Including multiplier and spillover effects.

29 GDAA, *Submission 55*, p. 4.

30 New Zealand Game Developers Association, 'Jobs in NZ Games Industry Grow in FY2015', <http://nzgda.com/news/survey2015/> (accessed 2 November 2015); cited in IGEA, *Submission 9*, p. 16.

small studios employ between 50 and 100 people, whereas Mighty Games employs only 14 people and is 'considered quite large' in terms of the domestic industry.³¹

2.28 Despite the statistics about the small size of the overall Australian industry and Australian firms, Australian-based developers have had astounding successes, particularly in games for mobile phones and tablets. For example, the committee was informed that in October 2015, 'five of the top 10 games in the App Store were Australian made'.³² The game *Crossy Road* released by Melbourne-based Hipster Whale has over 120 million players globally or, as Mr Reed from the GDA put it, 'almost four times the Australian population'.³³ Another staggering result is the game *Fruit Ninja* by Halfbrick, which has been downloaded over one billion times.³⁴

Developments in Australia's video game industry

2.29 As the above paragraphs indicate, Australia's video game development industry decreased in size between 2006–07 and 2011–12 despite growth in the Australian games market and the global video game industry. During this period, and for some time after it, major developers in Australia announced job losses and/or business closures. By 2012, studios that had closed or downsized include Krome, Pandemic, THQ StudioOz, BlueTongue, Team Bondi, SEGA Creative Assembly, Tantalus Media Brisbane³⁵, the Australian studio of EA Games' Visceral Games³⁶ and KMM Brisbane.³⁷ The last AAA game³⁸ developer in Australia, the Canberra-based 2K Australia, closed in 2015.³⁹

31 Mr Benjamin Britten, Member, Melbourne Chapter of the International Game Developers Association (IGDA Melbourne); Technical Director, Mighty Games Group, *Committee Hansard*, 19 February 2016, p. 14.

32 Ms Giselle Rosman, Chapter Leader, IGDA Melbourne, *Committee Hansard*, 19 February 2016, p. 12.

33 Mr Antony Reed, GDA, *Committee Hansard*, 19 February 2016, p. 5.

34 Ms Kate Hynes, Chief Legal Officer, Halfbrick Studios, *Committee Hansard*, 10 March 2016, p. 17.

35 Queensland University of Technology (QUT) Digital Media Research Centre, *Submission 26*, p. 3.

36 Mr Adric Polkinghorne, *Submission 24*, p. 2.

37 Daniel Miller, 'Australian video game studios face obliteration', *ABC News*, www.abc.net.au/news/2011-10-17/australian-game-dev-studios-shutting-down/3575196 (accessed 2 November 2015).

38 A AAA game (or triple-A game), is generally a title developed by a large studio utilising large development and marketing budgets, and is expected to yield high sales.

39 Henry Belot, 'Game developer 2K Australia closes Canberra studio', *Canberra Times*, 16 April 2015, www.smh.com.au/digital-life/games/game-developer-2k-australia-closes-canberra-studio-20150416-1mmg3l.html (accessed 2 November 2015).

2.30 The overall composition of the industry has changed as a result of these developments, with independent game developers now comprising much of the industry. To illustrate this, the GDAA's submission noted that 12.2 per cent of respondents to its 2014 industry survey indicated that their primary business type was 'commercial game developer'—that is, the business generally worked for third parties, including publishers. The largest category was 'independent game developer', which 75.7 per cent of respondents identified with. By contrast, the GDAA suggested that 'almost all of the 45 game development companies' that were identified as part of the 2006–07 ABS survey:

...would have engaged in contract work or would have identified as 'Commercial Game Developers' based on the work-for-hire paradigm of the sector at that time.⁴⁰

2.31 More recent evident changes in the industry were also highlighted. The GDAA stated that the results of its industry surveys indicate that the number of respondents who described their business as 'self-owned and managed' increased from approximately 77 per cent in 2012 to over 90 per cent in 2014.⁴¹

2.32 Key factors put forward to explain the changes in Australia's industry were the global financial crisis and the sustained appreciation of the Australian dollar.⁴² Other reasons cited include:

- the tax incentives available for game developers in other countries (this is discussed further in Chapter 3); and
- the decline of 'middle-ground' games, with major titles developed by AAA studios and smaller, app-based games developed by small, independent studios comprising a larger share of the overall market.⁴³

2.33 One of the consequences of the closures of Australian-based studios has been the departure of skilled developers to other countries. Mr Ben Driehuis, a senior programmer in the industry, submitted that following the studio closures, the 'majority of experienced developers left Australia to find jobs overseas and have not returned'.⁴⁴

40 GDAA, *Submission 55*, p. 7.

41 GDAA, *Submission 55*, p. 7.

42 The QUT Digital Media Research Centre noted that in 2007, the Australian dollar bought US\$0.75; however, in 2012 the Australian dollar bought US\$1.02. See *Submission 26*, p. 3.

43 Sebastien Darchen, 'Next level thinking: a way forward for the Australian videogame industry', *The Conversation*, 10 February 2012, <https://theconversation.com/next-level-thinking-a-way-forward-for-the-australian-videogame-industry-5280> (accessed 2 November 2015). See also QUT Digital Media Research Centre, *Submission 26*, p. 3; Daniel Miller 'Australian video game studios face obliteration', *ABC News*, 19 October 2011, www.abc.net.au/news/2011-10-17/australian-game-dev-studios-shutting-down/3575196/ (accessed 2 November 2015).

44 This evidence was quantified by Ms Giselle Rosman from IGDA Melbourne. Ms Rosman suggested that approximately 60 per cent of developers left the Australian industry either to pursue their career in another country, such as Canada, or to enter a different industry, such as finance. See *Committee Hansard*, 19 February 2016, p. 13.

He argued that, as a result, the knowledge these developers possess has not been transferred to recently graduated developers.⁴⁵ Similarly, Ms Giselle Rosman remarked that, as a result of the 'brain drain that we had as a result of the [global financial crisis]', the developers in the small studios that characterise the industry today are 'probably learning things through mistakes that they could have learnt from someone more senior a lot more easily'.⁴⁶

2.34 IGEA added that the reduction in the size of the Australian industry and the number of people employed in it means there is a 'potential over-supply of graduates in interactive games development'. IGEA explained that graduates face 'fierce competition' for jobs after graduation, with 'many graduates being forced to work as lowly-paid interns'. The lack of jobs also encourages graduates to seek jobs overseas. IGEA commented that Australia's situation 'sits in great contrast to the Canadian interactive games industry's concerns which are focused on the current shortage of available talent and its ability to source talent outside Canada'.⁴⁷

2.35 The above evidence about the gap between the number of graduates and available jobs was quantified. Mr Reed advised that over 5000 students enrol each year in games or game-related course, however, there are only approximately 1000 'active participants in this industry'. He commented:

So we are effectively graduating five times more students than there are people in this industry. We do not have the ability to cater to those graduates. That is a problem for us. They will either be moved into sectors that they do not necessarily want to be moved into or they will have to go overseas, and we do not want to lose that talent. We have some really incredible graduates.⁴⁸

2.36 Although this section has highlighted several negative developments in the industry, some of changes to the industry's structure over the past few years are arguably positive for many developers. For example, submitters highlighted the potential benefits for developers and the industry as a result of market changes that promote self-publication to distribute a game, rather than the use of a publisher. The submission from the Queensland University of Technology (QUT) Digital Media Research Centre explained:

Given the degree to which higher end fee-for-service business has dried up, while essentially self-publication on the major digital distribution platforms (Apple's App Store, the Google Play Store, Steam, etc.) has grown

45 Mr Ben Driehuis, *Submission 19*, p. 2. See also Name withheld, *Submission 8*, p. 1; IGEA, *Submission 9*, p. 16; QUT Digital Media Research Centre, *Submission 26*, p. 22.

46 Ms Giselle Rosman, IGDA Melbourne, *Committee Hansard*, 19 February 2016, pp. 13–14. Ms Sabiene Heindl from SWH Legal and Business Consulting made a similar observation: see *Committee Hansard*, 18 March 2016, p. 7.

47 IGEA, *Submission 9*, p. 16.

48 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 2.

exponentially, necessity has become a virtue. Conditions have crafted an industry which is much reduced in terms of turnover and traditional employment, but now operates within a disintermediated value chain which radically forces the pace of innovation. Despite much commentary which treats Apple, for example, as basically yet another global corporation 'taking their (un) fair share of financial profits,' near-to-global dissemination via the digital platforms on a 30/70 split of income derived represents an in-principle better deal than the power asymmetries enshrined in dealing with the major publishers.⁴⁹

What should Australia's video game industry look like?

2.37 This chapter has outlined some of the transformations that have occurred to the structure of the industry in recent years. Although the next chapter will discuss previous government programs, overall, the remainder of this report will be forward looking with the existing structure and dynamics of the industry as its starting point.

2.38 As the terms of reference for this inquiry indicate (see paragraph 1.1), the committee was asked to examine a range of matters to support growth in the industry, including how support could be provided to local businesses, how international studios could be attracted to establish studios in Australia and employ local staff, and export opportunities. In doing this, consideration should be given to whether types of businesses or activities should receive particular attention and if there are issues facing the industry that need to be addressed before government support can be considered. This section discusses some of these issues.

International investment and local businesses

2.39 Some submissions questioned whether efforts to attract international studios should be made at all. In his submission, Dr Dan Golding outlined a history of international companies that established or invested in game development operations in Australia, which he argued demonstrated 'a long-term pattern in Australia of sporadic foreign investment, followed by on-selling, bankruptcy, and closure'. Dr Golding provided examples of successful Australian studios that were purchased and ultimately closed by international interests, as well as international game development companies that set up studios in Australia for relatively short periods of time.⁵⁰

2.40 Dr Golding argued that, in the long-term, a reliance on international investment in Australian game development is not in the national interest. He submitted:

By now it is clear that the business model for international companies in Australian games production is to invest when the price is right and to sell or close when business is bad. There is little to suggest that this model

49 QUT Digital Media Research Centre, *Submission 26*, p. 34.

50 Dr Dan Golding, *Submission 31*, p. 17.

would change into the future. International companies can provide relatively large amounts of jobs in short bursts, but Australian history has proven this to be unstable and volatile. International companies by their nature have little interest in building Australia's videogames industry outside of their own financial benefit and therefore there will always be measures outside of the local industry's control (and indeed, outside of the government's control) when it comes to international investment pulling out.⁵¹

2.41 Dr Golding concluded that the history of international investment in the Australian video game industry means that future government intervention should focus on 'cultivating and providing infrastructure for Australian-led industry'.⁵²

2.42 The developments in the Australian industry over the past decade certainly suggest that foreign investment is responsive to a range of factors, including global economic conditions, exchange rates and comparative taxation and regulatory arrangements. Nevertheless, some submitters were optimistic that Australia could sustain international interest in Australia's video game industry. In his submission, for example, Mr Ben Driehuis suggested that the value of the Australian dollar is 'key' for foreign investment. Nevertheless, he argued that a 'thriving local industry' with talented developers will encourage investment in Australia's industry. Mr Driehuis provided the following reasoning:

The more talented staff we have and the more intellectual property those teams and studios can produce, the more likely both overseas publishers will invest and fund games made here, but will also look to either purchase those studios or create their own presence to obtain talent.⁵³

2.43 When asked about the ideal structure of the industry in terms of large and small studios, Mr Tony Reed from the GDAA envisaged 'a healthy mix of both'. Benefits from the presence of large studios in the domestic video game development industry are evident. Mr Reed advised that the principal advantage is that the large studios 'are great learning platforms for future independent developers'. He explained:

The one thing that those big studios do very well is provide training, understanding of process and understanding of business. Staff or employees then break off and build their own companies on the back of it. That is exactly how the Australian industry, in its current form, has developed.

2.44 Mr Reed added that industry participants would like large studios to return to Australia 'in the long term'. However, he cautioned that encouraging large studios to return to Australia could crowd out the smaller developers.⁵⁴

51 Dr Dan Golding, *Submission 31*, p. 18.

52 Dr Dan Golding, *Submission 31*, p. 18.

53 Mr Ben Driehuis, *Submission 19*, p. 2.

54 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 10.

Workplace conditions

2.45 Working conditions within the video game industry attracted some comment. Mr Alexander Ocias submitted that a 'huge proportion' of the game industry in other countries is 'running unsustainably on unpaid labour'. Accordingly, he argued that 'Australia's strong labour laws should be seen as a point of pride, and not as an impediment'.⁵⁵ Despite the rights, responsibilities and entitlements provided under Australian workplace laws, the committee received anecdotes of poor working conditions within Australian game development studios, including examples of firms that provided poor working conditions, had overworked employees and collapsed with unpaid wages.⁵⁶

2.46 Mr Tony Reed acknowledged that, in Australia, concerns about unhealthy and exploitative labour practices were 'definitely true eight to 10 years ago'. Mr Reed went on to state that:

...in those very large studio environments where pressure was being placed on developers, especially from international publishers and those investors, they were forced to deliver content at speed. The industry did go into a very unhealthy place. It was part of the industrial conversation, a lot of it.⁵⁷

2.47 However, Mr Reed argued that labour practices in the industry have 'changed substantially since the global financial crisis and since the creation of these smaller, dynamic studios'. He stated:

Does it still exist in Australia? No, not as far as I know, and I am aware of all 225 studios that we have in this country. I have personal relationships with almost every one of them. We do not have those practices anymore. Did it exist? Absolutely. We do not deny that it did. There have been some terrible cases. But, as CEO of an association that is tasked with taking care of this industry, I tend to manage and watch over those companies to ensure that does not happen. It is not something we are proud of at all, but it is something that definitely happened.⁵⁸

2.48 Professor Stuart Cunningham from QUT's Digital Media Research Centre similarly commented that the 'creative destruction' that occurred since the global financial crisis has largely addressed these workplace issues. He explained that, because the firms in the industry are no longer working in a fee-for-service model for overseas publishers, the developers have 'greater control over their working lives'. He added that the reality in the industry now is that developers 'have got to be able to

55 Mr Alexander Ocias, *Submission 82*, p. 2.

56 See Dr Dan Golding, *Submission 31*, p. 12.

57 Mr Antony Reed, GDA, *Committee Hansard*, 19 February 2016, p. 5.

58 Mr Antony Reed, GDA, *Committee Hansard*, 19 February 2016, p. 5.

make their businesses work', but 'their future is to a much greater extent in their own hands'.⁵⁹

Product development and management

2.49 Some submissions commented on the ability of Australian firms to manage the development of a product. It was suggested that Australia has creative talent, but often firms struggle to successfully commercialise the product.

2.50 The submission from QUT's Digital Media Research Centre noted that, along with other factors such as policy fluctuation, the 'industry's reputation for poor management' contributes to the uncertainty and precariousness routinely faced by developers and their employees.⁶⁰ The submission's authors provided a paper on structural conditions and the human cost of precarious labour in the Australian industry. A director of a US-based studio surveyed for the paper was reported as commenting that 'the work-for-hire origins of many Australian studios and developers meant that they perhaps had not gained the market discipline of focusing on a core competency or on a core market'. The director added:

...we've got thousands of game designers in Australia. No problem at all, but we have very, very few experienced product managers, and that's meant most of the attempts have fizzled out, because if you think of the build, measure, learn cycle, we built, we didn't quite know what we were measuring and we learned nothing.⁶¹

2.51 Game developers were frank about some of the challenges they face in managing a business. One submitter emphasised that there are 'there are many independent game developers...working on amazing games all around Australia'. However, he added:

Making a good game is not good enough, marketing is incredibly important as is general business management—knowing when to hire more staff, when to cut features to keep within budget, and how much focus should be put on the core game versus bugfixing and polish.

I am fortunate, as I took Economics and Business Studies in high school as an elective, and also happened to have one of the best teachers to grace the education system. Even then, I feel ill-equipped to actually run a business, and will almost certainly be taking an unrelated business management course as I reach a point that I am able to sell my games in a decent capacity. Even still, I wonder how much of the content will be applicable to game development, and how many gaps there will be.⁶²

59 Professor Stuart Cunningham, QUT Digital Media Research Centre, *Committee Hansard*, 10 March 2016, p. 5.

60 QUT Digital Media Research Centre, *Submission 26*, p. 45.

61 QUT Digital Media Research Centre, *Submission 26*, p. 42.

62 Mr Alexander Jeremy, *Submission 17*, p. 3.

2.52 Others recognised limits in their ability to effectively manage the product development process and the marketing often needed for a game to be successful. Mr Daniel Sassen, the manager of Broken Chair Games, was particularly upfront about the strengths and weaknesses of his business. He stated:

Developing the game is the easy part of the whole process. It is the marketing and promotion that goes on after the release that is well beyond our grasp.⁶³

2.53 If some management practices are likely to have had negative consequences for particular firms, employees and the overall industry, it can be reasoned that focusing on improving management practices should greatly assist the industry. The Sydney chapter of the IGDA (SIGDA) submitted that, if many businesses are under-resourced and operated by game professionals with little management experience or training, then the industry 'is poised for rapid growth if the availability of funding and business mentoring are increased'.⁶⁴

Workplace diversity

2.54 Some submissions commented on the composition of the video game development workforce in terms of gender and ethnic background. In particular, the lack of gender diversity in the industry was put forward as an issue that holds back growth in the industry and potentially threatens the legitimacy of its case for public support. According to the ABS, at the end of June 2012 only 8.7 per cent of the digital game developer workforce was female.⁶⁵ An estimate provided by the GDAA at a public hearing suggested that the figure is now 12.7 per cent.⁶⁶

2.55 Dr Dan Golding devoted much of his submission to this issue. He argued that there is 'a clear disparity in Australia between the monoculture of those who work in the video games industry, and those who actually constitute the wider communities of people from all walks of life who are interested in video games'. According to Dr Golding, this 'amounts to is an industry in crisis'. He concluded that if gender diversity in the industry is not addressed, it will result in an industry 'that is simply no longer worth supporting in the national interest'.⁶⁷

2.56 Other submitters noted the history of male-dominance of the industry. In a paper attached to the QUT Digital Media Research Centre's submission, Associate Professor John Banks and Professor Stuart Cunningham argued that:

The industry's still overwhelmingly male-dominated production base needs to change if it is to attract the best talent, improve balance and

63 Broken Chair Games, *Submission 46*, p. 4.

64 IGDA Sydney Chapter (SIGDA), *Submission 34*, p. 4.

65 ABS, *Film, television and digital games 2011–12*, cat. 8679.0, June 2013.

66 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 11.

67 Dr Dan Golding, *Submission 31*, pp. 9–10.

sustainability, and capture value in a rapidly evolving consumption environment.⁶⁸

2.57 Mr Reed from the GDAA acknowledged that the statistics about the proportion of female employees in the industry are 'terrible'. Mr Reed added that diversity in its entirety 'is a significant problem...not just on a gender basis'. He advised that the GDAA is concerned about systemic problems and is 'looking at plans to address it in our sector'. However, he stressed that the industry welcomes a diverse workforce. He stated that the industry:

...is absolutely not just an industry for young people. It is an industry for talent and intelligence. We do not judge people on their age. We do not judge people on their gender. We look at diversity in its entirety. We value new contributors to our sector because the consumers want new, innovative ideas.⁶⁹

2.58 Other industry participants also recognised that the lack of diversity is a problem. Ms Giselle Rosman, the Chapter Leader of IGDA Melbourne, pointed out that with women comprising half the population, a workforce of only 10 per cent women is 'underutilising' the potential that is available.⁷⁰

2.59 Ms Rosman also noted that games are entertainment, but they also tell stories and 'are part of our culture'. After indicating that the stories told through games are predominately stories from the viewpoint of white men, Ms Rosman remarked: 'I do not want to just hear those stories. I want to hear stories from a greater range of people'.⁷¹ Mr Ben Britten from Mighty Games Group made a similar point:

As an old white dude I have seen all the old white dude stories I need to see, frankly, and I quite enjoy the huge diversity we are seeing now come out of a lot of the indie spaces.⁷²

2.60 Mr Britten was also candid about how a development team that did not consist of people from diverse backgrounds will struggle to develop products that appeal to a wide audience. He stated that:

Even though we try really hard to be diverse and have our ideas and creativity embrace as much as we can, we still find ourselves doing that, because we are basically dudes, even though we are trying really hard not to. If you are a studio of mostly men who are not necessarily aware of it, as you say, that is what you are going to make. It is kind of a problem.⁷³

68 QUT Digital Media Research Centre, *Submission 26*, p. 45.

69 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 6.

70 Ms Giselle Rosman, IGDA Melbourne, *Committee Hansard*, 19 February 2016, p. 18.

71 Ms Giselle Rosman, IGDA Melbourne, *Committee Hansard*, 19 February 2016, p. 18.

72 Mr Benjamin Britten, IGDA Melbourne; Mighty Games Group, *Committee Hansard*, 19 February 2016, p. 19.

73 Mr Benjamin Britten, *Committee Hansard*, 19 February 2016, p. 19.

2.61 These environments can also facilitate the creation of games that objectify women. Ms Rosman observed that this occurs in other artistic endeavours as well, such as films—Ms Rosman remarked: 'they are all babes there'. Nevertheless, Ms Rosman suggested that there is 'room for improvement' and the video game industry should seek to address this given changes should lead to 'better economic outcomes'.⁷⁴

2.62 There are efforts underway to address some of the diversity issues. For example, the committee was informed of Film Victoria's recently established Women in Games Fellowship that focuses on 'up-skilling so that you have women in some more senior positions in games'.⁷⁵

2.63 Although women are under-represented in the video game development industry, it should be noted that there is a systemic issue with the under-representation of women in science, technology, engineering and mathematics (STEM) fields generally.⁷⁶ This was recognised by Dr Golding, who provided the following observations:

From 2001 about 25 per cent of domestic enrolees in information technology degrees were women. By 2014, which is when the most recent statistics were released, that has dropped to about 16 per cent. So it has actually dropped over the past 10 or 15 years.

Beyond that, there are anecdotal examples. I do not have access to all of the universities, but I have spoken to RMIT, for example. They have a more or less fifty-fifty gender breakdown for people studying games. So, it depends. There are strategies being enacted even at the educational level to combat this.⁷⁷

Conclusion

2.64 This chapter has provided an overview of the industry to give some context for the policy options that the remainder of the report will largely focus on. It is apparent that Australian video game developers face both exciting opportunities and significant challenges. The Australian Government, and state and territory governments, could assist the industry to capitalise on these opportunities and address the challenges. The next chapter focuses on the roles that governments have undertaken and the case for additional government support.

74 Ms Giselle Rosman, IGDA Melbourne, *Committee Hansard*, 19 February 2016, p. 19.

75 Ms Giselle Rosman, IGDA Melbourne, *Committee Hansard*, 19 February 2016, p. 18.

76 This is widely recognised, including by the Australian Government. See, for example, the Australian Government's 2015 *National Innovation and Science Agenda*.

77 Dr Dan Golding, *Committee Hansard*, 19 February 2016, p. 25.

Chapter 3

Government support for the video game industry

3.1 Many submitters commented on current and previous government assistance available to Australia's video game development industry. This chapter outlines the Australian Interactive Games Fund (which was discontinued in 2014), existing non-specific industry support that the video games industry can access and state government programs that support video games developers. Following this, the chapter outlines specific government support programs for the video games industry that are available in several other countries and which various individuals and organisations endorsed in their submissions.

3.2 This chapter concludes with the various arguments put to the committee for providing government assistance to support growth in the domestic video game development industry.

The former Australian Interactive Games Fund

3.3 In 2012, the then Minister for the Arts, the Hon. Simon Crean, announced the establishment of the Australian Interactive Games Fund (AIGF), to be administered by Screen Australia. The objectives of the AIGF were to 'promote industry growth and sustainability, support the development of new [intellectual property], encourage skills retention and renewal, and maximise the creative opportunities of fast broadband'.¹

3.4 Mr Tony Reed, the Chief Executive Officer of the Game Developers' Association of Australia (GDAA), explained that the AIGF was intended to address the 'lack of sophisticated investment' that creative industries such as the game development industry encounter. He stated:

Without that investment it is very, very difficult for companies to invest in experimental ideas and to take risks. As such, when we built the fund and created the guidelines for it, it was about exactly that—addressing that need to take those risks. We still do not have that network. There are no incentives for investors to invest in the innovation in Australia. That was what the fund was originally intended to address.²

3.5 The AIGF commenced in 2012–13, with \$20 million earmarked for three years. Of the \$20 million, \$5 million per year was provided to Screen Australia in the first two financial years of the AIGF's operation. The remaining \$10 million was not provided as, in the 2014–15 Budget, it was announced that the program would be

1 Ms Fiona Cameron, Chief Operating Officer, Screen Australia, *Committee Hansard*, 18 March 2016, p. 10.

2 Mr Antony Reed, Chief Executive Officer, Game Developers' Association of Australia (GDAA), *Committee Hansard*, 19 February 2016, p. 2.

discontinued. The AIGF ceased operation from 1 July 2014, with new applications no longer accepted following the Budget announcement.³

Design of the AIGF

3.6 Screen Australia developed two programs as part of the AIGF: the Games Enterprise program and the Games Production program. Under the Games Enterprise program, applicants could seek funding of up to \$1 million (allocated over a three-year period) for operating costs that would grow their business as well as a contribution towards the costs of specific projects being developed.⁴ The funding was provided to recipients in two components: grant funding and a loan. At least 25 per cent of the funding was treated as a loan.⁵

3.7 The Games Production program provided assistance of up to \$500,000 per individual project (that is, funding to assist the development of a single game).⁶ Under this program, funding below a \$50,000 threshold was provided to developers as a grant, whereas funding over \$50,000 was treated as a recoupable investment.⁷

3.8 The AIGF was intended to be self-sustaining; that is, funds repaid or recouped would be allocated to further funding of the programs.⁸ The GDAА advised that the industry proposed the self-sustaining feature of the AIGF as it was determined 'not to become a sector reliant on patronage from government'.⁹

3 The Hon Simon Crean MP, 'Australian interactive games fund announced to support a global industry', *Media Release*, 15 November 2012; Australian Government, *Budget 2014–15: Budget measures—Budget Paper No. 2*, May 2014, p. 57; Screen Australia, 'News alert 2014: Screen Australia games programs discontinued', 14 May 2014, www.screenaustralia.gov.au/news_and_events/2014/ia_140514_games.aspx (accessed 29 September 2015).

4 Funds could be used 'to cover the cost of activities including prototyping, production, marketing and release of game titles, travel to industry events, porting titles to different platforms, commercialising middleware, expanding staff, internships, training or enhancing business skills, as well as infrastructure costs such as office set-up or equipment purchases that directly contribute to revenue-generating activities integral to the applicant's Games Enterprise proposal'. Screen Australia, *Guidelines: Games programs*, 9 December 2013 www.screenaustralia.gov.au/getmedia/943c1729-4701-4d5a-990d-4bb762e9ea0f/Glines_IMP_Games.pdf (accessed 29 September 2015), p. 4.

5 Ms Fiona Cameron, Screen Australia, *Committee Hansard*, 18 March 2016, p. 10; Screen Australia, *Guidelines: Games programs*, p. 7.

6 Screen Australia, *Guidelines: Games programs*, pp. 4, 8.

7 Ms Fiona Cameron, Screen Australia, *Committee Hansard*, 18 March 2016, p. 10.

8 Screen Australia, *Guidelines: Games programs*, p. 3.

9 GDAА, *Submission 55*, p. 11. See also Mr Antony Reed, GDAА, *Committee Hansard*, 19 February 2016, p. 1.

3.9 The self-sustaining design of the AIGF was demonstrated by evidence from a funding recipient, Tin Man Games. Mr Neil Rennison from Tin Man Games informed the committee that a quarter of the funding provided to his business is required to be repaid within five years.¹⁰

3.10 Another noteworthy feature of the AIGF's design is that Screen Australia utilised advice from industry experts, both in Australia and from other countries, to assist it when deciding which companies to support.¹¹

Projects funded by the AIGF

3.11 The \$10 million available to Screen Australia during the operation of the AIGF was spent as follows:

- approximately \$6 million was used to support ten development studios;
- approximately \$3.7 million supported 36 game projects
- around \$120,000 was used for sector building, such as to support 'professional development and screen culture activities'.¹²

Evidence regarding the abolition of the AIGF

3.12 Mr Reed noted that the decision to discontinue the AIGF was taken by the Government 'without consultation or any attempt at understanding the purpose or structure of the program'. He added that although the abolition of the AIGF created a 'new hurdle' for the industry, it 'did not stifle creativity...[it] did not hamper production'. However, Mr Reed is of the view that the 'absence of the fund impedes the growth of the sector'.¹³

3.13 Whether the AIGF was designed appropriately and was a successful program, or likely to be a successful program, was discussed in submissions and explored by the committee at the public hearings. The Interactive Games and Entertainment Association (IGEA) stated that it is difficult to assess the effectiveness of the scheme given it ceased after one year of operation. However, IGEA submitted the following comments:

Anecdotal evidence suggests that many of the studios that were recipients of the initial funds were able to leverage those funds for commercial

10 Mr Rennison also provided information about how the program is administered; he explained that Tin Man Games is required to provide a report to Screen Australia every six months that 'is very detailed and shows all of our successes. It breaks down how much things have cost and how well we are doing and the publicity we gained'. Mr Neil Rennison, Founder and Creative Director, Tin Man Games, *Committee Hansard*, 19 February 2016, p. 37.

11 For details on the experts who assisted Screen Australia, see *Committee Hansard*, 18 March 2016, p. 14.

12 Ms Fiona Cameron, Screen Australia, *Committee Hansard*, 18 March 2016, p. 10.

13 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 1.

success. One studio, Flat Earth Games, noted that initial AIGF funding allowed it to bring its successful Australian release of *Towncraft* to new platforms and overseas markets. Based on that success Flat Earth Games has since developed three further interactive games. Such examples provide an initial positive indication of the potential of a self-funding model of seed assistance for interactive games development.¹⁴

3.14 The GDAА commented that since the AIGF was discontinued 'several companies and projects that received support through the program have achieved global success'. The GDAА argued this demonstrates 'that the sector's commitment and determination that the fund be self-sustaining was reasonable and achievable'.¹⁵ At the Melbourne public hearing, the GDAА's Mr Reed added that the AIGF 'was working'. He elaborated:

Some funding recipients have generated export revenues more than 10 times the original investment from the fund. Some have doubled or tripled the size of their studios or moved from contract arrangements to full-time employment. Many have won international awards for their work.¹⁶

3.15 The committee was provided with examples of how the AIGF help facilitate growth in the industry. Mr Neil Rennison from Tin Man Games told the committee that prior to receiving funds under the AIGF program, the two directors of the company were essentially working from home offices. Funding from the AIGF enabled the business to hire junior programmers, which Mr Rennison confirmed was only possible at that time because of the funding provided.¹⁷ As the following description of Tin Man Games' early days demonstrates, funding under the AIGF program had a direct and significant influence on the realisation of the business' expansion plans:

We were working really hard with lots of contractors around the world, probably punching well above our weight for two guys sitting at home, but we had massive plans and we had already developed lots of relationships with potential licensors. We were building our tech, and getting that enterprise funding was just the catalyst. It opened so many doors for us. We immediately hired three staff. We moved to permanent offices.

Having those key staff enabled us to suddenly have skill diversity, because obviously the other director and I had a certain number of skills, and having new staff on the team brought a whole load of new skills to the table which meant that our technology became better very quickly. We were able to release more titles quicker than we were before. Just since we have had that

14 Interactive Games and Entertainment Association (IGEA), *Submission 9*, p. 13.

15 GDAА, *Submission 55*, p. 12.

16 Mr Antony Reed, GDAА, *Committee Hansard*, 19 February 2016, p. 1.

17 Mr Neil Rennison, Tin Man Games, *Committee Hansard*, 19 February 2016, p. 39.

funding, for example, we have released 23 new titles on iOS and Android, and we have taken 11 of those and released them on PC, Mac and Linux.¹⁸

3.16 Mr Rennison further highlighted the benefits to the business from the additional employees made possible by the AIGF. He explained that Tin Man Games was initially not planning to release its titles on PC, Mac and Linux platforms; the titles would only be available on iOS and Android. However, the addition of another team member with knowledge about the marketplaces for PC, Mac and Linux products led to titles being released for those platforms. As a result, Tin Man Games achieved a greater amount of revenue than it would have otherwise. Mr Rennison stated:

I just looked at the figures this morning, and our 11 titles on that marketplace since he has been employed have grossed US\$160,000. So that is just one person coming onto the team and the impact that person made.¹⁹

3.17 Other businesses also highlighted the benefits from the AIGF for the industry. Mr Benjamin Britten, Technical Director, Mighty Games Group, told the committee that the AIGF's enterprise fund assisted Mighty Games to offer more stable working arrangements that were necessary to attract skilled employees from overseas. He explained:

As an employer at Mighty Games, right now it is kind of hard to find talented people. Often we are looking for mid-level people or better and it is hard to find those people locally. We do not have quite the long-term stability that we need to say: 'Relocate back to Australia. We can guarantee you 12 or 24 months.' We do not quite have that stability yet. The enterprise fund was a stopgap to provide that for certain companies: 'Here's a chunk of money so you have a stable base for two to three years. We know you're not going to go out of business.' You can then start to take those risks and bring the talent back in. Right now—at least at Mighty—we are looking at our current growth and success, which we owe very much to the funds we got. With our current success we can now start to look at bringing people back in. I think trying to bring that stability out to the industry as a whole will allow us, as an industry as a whole, to reclaim our Australian talent back to Australia.²⁰

3.18 The Chief Operating Officer of Screen Australia, the agency that administered the program, argued that although the program was 'short-lived', it 'did deliver against its objectives'. In particular, Ms Cameron noted how the AIGF has assisted businesses to expand and retain local intellectual property. Ms Cameron referred to the game *Hand of Fate* produced by Defiant Development to illustrate this point:

18 Mr Neil Rennison, Tin Man Games, *Committee Hansard*, 19 February 2016, pp. 36–37.

19 Mr Neil Rennison, Tin Man Games, *Committee Hansard*, 19 February 2016, pp. 36–37.

20 Mr Benjamin Britten, Member, Melbourne Chapter of the International Game Developers Association (IGDA Melbourne); Technical Director, Mighty Games Group, *Committee Hansard*, 19 February 2016, p. 13.

The game is an original title for PC, PS4 and Xbox, and to date has returned over \$4 million to the developers—more than twice the development cost. The team are already working on a sequel to the game. Defiant owns the IP, controls the distribution and is the chief beneficiary of all revenue...Defiant Development has gone from a company staffed entirely by contractors to a company now with 18 full-time staff. We believe the fund has made a difference, especially with reference to retaining local [intellectual property] and building Australian businesses that can compete for a slice of the fastest-growing entertainment sector.²¹

3.19 In addition to the permanent employment created, Mr Morgan Jaffit from Defiant Development informed the committee that the company now makes a valuable contribution to government revenue. He advised that the business received 'relatively small amounts of funding: \$650,000 over three years', which is 'roughly equivalent to the tax we are paying this year'.²²

3.20 Ms Cameron noted that, for the 36 game projects funded by Screen Australia, the \$3.7 million provided generated total production budgets of \$14 million—a 'multiplier of more than four'.²³ Ms Cameron's evidence also indicated that, as ten of the 36 games are yet to be released, the observable benefits from the AIGF are likely to increase further.²⁴

Current Commonwealth support

3.21 Since the abolition of the AIGF, Commonwealth support programs available to video games businesses are not industry-specific. Programs referred to in evidence received by the committee were the research and development (R&D) tax incentive and the Export Market Development Grant (EMDG) scheme.

R&D tax incentive

3.22 The R&D tax incentive provides eligible entities with a tax offset for expenditure on eligible R&D activities and for the decline in the value of depreciating assets used for eligible R&D activities.²⁵

21 Ms Fiona Cameron, Screen Australia, *Committee Hansard*, 18 March 2016, pp. 10–11.

22 Mr Morgan Jaffit, Creative Director, Defiant Development, *Committee Hansard*, 10 March 2016, p. 21.

23 Mr Timothy Phillips, Senior Manager, Interactive and Multiplatform, Screen Australia, *Committee Hansard*, 18 March 2016, p. 13.

24 Ms Fiona Cameron, Screen Australia, *Committee Hansard*, 18 March 2016, p. 11.

25 The incentive has two components. For eligible entities with an aggregated turnover of less than \$20 million (provided that they are not controlled by tax exempt entities), a 45 per cent refundable R&D tax offset is available. For all other eligible entities, a non-refundable 40 per cent R&D tax offset is available. See *Income Tax Assessment Act 1997*, Division 355.

3.23 KPMG suggested that the R&D tax incentive is of limited utility for video games businesses. It stated:

While some fledgling companies under \$20 million aggregate turnover benefit from this incentive months after the expenditure has been raised and spent, the vast majority need upfront capital, not post-tax refunds. By extension, more established companies or subsidiaries with global parent companies, over \$20 million aggregated turnover only receive tax breaks, not cash refunds, under the Incentive. This means that if you are a game developer in losses (a common scenario in the current Australian climate) the only assistance program available to you simply adds to your losses, with no immediate benefit whatsoever. More importantly, support for this industry should not be limited to innovation that meets the requirements of the Incentive; innovation in gaming is more subjective, and can come in the form of new features or styles rather than completely new technologies.²⁶

3.24 KPMG added that the development of new engines or functionalities are the types of development that are generally eligible under the R&D tax incentive. However, it noted that these activities, 'at least initially', were undertaken by the major global companies that have billions in revenue and the necessary capability and flexibility.²⁷

Export Market Development Grants

3.25 The EMDG scheme is a financial assistance program administered by Austrade that provides partial reimbursement of eligible export marketing expenditure for small and medium enterprise exporters. KPMG argued that the current EMDG scheme 'has limited application for software companies and game developers' for the following reasons:

- cashflow—KPMG stated that 'small game developers require upfront cash to develop an exportable product, but the EMDG reimburses funds already spent and up to 24 months after they were incurred'; and
- the reality of exporting digital products—KPMG argued that 'the current EMDG framework...precludes the claiming of in-house labour costs for the production of display equipment...which are the vast majority of export product development costs for video games'.²⁸

3.26 Changes that submitters suggested could be made to the EMDG scheme are discussed in Chapter 4.

26 KPMG, *Submission 105*, p. 6.

27 KPMG, *Submission 105*, p. 6.

28 KPMG, *Submission 105*, pp. 15–16.

Initiatives under the National Innovation and Science Agenda

3.27 In December 2015, the Australian Government released a policy statement entitled the National Innovation and Science Agenda (NISA). As part of the NISA, the Government announced that it will 'promote investment in innovative, high growth potential startups by providing concessional tax treatment for investors'. One aspect of the concessional taxation treatment is a 20 per cent non-refundable tax offset on investments, capped at \$200,000 per investor per year.²⁹ Mr Reed from the GDAA commented that the offset would 'very definitely' be of use to businesses in the industry. He stated:

What we have seen in international territories where you do have a very similar model is reinvestment straight back into the company. That would be exactly the same. Back in the early 2000s, the games industry, for a very short period of time, had access to the 10BA which provided a very similar tax break. We saw, in that very short amount of time, reinvestment straight back into the companies. The games sector does not generally take that money and hide away with it. They want to play more so they make more.³⁰

3.28 Although this aspect of the NISA was viewed favourably, the committee was informed that, despite the recent emphasis on innovation and preparing Australia 'for the jobs of the future',³¹ the Government has not engaged with the video game industry about how it could support future jobs and growth. When questioned about his engagement with the Government, Mr Reed stated:

In all of the dialogue and the vocabulary being used by the Prime Minister right now...it describes us to a T. There is no question; we encapsulate every one of the innovation arguments that he makes. But the federal government has not reached out to us in any form at all—yet.³²

State government support

3.29 According to the GDAA, Victoria currently has the largest number of game development businesses in Australia, with 48 per cent of businesses located in that state. Queensland and New South Wales follow Victoria with 19 per cent and 18 per cent of total businesses respectively.³³

29 Australian Government, 'Tax incentive for early stage investors' www.innovation.gov.au/factsheets/tax-incentive-early-stage-investors (accessed 4 March 2016).

30 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 8.

31 Australian Government, *National Innovation and Science Agenda*, 2015, <http://innovation.gov.au/system/files/case-study/National%20Innovation%20and%20Science%20Agenda%20-%20Report.pdf> (accessed 19 January 2016), p. 13.

32 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 4.

33 GDAA, *Submission 55*, p. 6.

3.30 When discussing the support provided to the industry by the state governments, submitters focused on the programs implemented in Victoria.³⁴ The programs offered by Film Victoria were put forward by the GDAA and IGEA as being the most comprehensive support available in Australia for interactive games developers. The GDAA and IGEA advised that Film Victoria administers the following three programs relevant to the video games sector:

- Assigned Production Investment—Games: under this program, funding (generally capped at \$150,000) is available to 'assist Victorian games companies to produce a prototype or full game, and also for marketing and related expenses'. In 2013–14, 14 games projects were funded at a total cost of around \$635,000.
- Games Release: grants of up to \$30,000 are available to support 'newer and smaller interactive games studios to deliver a well-planned and marketed release of their project'. In 2013–14, nine projects were supported with a total commitment of around \$173,000.
- Games Professional Placements: a program that supports Victorian games companies to engage a Victorian practitioner (six companies were supported in 2013–14).³⁵

3.31 A former program referred to in submissions was the Victorian Government's Technology Trade and International Partnering (TRIP) program, which enabled Victorian ICT companies to apply for a grant to attend a trade show or event that is relevant to their business.³⁶

3.32 Several witnesses indicated that the approach taken in Victoria to support for the video game development industry has been successful. Mr Reed from the GDAA provided the following overview of the current programs available that are supported by the Victorian Government:

Victoria supports production funding, understanding that, especially for new businesses, that project funding will help a new business and mitigate some of the financial risk to them. It supports, very cleverly, marketing. One of the great issues that we have in the digital distribution space is getting to that audience and making them aware of the product. Film Victoria have a special program that endorses and supports marketing,

34 Industry participants indicated that support offered by other state government either did not exist or, in the case of New South Wales, was 'ad hoc'. See Mr Bruce Thomson, Business and Marketing Director, Nnooo, *Committee Hansard*, 18 March 2016, p. 31 and Mr Jon Hayward-Crichton, Festival Director, Perth Games Festival and Operations Manager, Let's Make Games; Mr Brendan Ragan, Treasurer, Let's Make Games, *Committee Hansard*, 18 March 2016, p. 37.

35 GDAA, *Submission 55*, p. 12. See also IGEA, *Submission 9*, p. 9.

36 See www.business.vic.gov.au/support-for-your-business/grants-and-assistance/international-technology.

and they also support internships into game digital studios, so they are really nurturing that talent going forward.³⁷

3.33 Mr Benjamin Britten, who represented the Melbourne Chapter of the International Game Developers Association (IGDA Melbourne), stated:

We tend to owe the maturity in the Victorian market almost solely to Film Victoria support. They have been very good at supporting games and very forward thinking in their support of the small-screen industry as it were.³⁸

3.34 The GDAA argued that the state level support has 'contributed substantially' to the large share of businesses that Victoria has.³⁹ The submission from QUT's Digital Media Research Centre stated that, based on interviews and other discussions with developers, the programs in place in Victoria and the 'lack of government support in Queensland' may have contributed to the shift in 'the centre of gravity for games development in Australia...from Queensland to Melbourne'.⁴⁰

Government support available in other countries

3.35 A variety of tax incentives and dedicated government programs designed to support video game development are in place in countries with established and successful video game industries. The following paragraphs outline the key programs that submissions identified.

Canada

3.36 Submitters outlined both provincial and federal support that is available in Canada.

3.37 IGEA submitted that several Canadian provinces 'provide competitive tax incentives for games development as digital media' consisting of refundable tax credits ranging from 17.5 per cent to 40 per cent.⁴¹ Various submitters highlighted the programs available to game companies in Toronto. These include:

- the Ontario Interactive Digital Media Tax Credit—a 35 per cent–40 per cent refundable tax credit for eligible labour and marketing expenses up to a C\$100,000 per product;

37 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 3.

38 Mr Benjamin Britten, Member, IGDA Melbourne; Technical Director, Mighty Games Group, *Committee Hansard*, 19 February 2016, p. 14.

39 GDAA, *Submission 55*, p. 12.

40 Queensland University of Technology (QUT) Digital Media Research Centre, *Submission 26*, p. 23.

41 IGEA, *Submission 9*, p. 12.

- grants up to C\$50,000 for concept development and up to C\$250,000 for production 'with a 1:1 matched funding model';⁴² and
- support from the Ontario Media Development Corporation (OMDC), which provides grants up to a maximum of 50 per cent of a project (capped at C\$150,000). The OMDC also has 'a trade development program they finance by partnering with existing trade and event organisations'.⁴³

3.38 Support available in Montreal was also noted. The committee was advised that the provincial government in Quebec provides video games companies with a tax credit of up to 37.5 per cent. Further, the Montreal local government provides support through 'programs to drive investment such as Montréal International'. The following description of that program was provided:

Montréal International is a private/public nonprofit organization dedicated to aggressively encouraging growth in the creative industries in Montréal. It enjoys support from all levels of government and also from the creative industries resulting in the immense benefits that these structures create for the growth of said industries. Since its creation, Montréal International has helped to attract \$10.6 billion in foreign direct investments to Greater Montreal. From these investments, 52,000 jobs have been created or maintained. To date, MI's activities have also allowed almost half of some 60 international organizations to establish themselves in the city and attract and retain more than 9,000 international strategic workers.⁴⁴

3.39 The federal support available in Canada includes:

- upfront R&D support, which can provide companies with less than 500 employees up to 50–80 per cent of the total project cost—Mighty Kingdom explained that 'unlike the R&D tax offset in Australia, the Canadian R&D support 'is paid up front and not at the conclusion of R&D activities';
- support from the Business Development Bank of Canada, which has a mandate to 'aggressively support video game start-ups within Canada';
- 'favourable visa conditions' to attract overseas talent;⁴⁵ and
- support from the Canada Media Fund, which provides 'repayable contributions for specific funds, and for development, production, and marketing'.⁴⁶

42 Mighty Kingdom, *Submission 30*, p. 2.

43 QUT Digital Media Research Centre, *Submission 26*, p. 6.

44 Mr Benjamin Welsh and Mr Liam Harvey, *Submission 77*, p. 2.

45 Mighty Kingdom, *Submission 30*, p. 2.

46 QUT Digital Media Research Centre, *Submission 26*, p. 6.

Finland

3.40 Helsinki, Finland is home to large mobile game companies such as Rovio, which developed Angry Birds, and Supercell. Mighty Kingdom prefaced its overview of the Finland system by noting that Helsinki 'has become one of the leaders in mobile gaming', with the combined annual revenue from these two companies surpassing A\$2.64 billion. Mighty Kingdom added that the companies 'are former beneficiaries of government funding'.⁴⁷

3.41 Mighty Kingdom explained that support in Finland stems from the Tekes system, which 'consolidates a number of different grants and loans that cover almost the entire lifecycle of a business, from initial planning, to R&D, and then on to commercialisation'. Relevant grants under the Tekes system include:

- the Planning for Global Growth grant—grants of up to 75 per cent of various early stage business costs such as market research are available to any small business under five years old Finland;
- R&D grants—small businesses can apply for a grant of between 50–65 per cent of the R&D project cost, with simplified reporting models available for small companies where the grant funding is under €100,000;
- the Development and Piloting program—under this program, which is intended to assist with commercialisation, small companies are eligible for a low interest loan (with no collateral required) to cover 50–70 per cent of the project cost.⁴⁸

3.42 Mighty Kingdom added that the above programs are 'just the tip of the iceberg when it comes to Tekes'. He elaborated:

Amongst the many other offerings, the system also identifies promising young (6 years or less) companies that it will then provide additional funding to accelerate their growth. Recognising the potential of the games sector, a special €70 million Tekes fund, Skene, was set up in 2013 just for game companies.⁴⁹

United Kingdom

3.43 The committee was advised that, since 1 April 2014, companies can claim Video Games Tax Relief for games that 'are British, intended for supply and where at least 25 per cent of core expenditure (expenditure on pre-development, principal photography and post-development) is incurred on goods or services that are provided

47 Mighty Kingdom, *Submission 30*, p. 3.

48 Mighty Kingdom, *Submission 30*, p. 3.

49 Mighty Kingdom, *Submission 30*, p. 3.

from within the European Economic Area'.⁵⁰ The games 'must be certified as a British production by meeting certain cultural criteria'.⁵¹

3.44 Under this scheme, 80 per cent of eligible spending can be deducted or, if the business is loss-making, these losses can be surrendered 'for a payable tax credit worth 25 per cent of core expenditure (i.e. effectively a payable credit of a maximum 20 per cent of total core expenditure)'. Other tax benefits that are available to businesses generally, such as R&D Relief, may also be utilised.⁵²

3.45 Mighty Kingdom, which expressed its preference for the profit-oriented models used by Helsinki and Toronto, questioned the effectiveness of the cultural criteria. It argued that 'there is still a place for arts-based funding of games, but we are unlikely to see significant growth if funding is still applied using irrelevant eligibility criteria'. Mighty Kingdom explained:

In theory, having cultural criteria leads to more uniquely British products, but in practice, due to the commercial and global nature of the business, they tend to exclude far too many projects. At best, they result in developers simply 'ticking the boxes' in order to get the funding. At worst, they force developers to look elsewhere for support.

This situation often occurs when support for the games industry is funded through creative or arts funding, often through an extension of existing film or television funding. There are many problems with this approach, not the least of which is that a game project never 'ends' in the way that a film does; the most successful gaming projects are continuously developed and updated for years.⁵³

Other countries

3.46 The committee also received evidence about the support for video games companies in the following countries:

- France—a 20 per cent tax offset for production expenditure for games is available.⁵⁴
- New Zealand—the committee was informed of the Grow Wellington program, which is intended to 'turn Wellington into an innovation destination'. Grow Wellington provides a single point of contact for R&D, training, mentoring, investment and funding programs. Mighty Kingdom explained that 'although they have limited resources themselves, by acting as a mediator for

50 IGEA, *Submission 9*, p. 12.

51 Mighty Kingdom, *Submission 30*, p. 4.

52 IGEA, *Submission 9*, p. 12.

53 Mighty Kingdom, *Submission 30*, p. 4.

54 IGEA, *Submission 9*, p. 12.

all these services they take a lot of the burden off SMEs and allow them to focus on building their product'.⁵⁵

- United States of America—several states (including Florida, Louisiana and Texas) have a tax incentive program for video games production, with tax credits for interactive game development of up to 35 per cent available.⁵⁶

The case for government support in Australia

3.47 A recurring theme in the evidence taken by the committee is that the video game development industry presents many economic opportunities; however, the potential has not been recognised adequately in Australia. As the preceding paragraphs suggest, many other countries have favourable taxation and regulatory frameworks designed to encourage game development companies to be based and grow in their jurisdictions. It was suggested that the lack of similar incentives in Australia provides an additional challenge for Australian companies that compete in the global marketplace with companies that have benefited from support provided by their governments. Submitters also contrasted the government support available to other domestic industries. This section outlines submitters' views about the approach to government support in Australia and explores the case for government support of the video game development industry.

Government support to help manage recent economic difficulties and structural change

3.48 One of the reasons put forward for government attention to be given to the video game development industry is the effect that the global financial crisis and the appreciation of the Australian dollar had on the size and structure of the industry.

3.49 Mr Zachary Griffin, the Founder and Chief Executive Officer of Black Delta, focused on the effects that the studio closures and job losses caused by the global financial crisis had on the ability of firms to recruit experienced employees. Mr Griffin outlined the difficulties that Black Delta has faced in recruiting employees; he informed the committee that two candidates the business sought 'were both picked up by Microsoft and Amazon'. Mr Griffin remarked that, in his experience, 'the only talent we do have in Australia will, if it is any good, get poached offshore'. Mr Griffin concluded that the industry 'needs to be artificially supported until such time as it can be on its own feet and we have this talent here that we are fostering'.⁵⁷

55 Mighty Kingdom, *Submission 30*, p. 4.

56 IGEA, *Submission 9*, p. 12. See also QUT Digital Media Research Centre, *Submission 26*, p. 6. The effects associated with the introduction of incentives for video game development in Florida were outlined in detail in the IGEA submission: see *Submission 9*, pp. 26–28.

57 Mr Zachary Griffin, Founder and Chief Executive Officer, Black Delta, *Committee Hansard*, 19 February 2016, p. 38.

3.50 Given the recent decline in the size of the video games industry in Australia, submitters highlighted what they consider is an inconsistent approach to the provision of government support to industries that have faced challenges. For example, 5 Lives Studios commented:

In the past 10 years, we've witnessed the collapse of companies like Krome Studios, which at its height had 400 employees, along with Pandemic Studios, THQ Australia and Sega Studios Australia—each having 100+ employees at their peaks...When an automotive factory employing several hundred workers is forced to shut down local operations, the government and media take note. Compare that to when a multitude of games studios close their doors in Australia, nobody is any the wiser.⁵⁸

Challenges with accessing finance

3.51 Even without developments such as the global financial crisis, video game developers face difficulties obtaining finance. According to IGEA, government support could mitigate the perceived financial risks that are often associated with the development of interactive games (and many other forms of content and technology).⁵⁹

3.52 The risks associated with video game development were explained by Mr Morgan Jaffit from Defiant Development. He noted that 'never before has it been so easy to get started in game development, with access to technology and markets through digital distribution'. However, he added that successful games in the industry 'remains at a one in five or 10 level' and 'few, if any, private investors can afford to fund nine misses'. Mr Jaffit noted that government support can provide a 'safety net' that allows 'developers the time to find and polish' the experience that is needed to 'stand out from the crowd'.⁶⁰

3.53 Even when financiers are familiar with technology businesses there can be challenges. Mr Leon Young, the Chief Executive Officer of 2and2, explained that 'games creation is a content creation business and therefore it is quite different from other tech start-ups'. He elaborated on this point:

Whereas typical tech start-ups only need to fund a minimum viable product—that is, a very cut down version of that product to attract initial customers and validate the market—video games are much more like feature films. No-one wants to pay to see 10 minutes of rushes of a recently commenced feature film. Likewise, no-one wants to buy a half-baked video game; they want to see the fully realised creative vision. This means that the financial ecosystem that has recently blossomed in Australia to support

58 5 Lives Studios, *Submission 85*, p. 4.

59 IGEA, *Submission 9*, p. 11.

60 Mr Morgan Jaffit, Creative Director, Defiant Development, *Committee Hansard*, 10 March 2016, p. 22.

tech start-ups is in some ways pretty inadequate for, and not very relevant to, the video games industry.⁶¹

Treatment of the video game development industry compared to the film, television and music industries

3.54 The government support given to the film industry was also presented as a reason for government assistance for video game development. Similarities between the nature of projects within the video game industry and the film industry were highlighted; for example, ODD Games observed that 'the video game industry is best akin to that of the film industry whereby the success of the business lies on the typical hit or bust scenarios'.⁶²

3.55 In addition, it was suggested that video games should be considered an art form and, therefore, there are cultural reasons for government policies and frameworks that support the growth of the Australian game development industry. Mr Paul Turbett, the founder of the Perth-based company Black Lab Games, submitted:

...games are becoming increasing[ly] important as a form of cultural expression. Just as film started in the late 1800s as a technology experiment, and went on to become an art form that reflected or challenged values in society, games are fast becoming an art form also. The technology of games is still in development, and the constructs and delivery means for provoking thought and asking questions of the audience are also still being discovered. Having seen the medium evolve significantly from the 1980s to today, I [firmly] believe that games as medium will become a dominate form of cultural expression in the 21st century.

This leads to an important question: Does Australia want to be a contributor and exporter of 21st century culture, or merely a consumer and importer?⁶³

3.56 Also on this matter, Mr Adric Polkinghorne wrote:

As I have ventured deeper and deeper into the games industry, my life resembles that of an aspiring artist more each day. Game Development is an art form, regardless of what trade you take up within it. Whether you work for a multinational game developer or as an aspiring indie developer, you are an artist none the less. As a result, it is only sensible that we treat the games industry as equal to our film and music industry.⁶⁴

61 Mr Leon Young, Chief Executive Officer, 2and2, *Committee Hansard*, 18 March 2016, p. 30.

62 ODD Games, *Submission 1*, p. 2.

63 Black Lab Games, *Submission 11*, p. 4.

64 Mr Adric Polkinghorne, *Submission 24*, p. 2.

3.57 Various tax concessions are available to the film and television industries, however, these are unavailable to the video game industry. Stakeholders in the video game industry queried the rationale for this. An individual quoted in a submission expressed their view that:

...there is a great deal more potential for the games industry here in Australia than the film industry (which receives a lot more attention) as games are not as vulnerable to cultural difference as films tend to be (accents etc.).⁶⁵

3.58 The relative stability of the video game industry, compared to the film industry, was noted. The following observation given by Mr Reed of the GDAA is instructive in that, potentially, government support for the video game industry could have longer-lasting effects than support provided to the film industry:

...we are a very labour-intensive industry as well, unlike film, where it is quite disparate; after a project, people vanish into the ether. We do not. We provide full-time employment, and our talent is valued.⁶⁶

3.59 Submitters also questioned why video game development was not included in other arts programs.⁶⁷ In particular, some submitters objected to the Government's decision, as announced in the 2015–16 Budget, to redirect funding from the Australia Council to establish a National Programme for Excellence in the Arts (NPEA). Interactive games were not included in the NPEA.⁶⁸ The program that replaced the NPEA similarly excluded interactive games.⁶⁹

Other programs available to small-to-medium sized enterprises are of limited use

3.60 The point that video game developers need access to measures designed with the specific features of the industry in mind was also made by highlighting existing small business measures that are of limited use for video game developers. For example, Stirfire Studios remarked that the expanded accelerated depreciation for

65 IGDA Gold Coast, *Submission 59*, p. 8.

66 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 3.

67 Mr Geoffrey Hill, the chapter leader of the Sydney chapter of the International Game Developers Association, used the Canada-Australia Interactive Digital Media Initiative to demonstrate that game development is excluded from screen and media funding initiatives. Mr Hill observed that the Initiative 'sounds ideal—interactive digital media; that is what games are—except the terms explicitly state that the project must not be a game'. See *Committee Hansard*, 18 March 2016, p. 28.

68 For example, see Mr Brendan Keogh, *Submission 49*, pp. 3–4.

69 Department of Communications and the Arts, *Catalyst – Australian Arts and Culture Fund: Guidelines*, November 2015, <http://arts.gov.au/sites/default/files/funding/catalyst-guidelines-24Nov.pdf>, p. 5.

small businesses that the Government announced in the 2015–16 Budget⁷⁰ was 'not particularly useful to a single developer or small team working on their project'. In this scenario, Stirfire Studios explained that the chief investment is the labour cost; that is, the time of the people working on the project. Stirfire added:

Although as game developers we do have hardware and software costs, often we are starting off with small budgets, if really any capital at all.⁷¹

Government support for the game industry is successful in other countries

3.61 The approach to government support for video game development elsewhere was also discussed. It was argued that tax credits and government support programs in several other countries (such as Canada and the United Kingdom) have been successful in supporting the growth of the video games industry in those countries.⁷²

3.62 Mighty Kingdom submitted that 'investing in new [intellectual property] is risky, and therefore government support is crucial'.⁷³ It argued that the existence of extensive government support programs in other countries makes it challenging to compete with international firms. Might Kingdom stated:

There is not a level playing field internationally when it comes to support for the games industry. When considering starting a games company there are many more reasons to look overseas than there are to look domestically.⁷⁴

The video game industry can make a valuable contribution to the Australian economy and government revenue

3.63 The contribution that the video game industry could make to the economy was another issue canvassed by stakeholders in support for targeted measures designed to encourage growth in the industry. In this regard, the export-oriented nature of the industry was emphasised. Mr Reed from the GDAA stated:

Our markets are around the world. We are entirely export orientated...and we look at all territories as potential markets. We do not make games specifically for any particular territory. This is particularly true of Australia. We are export-oriented because Australia is two per cent of the global

70 The Government announced that it would 'significantly expand accelerated depreciation for small businesses by allowing small businesses with aggregate annual turnover of less than \$2 million to immediately deduct assets they start to use or install ready for use, provided the asset costs less than \$20,000'. This accelerated depreciation would only apply to assets that were acquired and installed ready for use between the Budget announcement on 12 May 2015 and 30 June 2017. Australian Government, *Budget 2014–15: Budget Measures—Budget Paper No. 2*, May 2015, p. 19.

71 Stirfire Studios, *Submission 35*, p. 2.

72 Nnooo, *Submission 20*, p. 2; QUT Digital Media Research Centre, *Submission 26*, p. 11.

73 Mighty Kingdom, *Submission 30*, cover letter.

74 Mighty Kingdom, *Submission 30*, p. 1.

market. It really could not sustain an industry of our scale. So we look to the Western markets. The reason we are as good as we are is that we do not see ourselves as being competitors. We see the rest of the world as our competitors. That is the bar we challenge ourselves with.⁷⁵

3.64 Mr Reed added that the Australian industry's focus on foreign video game markets provides a benefit for the Australian Government, as the revenue generated from overseas sales 'comes back into Australia as taxable income'. Accordingly, Mr Reed argued that the 'economic argument for supporting games is compelling'.⁷⁶

3.65 Submitters also suggested that the treatment of the industry in other countries supports the development of other emerging technologies that will be essential for future economic activity. Mr Jack Kimberley commented:

One of the more important factors of how the games industry is treated in Canada, is that it is not just recognised as entertainment, but also as research...[G]ame development is at the forefront of computer science/entertainment/animation/psychology and communications research, and is more often becoming involved in the creation and development of the emerging technologies across a multitude of different industries which will ultimately change the future of the world.⁷⁷

3.66 Key stakeholders saw government assistance as being necessary to enable the industry to grow, not to support an industry that was fundamentally struggling. For example, Ms Giselle Rosman from IGDA Melbourne noted that the Australian game development industry will continue to exist and make games without government involvement. However, Ms Rosman stated that 'we want to grow the sector, stabilise the industry and ensure Australian games have the best opportunities with regard to commercial, cultural and artistic success'.⁷⁸ Mr Reed similarly argued that the industry seeks government intervention to allow it to grow:

Why do we seek government intervention? It is for the same reason we always have. The sector wants to grow. We want to create more content. We want to provide more employment opportunities. We want to be significant contributors to Australia's cultural knowledge and financial economies.⁷⁹

3.67 To support this reasoning, the exceptional potential for growth in the Australian industry was emphasised. Ms Giselle Rosman from IGDA Melbourne argued that the Australian industry benefits from being 'native speakers of the language of the internet—English' and from cultural similarities with North America:

75 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 3.

76 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 2.

77 Mr Jack Kimberley, *Submission 32*, p. 2.

78 Ms Giselle Rosman, Chapter Leader, IGDA Melbourne, *Committee Hansard*, 19 February 2016, p. 12.

79 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 2.

'the powerhouse of the Western game development world'. In addition, Australia benefits from its geographical and social ties 'with the lucrative Asian market'. Ms Rosman concluded that Australia needs to 'make the most of' these advantages.⁸⁰

3.68 Professor Stuart Cunningham noted that the video game industry does not appear to be as reliant on government support to survive as the film industry. Instead, support is called for to enable the industry to grow. He explained:

Film industry leaders have always been clear: we cannot survive without ongoing government support. Games industry leaders do not make that claim. The claim they do make is: if you want to grow an industry and have it achieve some viability and have it play an important growth role in employment, high-tech recruitment and cultural outcomes, then you probably do need to support it. The amounts are tiny, but the impacts can be significant. People do not stay in the games industry if they are not viable. Businesses go bust. They are small businesses typically, but if they are not making enough money, they go bust. As you saw, almost every leading games company, or two-thirds of them anyway, went bust in the GFC. How many film industry companies went bust in the GFC? Not nearly as many.⁸¹

3.69 Furthermore, evidence of government support successfully enabling opportunities and growth was provided. Mr Benjamin Britten from the Mighty Games Group provided the following example of a successful return on government investment:

Mighty Games, specifically, were funded by Film Vic and Screen Australia for two different projects and when we do our tax at the end of this year we will have paid back by twice in taxes the amount we got from the government. If you do the math, that is about 10 times or 15 times gross revenue.⁸²

3.70 Referring to Mighty Games again, Ms Rosman stated:

Mighty Games was fortunate enough to receive funding from both Film Victoria and the discontinued Screen Australia fund. These funds were instrumental in making it possible for them to release *Shooty Skies*, which has already had over five million downloads since its release in October last year. *Shooty Skies* has already generated revenue nearly 10 times the funding it has received.⁸³

80 Ms Giselle Rosman, IGDA Melbourne, *Committee Hansard*, 19 February 2016, p. 12.

81 Professor Stuart Cunningham, QUT Digital Media Research Centre, *Committee Hansard*, 10 March 2016, p. 4.

82 Mr Benjamin Britten, Member, IGDA Melbourne; Technical Director, Mighty Games Group, *Committee Hansard*, 19 February 2016, p. 14.

83 Ms Giselle Rosman, IGDA Melbourne, *Committee Hansard*, 19 February 2016, p. 12.

3.71 The Victorian Government assistance has been particularly useful for smaller businesses. Ms Giselle Rosman, who represented IGDA Melbourne told the committee that the amounts of funding available from Screen Victoria 'are not massive but they are enough to make a difference to start-up studios'.⁸⁴ However, the committee was also informed by Mr Benjamin Britten, who also represented IGDA Melbourne, that at least ten studios have successfully expanded and are now 'a bit too big to take advantage of Film Vic funding'. Mr Britten argued that other potential government programs, such as tax offsets and investment funds are more relevant to those larger businesses.⁸⁵

Other matters to consider

3.72 Although key stakeholders were in agreement that government assistance presents several benefits, consideration needs to be given to how any support provided by the Australian Government can be most effectively deployed.

3.73 As this chapter has demonstrated, the Australian Government and state governments can develop incentives and programs to support the video game development industry. It was argued that it would be desirable for some degree of coordination between different levels of government in the development of support programs. Mr Mark Goninon suggested that the Australian Government should also encourage state governments to complement any Commonwealth assistance with state-level support for video game development.⁸⁶

3.74 Policymakers were also warned against the adoption of programs and tax incentives in place in other countries without consideration of whether they are appropriate for Australia or need to be adapted for Australian conditions. For example, Dr Dan Golding submitted that 'Australia has a global profile as a hub for thoughtful, creative, and independently-minded game makers'. Although he acknowledged that Canada and the United Kingdom 'do in many ways have admirable industries', Dr Golding argued that:

...endeavouring to uncritically transplant the international model for success can only continue to fail to grasp what kind of creative videogame culture already exists and is already successful in Australia.⁸⁷

84 Ms Giselle Rosman, *Committee Hansard*, 19 February 2016, p. 12.

85 Mr Benjamin Britten, *Committee Hansard*, 19 February 2016, p. 14.

86 Mr Mark Goninon, *Submission 44*, p. 1.

87 Dr Dan Golding, *Submission 31*, pp. 4–5. The submission from QUT's Digital Media Research Centre also noted that international programs would need to be adapted for Australian conditions. See *Submission 26*, p. 11.

3.75 When considering and designing government assistance programs, it was also argued that care should be taken not to risk the future of the studios that have survived or started since the global financial crisis. Mr Reed argued that if an incentive scheme was developed to encourage large, international publishers back to Australia, it 'would swallow the talent that we have in our independent space right now'.⁸⁸ Mr Reed stated:

We do want to protect what we have. It has been a lot of hard work and a lot of sweat equity for the developers to build the success that they have. We do not want that undermined in any form.⁸⁹

3.76 The final point that this section will discuss is the argument that any government support provided to the video game development industry should ideally encourage, or be contingent on, recipients of the support working to address identified problems in the industry. For example, with respect to gender diversity, Dr Golding argued:

I would...strongly suggest that, if any tax breaks or funding mechanisms were installed to focus on the games industry, it would be a terrific idea to include at least a program that rewards companies that actively pursue a diverse workforce, and possibly representation as well.⁹⁰

Conclusion

3.77 The evidence presented to the committee provides several examples of how government programs for video game developers, both in Australia and in other countries, have been valuable in promoting the growth of a sustainable industry. Additional government programs or policies that support or are favourable to video game development could help ensure that Australia secures a greater share of the economic activity and highly skilled jobs this growing global industry generates.

3.78 Nevertheless, Senate committees and the Australian Government often hear enthusiastic cases for particular industries to receive government support or tax incentives. Of course, it would not be possible for the Government to fund every program that interested parties propose, regardless of merit. Accordingly, the committee has devoted a significant part of its deliberations and this report to considering the merits of the various specific measures that video game industry stakeholders proposed. Among other things, it is essential for proposals to respond to a demonstrable problem, have a clear goal and be appropriately targeted.

3.79 The next chapter examines specific proposals in detail. The committee's overall conclusions are outlined in Chapter 5.

88 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 10.

89 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 10.

90 Dr Dan Golding, *Committee Hansard*, 19 February 2016, p. 23. A similar point was made by Associate Professor John Banks of QUT's Digital Media Research Centre. See *Committee Hansard*, 10 March 2016, p. 6.

Chapter 4

Policy options for consideration

4.1 The previous chapter outlined the various forms of government support that are, or have been, relevant to the video game development industry. This chapter considers the specific proposals for government programs or incentives that industry participants proposed. Other ways in which the Australian Government could assist the growth of the industry are also discussed.

Calls for a successor to the Australian Interactive Games Fund

4.2 A recommendation put forward by several submitters was the introduction of a self-sustaining funding program for the video games industry that is similar in scope to the discontinued Australian Interactive Games Fund (AIGF).¹

4.3 In support of the reintroduction of a program similar to the AIGF, the Interactive Games and Entertainment Association (IGEA) argued it 'is imperative that the Australian Government assist to improve access to capital for interactive games developers'.² Studios highlighted how the AIGF assisted with the particular difficulties that game developers face in securing finance. For example, Black Lab Games, which argued that the reintroduction of the AIGF 'would be a good first step in growing the local industry', submitted:

Whilst each individual game is a relatively high-risk investment, the industry as a whole is of significant value, so the key to a successful investment is spreading the risk across multiple companies and projects. This is why the...AIGF, previously administered by Screen Australia until it was suddenly terminated in the May 2014 Budget, was an important initiative. By spreading a single fund across dozens of projects, it was far more likely to grow the industry as a whole, irrespective of the success or failure of each individual project. Reinstatement of the AIGF would be a good first step in growing the local industry.³

4.4 IGEA highlighted the self-sustaining model used in the AIGF, where initial direct government funding would enable concessional or limited recourse loans and repaid funds would be used to support subsequent projects. IGEA argued that reintroducing this arrangement would 'generate valuable growth in the sector,

1 See Mr Nick Thiele, *Submission 3*, p. 2; IGEA, *Submission 9*, p. 3; Lumi Consulting, *Submission 12*, p. 1; Game Developers' Association of Australia (GDAA), *Submission 55*, p. 10; Secret Lab, *Submission 61*, p. 1; IGDA Melbourne, *Submission 66*, p. 2; Brisbane Chapter of the International Game Developers Association (BrIGDA), *Submission 71*, p. 6.

2 Interactive Games and Entertainment Association (IGEA), *Submission 9*, p. 13.

3 Black Lab Games, *Submission 11*, p. 2.

particularly at the coal-face for small-scale projects by allowing small studios to grow incrementally through their success'.⁴

4.5 Submitters' views on the AIGF's success were outlined in the previous chapter. However, it is useful to outline in the following paragraphs some of the benefits linked to the AIGF that bolster the case for its reintroduction, or the development of a similar program.

4.6 Tin Man Games is one of the businesses that used funds from the AIGF to hire junior programmers. How funds from the AIGF assisted Tin Man Games to hire employees and grow the business has already been discussed in Chapter 3. However, in addition to the favourable comments on the AIGF that Mr Neil Rennison of Tin Man Games gave in relation to those matters, he also emphasised that the program enabled talented, but inexperienced, individuals to enter the industry. In the absence of programs such as the AIGF, Mr Rennison questioned how likely this would be in the future. He explained:

...you go across to these student shows, and they are showing off the projects that they have been working on really hard over the year, and there are some talented people out there. But you walk around, and sometimes I worry, because I am concerned that these talented people have nowhere to go, they have nowhere to take these skills. There are no entry points into some companies, because...a lot of companies cannot afford to bring them into their ranks.⁵

4.7 Despite the benefits of the AIGF program that many submitters and witnesses outlined, some stakeholders offered suggestions for how a replacement scheme could improve on the AIGF. For example, Stirfire Studios noted that the AIGF did not include 'a dedicated marketing fund'. It emphasised that a significant marketing budget is necessary:

A rough rule in game production is that whatever the cost of the original game, a developer or publisher would want to spend at least the same amount again in marketing (although possibly twice or three times as much is not unheard of). Internationally produced Triple A games often include marketing budgets exceptionally larger than the original production budget of the game. Marketing games can take many forms, from a tie in to conventions...through to organising localisation resources (where the game is translated into the native languages of the target market countries), through to raw advertising in online and non-online mediums.⁶

4 IGEA, *Submission 9*, p. 13.

5 Mr Neil Rennison, Founder and Creative Director, Tin Man Games, *Committee Hansard*, 19 February 2016, p. 39.

6 Stirfire Studios, *Submission 35*, p. 4.

4.8 The Chief Operating Officer of the agency that administered the AIGF, Screen Australia, acknowledged that in developing and operating the scheme 'there were lots of learnings' and, as a result there 'there might be a different emphasis in our focus if we were to do it again'. Ms Cameron explained:

We are used to dealing with great big-budgeted film and television. The learnings for us were that this slate development and business development probably resulted in more of our successes than picking individual projects and winners at that level, because developers will stop and start much more than feature film providers. You know that a feature film provider is going to make a feature film. An individual game may stop and change. You are asking a lot—of a funding agency like us—initially, to fund individual projects.⁷

Extension of the producer tax offset to include video games

4.9 As noted in Chapter 3, despite some similarities between video game, film and television projects, there are differences in the approach to government support for these industries. The producer tax offset that is available for feature film and television, but not for video game development, was put forward as a key example of this difference in treatment. Several submitters called for the extension of the producer tax offset to cover digital game production.

How the producer tax offset works

4.10 The producer tax offset is a refundable tax offset for Australian expenditure in making Australian films. The amount of the offset is 40 per cent of the company's total qualifying Australian production expenditure (QAPE) on a feature film and 20 per cent of the company's total QAPE on a film that is not a feature film.⁸ The offset is administered by Screen Australia and, in addition to other eligibility conditions, Screen Australia must broadly be satisfied that:

- the film is completed;
- the film has 'significant Australian content' or it is an official co-production between Australia and another country;
- the film is of an eligible format and genre;
- the applicant company has either carried out, or made the arrangements for carrying out, all the activities necessary for the making of the film; and
- the company's total QAPE on the film meets or exceeds relevant thresholds.⁹

7 Ms Fiona Cameron, Chief Operating Officer, Screen Australia, *Committee Hansard*, 18 March 2016, p. 11.

8 Australian Taxation Office (ATO), 'The producer tax offset', www.ato.gov.au/Forms/Film-industry-incentives-2013-14/?page=3 (accessed 3 November 2015).

9 ATO, 'The producer tax offset'.

4.11 Although the offset is only provided once the film is completed (and Screen Australia has issued a 'final certification' confirming this), producers can approach Screen Australia for a 'provisional certificate' in advance of the project's completion. The provision certificate is intended to confirm that the project will be eligible for the offset (and to clarify which offset the producer will be able to claim).¹⁰

Evidence regarding the extension of the offset to game production

4.12 Black Lab Games observed that the film industry has benefited from the producer tax offset 'for some time'. It submitted that:

If a similar system was put in place for games, it would encourage investment in the sector, which would lead to more projects with substantial budgets getting off the ground, and in turn providing more employment and export opportunities.¹¹

4.13 IGEA submitted that the extension of the producer offset to the interactive games development industry 'is key for the sustainable growth and international competitiveness of the sector'. IGEA concluded that extending the producer offset:

...has the capacity to assist studios in becoming more competitive internationally. It creates financial incentives for projects with significant commercial value, particularly high-end console games. Through attracting domestic and overseas investment, interactive games developers are more likely to build stable and sustainable studios which are critical to longer-term growth of the industry.¹²

4.14 Mr Matthew Hancock, who represented Screen Producers Australia, also noted the ability of tax incentives to encourage scale. Mr Hancock stated:

...something we have seen in film and television over the last 50 odd years, is the consolidation of smaller players to bring scale and business sustainability. Maybe that is where we can get the next layer and the next level of business that can tap into those tax incentives in that way. I do not want to suggest that it is not good to have small businesses operating, but there is a scale issue here.¹³

10 Ms Fiona Cameron, Screen Australia, *Committee Hansard*, 18 March 2016, p. 13.

11 Black Lab Games, *Submission 11*, p. 2. See also Nnooo, *Submission 20*, p. 2.

12 IGEA, *Submission 9*, p. 13.

13 Mr Matthew Hancock, Manager, Strategy and Operations, Screen Producers Australia, *Committee Hansard*, 18 March 2016, p. 20.

4.15 The Mighty Games Group submitted that, according to a report published in 2011 by Screen Australia:¹⁴

...offering an offset of between 20% for projects under \$500,000 and 30% for projects over \$500,000, would create more than 380 new jobs and would dramatically increase the number of people working on high-end, triple-A games.¹⁵

4.16 Ms Sabiene Heindl, Executive Director, SWH Legal and Business Consulting, explained that the modelling undertaken by PricewaterhouseCoopers for the 2011 Screen Australia report indicated that extending the offset to interactive game development would, over five years, provide 'an additional investment of \$146 million into this industry' and 400 new jobs. Of this additional investment, it was expected that \$100 million 'would come from foreign sources, which is obviously very attractive'.¹⁶

4.17 It was noted that if the offset is extended to cover game production, the eligibility criteria may need to differ from that applied to film and television production. Ms Fiona Cameron from Screen Australia noted that a 'creative control test' may be more appropriate for game development than a content test. Ms Cameron explained:

The producer offset as we administer for film and television has what is called a 'significant Australian content' test, which looks at a holistic range of things—where it was produced, who is on the ground, the subject matter and the back-end. Simplistically speaking, talking about the subject matter in the context of games would be problematic. What we recommended [in the 2011 report] was that we look more at the creative control. If Australians are controlling it, getting some back-end as a result of it and IP is staying in the country, you would have a variation of the offset for games in that fashion.¹⁷

4.18 Mr Hancock from Screen Producers Australia also noted that in designing a tax offset for game production, consideration may need to be given to how the offset interacts with other taxation measures, such as the R&D tax incentive. Mr Hancock observed that the tax offset should not allow developers to 'double dip', but at the same time it should be 'a meaningful incentive that businesses can grow with'.¹⁸

14 Screen Australia, *Playing for Keeps: Enhancing sustainability in Australia's interactive entertainment industry*, 2011.

15 Mighty Games Group, *Submission 87*, p. 6.

16 Ms Sabiene Heindl, Executive Director, SWH Legal and Business Consulting, *Committee Hansard*, 18 March 2016, p. 3.

17 Ms Fiona Cameron, Screen Australia, *Committee Hansard*, 18 March 2016, p. 12.

18 Mr Matthew Hancock, Screen Producers Australia, *Committee Hansard*, 18 March 2016, p. 20.

Other finance, taxation and regulatory issues

4.19 Submissions raised several financial, taxation and regulatory matters that they consider warrant government attention. The following paragraphs discuss some of the key matters raised.

Alternative sources of funding: venture capital and crowd-sourced funding

4.20 The ability of small and medium-sized enterprises (SMEs) to access finance has caused concern for many years.¹⁹ Video game studios in the SME sector, however, can face not only the challenges that many other SMEs face, but also additional difficulties because of the riskiness associated with the creative industries.

4.21 In 2014, a comprehensive review of Australia's financial system was undertaken. The Financial System Inquiry (FSI), chaired by Mr David Murray AO, was tasked with examining 'how the financial system could be positioned to best meet Australia's evolving needs and support Australia's economic growth'.²⁰ The FSI's final report found that, although key aspects of the financial system were sophisticated and provided a range of competitive retail products and services, some funding markets, such as the venture capital market, 'appear underdeveloped compared with those of some international peers'.²¹

4.22 The evidence received by the committee reflects some of the observations made by the FSI. For example, the extent of venture capital in the Australian video game development industry is limited. Mr Tony Reed, the Chief Executive Officer of the Game Developers' Association of Australia (GDAA) stated:

The issue that we faced is that the VC model does not really suit the gaming industry. It tends to be very short term with an early exit. That is not really how game developers think. This is a career investment for them, so the VC model has not typically worked in our case, no.²²

4.23 Given the difficulties that firms in creative industries can face in obtaining finance from traditional sources, venture capital or crowd-sourced funding may present valuable opportunities for certain studios. In its submission, KPMG argued that as early access 'to even small amounts of funding can make or break game

19 This has been the subject of several inquiries, including the 2014 Financial System Inquiry, various inquiries by the Senate Economics References Committee (The post-GFC banking sector, 2012; competition within the Australian banking sector, 2010–11; and access of small business to finance, 2010); and the Parliamentary Joint Committee on Corporations and Financial Services' 2011 inquiry into access for small and medium business to finance.

20 D Murray, K Davis, C Dunn, C Hewson and B McNamee, *Financial System Inquiry: Final Report*, November 2014, p. vii.

21 D Murray et al, *Financial System Inquiry: Final Report*, November 2014, p. 14.

22 Mr Antony Reed, Chief Executive Officer, GDAA, *Committee Hansard*, 19 February 2016, p. 8.

development', there is a need for 'government assistance or policy directed toward freeing up venture capital and crowd-funded capital for budding video game developers'.²³

4.24 The committee was advised that crowd-sourced equity funding has been used successfully by businesses in the Australian industry. Mr Reed told the committee that 'I think the bulk of the Australian games that have been crowd-sourced have been very successful'. Nevertheless, he expressed some reservations about the usefulness of the crowd-sourced funding model:

In the case of things like Kickstarter, it now feels more like a popularity contest than an investment in the actual product that is being proposed. If you look at some of the biggest projects that have been on Kickstarter and look at the brand names behind them, there is significant disparity between a small unknown versus a known celebrity-endorsed product on a crowd-sourcing campaign.²⁴

4.25 Mr Reed noted that firms in the United States, Canada and Europe can benefit from sophisticated investment networks that do not exist to the same extent in Australia, particularly because of Australia's 'culture of commodities investment'.²⁵ Mr Reed suggested that the Government should encourage the development of a 'more sophisticated institutionalised investment network' that did not focus on venture capital, but utilised large institutions such as, potentially, superannuation funds. Mr Reed argued:

We need to see our larger institutions investing in innovation and we are not seeing that right now. I do not think it is fair to put that pressure on the VCs as those initial investors at all. A program should be put place that encourages a larger investment pool into innovation in this country.²⁶

4.26 Several of the recommendations developed by the FSI in its final report are intended to reduce structural impediments to SMEs' access to finance, including facilitating crowd-sourced finance.²⁷ Since the committee received its written submissions, the Government announced it had consulted stakeholders on a regulatory regime for crowd-sourced equity funding and will also 'soon begin consultations to facilitate crowd-sourced debt funding'.²⁸ Legislation to establish a framework for facilitating crowd-sourced funding offers by small, unlisted public companies and to

23 KPMG, *Submission 105*, p. 7.

24 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 8.

25 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 7.

26 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 9.

27 D Murray et al, *Financial System Inquiry: Final Report*, November 2014, p. 16.

28 The Hon Malcolm Turnbull MP (Prime Minister), 'Government response to the Financial System Inquiry', *Media Release*, 20 October 2015, www.pm.gov.au/media/2015-10-20/government-response-financial-system-inquiry (accessed 30 October 2015).

address other matters related to crowd-funding was introduced into the Parliament in December 2015.²⁹

4.27 Although policymakers are considering the regulatory arrangements for crowd-sourced funding, evidence received by the committee indicated that greater attention may need to be given to the tax treatment of this type of funding. 5 Lives Studios, a game development business in Brisbane, advised that it secured \$770,000 to assist with the development of a title through 'Australia's most successful video games Kickstarter Campaign'. However, this funding was treated as assessable income for taxation purposes, which triggered a tax liability before expenses (and therefore deductions) related to the project had been incurred. 5 Lives Studios provided the following implications of this taxation treatment for its project and game development activities generally:

A game can take years to develop, and in the case of Kickstarter, funds arrive at the start of the project and need to last for the full period of development. Having to pay corporate tax of 30% on the majority of the investment funds is not beneficial to maximising use of those funds. A seemingly huge profit on year 1 followed by a huge loss on year 2 incurred for us a 110K tax burden that could not be offset against future losses. This could have paid for extra employees producing a higher quality product and helped bring more revenue into the country. The situation would have been even worse had we run the Kickstarter campaign later in the tax year.³⁰

4.28 5 Lives Studios concluded that the Australian Taxation Office 'does not operate in a way that works well with long-term game development and the crowdfunding model'.³¹

29 The Corporations Amendment (Crowd-sourced Funding) Bill 2015. Submissions to the Senate Economics Legislation Committee's inquiry on the bill, however, expressed concern that the bill was complex (see the submission to that inquiry from the Corporations Committee of the Law Council of Australia's Business Law Section) and would exclude over 99.7 per cent of companies (see the submission to that inquiry from Dr Marina Nehme). After being passed by the House of Representatives the bill was introduced into the Senate on 22 February 2016; however, the bill lapsed on 17 April 2016 following the prorogation of the Parliament.

30 5 Lives Studios, *Submission 85*, p. 1. See also Mr Michael Diskett, Director, 5 Lives Studios, *Committee Hansard*, 10 March 2016, p. 34.

31 5 Lives Studios, *Submission 85*, p. 1. Another issue noted by 5 Lives Studios was the GST treatment of crowd-sourced funding. 5 Lives Studios explained that it needed to contact Kickstarter donors (of which there were 16,000) to determine whether they were located in Australia as Australian-based donations attract a GST liability whereas payments from overseas do not. See Mr Michael Diskett, 5 Lives Studios, *Committee Hansard*, 10 March 2016, p. 34.

Export Market Development Grants

4.29 Despite its reservations about the effectiveness of the EMDG that were outlined in Chapter 3, KPMG suggested that, 'with some updating', the EMDG scheme could 'provide a useful support for digital industries'.³² KPMG explained:

The EMDG...fails to account for the expenses incurred in exporting digital products such as video games and film. Expenses like travel and [intellectual property] costs aren't typically necessary when negotiating or advertising video games for export, but substantial prototype costs can be incurred to develop a minimal viable product (MVP). Unfortunately, the current EMDG framework under Schedule 5 of the scheme (Export Expenses – Trade Fairs and Promotional Events) precludes the claiming of in-house labour costs for the production of display equipment (such as MVPs), which are the vast majority of export product development costs for video games. In addition, the guidance for Schedule 5 is heavily focused on physical prototypes.³³

4.30 Similarly, Mr Andrew Smith, Director, Lampshade Games, indicated how the EMDG program could be amended to provide useful support for small video games businesses. He submitted:

...we are almost a 100% export industry (Australia accounting for an estimated 3% of global sales), but we rarely qualify for the Export Market Development Grants scheme due to limited expenditure overseas outside of business travel. As such, I would argue that the claimable expenses for this be lowered given that a small business such as mine would send a representative to an international event twice a year max and for probably only a single person, which would never add up to the \$15,000 minimum even over the initial 2 year period for first time claimants.³⁴

4.31 Screen Producers Australia suggested that the EMDG scheme could be amended to recognise 'business clusters' as a type of applicant. It explained that currently 'only approved bodies, such as Screen Producers Australia, can claim the EMDG in respect to promotion on behalf of a collective'. Broadening the joint venture provisions to include approved business clusters would, according to Screen Producers Australia:

...be highly beneficial to the sharing of knowledge amongst cluster members, with a consequent improvement in their innovation and export market development. This would be particularly beneficial for games developers as there is a high proportion of small entities unable to meet the

32 KPMG, *Submission 105*, pp. 15–16.

33 KPMG, *Submission 105*, pp. 15–16.

34 Mr Andrew Smith, *Submission 86*, pp. 1–2.

required threshold. Alternatively, the ability for small entities to claim their expenses through an approved body should be permitted.³⁵

4.32 Halfbrick Studios called for changes to the EMDG program to assist with marketing. Specifically, Halfbrick contended that the EMDG program could help overcome marketing challenges if the following changes to the scheme were made:

- extending the EMDG program from eight grants per company to 12;
- increasing the expense threshold for the EMDG program from \$300,000 to \$500,000; and
- allowing 'digital marketing efforts and user acquisition costs to be included in the criteria for marketing expenses as long as the marketing efforts can be attributed to a global audience (excluding Australia and New Zealand)'.³⁶

4.33 In support of its recommendations, Halfbrick focused on the global nature of marketing efforts for video games, such as the need to 'get noticed' on international app stores. Halfbrick added that social media marketing is also intended for a global audience.³⁷

Gaming conventions and trade missions

4.34 Two issues related to gaming events and conventions were put forward: the need for more of them to be held in Australia and that financial support should be available to facilitate attendance at conventions. Overseas trade missions outside of the regular game conventions and exhibitions were also discussed.

4.35 In support of efforts to maintain and increase the number of events in Australia, one submitter wrote that events and conferences allow 'developers to make vital connections with each other and share ideas and business strategies to increase growth in the video game sector'.³⁸ Another submitter argued that:

...funding and energy directed at attracting established conferences and conventions to Australia, such as the funding already in place for the tremendously successful PAX Australia, would be invaluable in strengthening ties with industry overseas and therefore maximising our impact and increasing the reputation of Australia in the games development industry.³⁹

35 Screen Producers Australia, *Submission 104*, pp. 4–5.

36 Halfbrick Studios, *Submission 57*, p. 4.

37 See Halfbrick Studios, *Submission 57*, p. 4.

38 Name withheld, *Submission 36*, p. 5.

39 International Digital Games Research Association (Australian Chapter), *Submission 58*, p. 2.

4.36 Several submitters argued that the Australian Government should develop a program that assists firms to meet travel costs associated with attending key industry events.⁴⁰ In support of this recommendation, the unique benefits that these events provide for marketing games, securing business opportunities and staying up-to-date with emerging trends were emphasised. For example, it was argued that for small, independent developers, attendance at these events is sometimes 'the difference between a successful launch and a game that gets lost amid the noise of high profile releases from major studios with marketing budgets in the millions'.⁴¹

4.37 WA-based Stirfire Studios noted that 'as with many saleable goods, personal relationships are key, even in the Internet age'. It submitted:

In Stirfire Studios' experience, every time we have attended conventions in cities other than Perth, we have found multiple business opportunities. Content managers from large companies such as Sony, Microsoft and Amazon attend these events and developing personal relationships with people in these roles provides a much more reliable way of securing a content deal, either in terms of an exclusivity with a major vendor, a publishing deal, further funding for product development or simply to have an opportunity to have the developer's product placed on the front page of an online market.⁴²

4.38 Stirfire Studios added that attendance at conventions has an added benefit in that it helps 'educate the studio's staff about current emerging trends in the industry'. Stirfire noted that video games 'are a product that is often powered by novelty and staying abreast of emerging trends assists us from design and marketing perspectives'.⁴³

4.39 The committee was informed that Film Victoria has provided assistance to small studios for the cost of travelling to specific important events. The benefits of this were highlighted at the public hearing; for example, Mr Benjamin Britten from Mighty Games Group stated that the Film Victoria funding 'was pretty instrumental in us, as indies, being able to have a presence globally'. He explained:

We would show up to two PAX and GC in the states and be able to go Singapore's games connect and things like that. Without that trip funding we would not have been able to do that and the Victorian industry, for sure,

40 See IGEA *Submission 9*, p. 17; Secret Lab, *Submission 61*, p. 1; Let's Make Games Inc, *Submission 64*, p. 2; Mr Gareth Pavlich, *Submission 68*, p. 2; Early Worm, *Submission 74*, p. 3; Kumobius, *Submission 76*, pp. 2, 5–6; 5 Lives Studios, *Submission 85*, p. 3; Mighty Games Group, *Submission 87*, pp. 5–6.

41 International Game Developers Association Gold Coast, *Submission 59*, p. 6.

42 Stirfire Studios, *Submission 35*, pp. 3–4.

43 Stirfire Studios, *Submission 35*, pp. 3–4.

would not be where it is now without that funding, alongside the [Film Victoria] funds.⁴⁴

4.40 Another representative of the Mighty Games Group, Miss Lauren Clinnick, added that the shift to digital distribution means that studios based in Australia 'are in many ways on an even playing field'. However, Miss Clinnick observed that the distance between Australia and key markets such as the United States provides challenges for developing 'crucial' business relationships, with Australian businesses facing travel costs of 'three times or more' compared to many international competitors.⁴⁵

4.41 The Mighty Games Group suggested that travel assistance programs for small studios 'can be quite tightly targeted' given the limited number of 'key events where the global games industry tends to meet and make deals'.⁴⁶

4.42 The committee also received evidence regarding the benefits from trade missions that are conducted separately to game conferences. Mr Leon Young, the Chief Executive Officer of 2and2, submitted that China 'is on track to overtake the USA this year as the country with the largest spend on apps and mobile digital content'. However, Mr Young added that:

China is a unique and rapidly evolving market and offers enormous opportunities for Australian developers, but is also enormously complicated. Any China market entry strategies carry significant commercial risk.⁴⁷

4.43 Mr Young explained that the existing trade forums to assist Australian businesses trade with China are 'not really appropriate to the video games industry'. Focused trade missions, however, can be effective: Mr Young noted that during a recent educational technology trade mission to China organised by the New South Wales Government, his business 'achieved more in five days on that mission than we achieved in 18 months of travelling there every six or eight weeks on our own'.⁴⁸

44 Mr Benjamin Britten, Member, IGDA Melbourne; Technical Director, Mighty Games Group, *Committee Hansard*, 19 February 2016, *Committee Hansard*, 19 February 2016, p. 15.

45 Miss Lauren Clinnick, Marketing Director, Mighty Games Group, *Committee Hansard*, 19 February 2016, pp. 39–40.

46 The key events identified were the Electronic Entertainment Expo, Tokyo Games Show, PAX conferences and the Game Developers Conference. Mighty Games Group, *Submission 87*, pp. 5–6.

47 Mr Leon Young, Chief Executive Officer, 2and2, *Committee Hansard*, 18 March 2016, p. 30.

48 Mr Leon Young, 2and2, *Committee Hansard*, 18 March 2016, p. 30.

4.44 Mr Young suggested that the Australian Government could 'organise and subsidise regular trade missions for the industry'. He commented that, given the recent free trade agreement between Australian and China:

...it seems there should be some channels for communication that could alleviate risk for Australian companies and allow us to understand more how we can safely operate in that environment without commercial risk or suddenly having our game pulled and not being able to publish.⁴⁹

Innovation hubs and shared workspaces

4.45 Submitters highlighted the benefits of innovation clusters for industries generally, including for video game developers. Many submitters referred to 'The Arcade', which is a collaborative workspace in Melbourne for digital game creators.⁵⁰ The GDAA provided the following overview of how The Arcade functions and the benefits that can be attributed to it:

The facility encourages interaction and knowledge sharing, and the success of the initiative is evident in the large number of products that have been released to the global market from resident businesses, and the amount of new intellectual properties conceived and developed in the space. At the time of writing, 26 companies comprising 90 individuals are established in The Arcade, and 32 games have shipped from the facility in its two-years of operation.

Additionally, The Arcade has become a centralised space for visiting companies, including Kickstarter, Facebook, Google and Apple, as a means of reaching a large number of content creators in one location. These same companies share strategies, ideas and extend support with the local sector, building invaluable relationships. The Arcade also hosts regular skills development workshops with invitations extended to games practitioners and creative outside of the games sector. Finally, The Arcade enjoys strong relationships with several tertiary education providers, extending the resources of the facility to students, and is regularly attended by representatives of Creative Victoria, the Victorian government's creative industries department.⁵¹

49 Mr Leon Young, 2and2, *Committee Hansard*, 18 March 2016, p. 30.

50 The committee visited The Arcade following its public hearing in Melbourne on 19 February 2016.

51 GDAA, *Submission 55*, p. 16. The Sydney Chapter of the International Game Developers Association (SIGDA) advised that it 'has seen strong demand from Sydney-based developers for access to game development clusters, similar to The Arcade in Melbourne'. SIGDA, *Submission 34*, p. 11.

4.46 Miss Lauren Clinnick, the Marketing Director of Mighty Games Group, which is based in The Arcade, told the committee that the collaboration and co-working space for game developers and business support people 'is invaluable'. Miss Clinnick explained:

For all of us, being in the same building means that if somebody from another company has a marketing question, they walk down the hallway and they ask me over a cup of tea. We do not have to arrange a meeting; I do not have to travel to them. So the proximity is wonderful—the sense of community. If someone is having a challenge, or even just a moment of doubt, they can always talk to other people that are in The Arcade.⁵²

4.47 Mr Paul Stapelberg from Well Placed Cactus, whose business has employees based at The Arcade, similarly described The Arcade in favourable terms. Mr Stapelberg stated that The Arcade has been 'a phenomenal success' for his business. He outlined in detail the benefits that The Arcade has provided for Well Placed Cactus:

...it has helped us create one of our office hubs here in Melbourne which we work from constantly. We are looking to grow that. In the current space we are in at the moment we are looking to move our desks around to accommodate the extra people we are bringing on. From a financial perspective as well, The Arcade has helped us gain new business roughly to the value of \$300,000. I have been in there for not even a year yet. Also on that relationship perspective, it is good to be close to people and see them every day. It helps them keep you in mind when they hear of something that they think we are suited for. So it has also helped us grow financially as well.⁵³

4.48 A shared workspace can also help new business owners to meet the 'basic requirements of running a successful business', such as complying with workplace health and safety requirements and taxation obligations.⁵⁴

4.49 Mr Neil Rennison, the Founder and Creative Director of Tin Man Games, which is also based at The Arcade, focused on the opportunities that the shared workspace environment can provide for 'talented and hardworking individuals'. Mr Rennison told the committee:

We have a part-time artist on our team, and I know for a fact that he is working with three other groups of game developers within The Arcade. He is building his skills, working on other projects and learning tech and tricks that he is then bringing to my business. Conversely, the stuff he is

52 Miss Lauren Clinnick, Mighty Games Group, *Committee Hansard*, 19 February 2016, p. 42.

53 Mr Paul Stapelberg, Founder and Chief Operating Officer, Well Placed Cactus, *Committee Hansard*, 19 February 2016, p. 43.

54 Mr Anthony Wood, Creative Director, Screwtape Studios, *Committee Hansard*, 10 March 2016, p. 28.

learning with us is going to these other businesses. So we are all kind of helping each other out here. That is really, really useful.⁵⁵

4.50 Miss Clinnick similarly noted the employment prospects that The Arcade supports. In particular, the 'hot-desking area' in The Arcade provides an opportunity for students and freelancers to introduce themselves to the employers permanently located there. Miss Clinnick explained:

We see students come in to their contractors, or freelancers come in to the hot-desking space for a couple of days or for a week. Often, I will go: 'That is a really interesting thing that you are working on. Can you tell me a little bit more about it?' There are many stories in The Arcade of someone walking past, being impressed, seeing what someone is doing at the hot-desking space, and that is a way of risk-managing the employment for that person and then they end up getting a job.⁵⁶

4.51 Studios that are based elsewhere in Australia also commended The Arcade and described the benefits it provides to the industry.⁵⁷ Further, the committee was informed that The Arcade had inspired New Zealand developers, who have adopted the model in their country.⁵⁸

Replicating the success of The Arcade elsewhere

4.52 The GDAA recommended the creation 'of a supporting establishment fund to assist with the development, founding and early operational costs associated with establishing a collaborative creative cluster or precinct'.⁵⁹ The GDAA, IGEA and Halfbrick Studios noted that the development of innovation clusters is a strategy successfully used in other countries, such as Finland.⁶⁰

4.53 Screwtape Studios similarly called for funding to be available to establish and maintain 'development "hubs" like Melbourne's Arcade'.⁶¹ Halfbrick Studios specifically called for multiple levels of government to cooperate to 'create a digital/games innovation precinct in Brisbane'.⁶²

55 Mr Rennison added that The Arcade provides the artist with 'amazing' opportunities that might not be available if he had to travel between businesses at different locations. Mr Neil Rennison, Tin Man Games, *Committee Hansard*, 19 February 2016, p. 43.

56 Miss Lauren Clinnick, Mighty Games Group, *Committee Hansard*, 19 February 2016, p. 42.

57 See Stirfire Studios, *Submission 35*, p. 4 and Screwtape Studios, *Submission 63*, p. 2.

58 Miss Lauren Clinnick, Mighty Games Group, *Committee Hansard*, 19 February 2016, p. 43.

59 GDAA, *Submission 55*, p. 17.

60 IGEA, *Submission 9*, p. 14; GDAA, *Submission 55*, p. 17; and Halfbrick Studios, *Submission 57*, p. 8.

61 Screwtape Studios, *Submission 63*, p. 2.

62 Halfbrick Studios, *Submission 57*, p. 8.

4.54 It is evident that there are efforts underway to develop hubs in other cities. The committee was advised that the Queensland Government is 'quite close to announcements' on an innovation precinct in Brisbane.⁶³ Mr Jon Hayward-Crichton, the Festival Director of the Perth Games Festival, noted that firms in Perth are 'working towards setting up a dedicated games co-working space' known as Level One.⁶⁴

4.55 The GDAA and IGEA also noted that technology-based clusters could be located regionally, provided there was sufficient broadband infrastructure.⁶⁵ Similarly, Halfbrick submitted:

Additionally, digital game development clusters need not be located in major cities nor restricted solely to interactive games development. Appropriate regional areas can be provided with a potential economic boost, attracting local employment (particularly youth employment) and innovation through technology-based clusters.⁶⁶

4.56 Mr Ron Curry from IGEA noted that in a regional centre, the shared workspaces would 'not have to be exclusively for games...other technologies and other creative industries could potentially attach it'.⁶⁷

Advice to government

4.57 Black Delta noted that other industries have advisory panels that provide input to government. It recommended the creation of a Games Advisory Panel to provide the government with expert advice about the industry. Black Delta stated:

The panel need not be permanent, but could be established for a set term, say three or five years. The panel should comprise a mix of qualified individuals from within the industry, and from those outside the industry familiar with its challenges. It should also have international representation.⁶⁸

4.58 During Black Delta's evidence to the committee, its Chief Operations Officer, Mr Tigran Aganesov, argued that the panel would seek to address a challenge that businesses in the industry consistently encounter: successfully commercialising a title. He explained that 'a lot of the developers...have limited experience in actually

63 Ms Kate Hynes, Chief Legal Officer, Halfbrick Studios, *Committee Hansard*, 10 March 2016, p. 19.

64 Mr Jon Hayward-Crichton, Festival Director, Perth Games Festival; and Operations Manager, Let's Make Games, *Committee Hansard*, 18 March 2016, p. 38.

65 As an example, IGEA referred to the Innovation Campus at the University of Wollongong. IGEA, *Submission 9*, p. 14. See also GDAA, *Submission 55*, p. 17.

66 Halfbrick Studios, *Submission 57*, p. 8.

67 Mr Ron Curry, Chief Executive Officer, IGEA, *Committee Hansard*, 18 March 2016, p. 4.

68 Black Delta, *Submission 106*, p. 3.

commercialising a product', meaning that their business may not have the necessary 'business acumen, the intelligence that goes with it, and the experience'. Mr Aganesov added that the panel could also consider how to 'bridge the gap between industry and education' as in Australia there is 'a fantastic pool of talented people, but combining them and building them up into something special is what we are not doing right'.⁶⁹

4.59 Mr Aganesov envisaged that the panel would consist of members who 'can understand and advise on the actual tax breaks that are required for start-up and operational costs, providing that nurturing environment for young and upcoming studios'. He suggested that some members of the panel should be venture capital funders who were 'someone who can advise and potentially be the bridge between an idea and actually challenging the commercial aspect of that idea'. Representatives of AAA studios could also be involved, particularly given the experience that those studios have in successfully training talented developers.⁷⁰

4.60 Black Delta's proposal received some support from other industry participants. Miss Lauren Clinnick, Marketing Director, Mighty Games Group, advised that Mighty Games 'would absolutely encourage any sort of an opportunity for a panel, and further opportunities to interface with the government wholeheartedly'. Miss Clinnick noted that the 'Australian game development community always invites a lot of communication and collaboration' and that 'it is very common for us to speak very transparently and openly, so there would be no hesitation for that kind of a panel to be established'.⁷¹

Internet infrastructure

4.61 It is evident that internet access is essential for video game development. It was perhaps Mr Benjamin Britten of the Mighty Games Group who most clearly made this point when he told the committee:

The great thing about the digital medium, obviously, is that you can be anywhere. You can be in the middle of the outback. As long as I have a computer and the internet, I can build a game.⁷²

4.62 This statement was supported by evidence that one of the three developers who created the popular game *Crossy Road* was, at the time, living on a sheep farm located an hour's drive from Ballarat.⁷³

69 Mr Tigran Aganesov, Chief Operations Officer, Black Delta, *Committee Hansard*, 19 February 2016, pp. 37–38.

70 Mr Tigran Aganesov, Black Delta, *Committee Hansard*, 19 February 2016, pp. 37–38.

71 Miss Lauren Clinnick, Mighty Games Group, *Committee Hansard*, 19 February 2016, p. 38.

72 Mr Benjamin Britten, Member, IGDA Melbourne; Technical Director, Mighty Games Group, *Committee Hansard*, 19 February 2016, p. 16.

73 Mr Benjamin Britten; Ms Giselle Rosman, IGDA Melbourne, *Committee Hansard*, 19 February 2016, p. 16.

4.63 Despite this positive example of how the internet can enable video game development to occur anywhere, the evidence taken by the committee largely focussed on how the internet infrastructure in Australia is inadequate. Several witnesses outlined specific challenges their businesses must manage as a result of internet connections that are unsuitable for their activities. In particular, as the Australian industry is export-oriented, firms need to engage with international clients. The internet infrastructure in Australia can frustrate this.

4.64 For example, Mr Paul Stapelberg, Founder and Chief Operating Officer, Well Placed Cactus noted that as a lot of the studio's clients are based in the United States, transferring 10–30 gigabyte files to the other side of the world 'can sometimes take up to a couple of hours' or, from his home, 'probably...a whole day'. This has consequences for how efficiently the business can operate. He explained:

...it takes longer to get their feedback, which puts pressure on our production pipeline and adds overheads to the whole business and workflow. We deal with large files, download and upload, so the longer we wait for files to come down to us or to one of our team members the longer we have to wait before we can actually do what we need to do.⁷⁴

4.65 Mr Stapelberg added that Well Placed Cactus is a remote studio that has members in Brisbane, Sydney and Melbourne. As a result, there is an additional need for adequate Internet to transfer files and for video communication:

We have a couple of office spaces—one in Brisbane and one here in Melbourne—and the rest of our team all work from their own homes. So we are transferring files constantly to Google Drive and Dropbox, and having Skype or Google Hangouts conversations. Slow internet speeds can really hinder communication on a day-to-day basis when we are not all in one location. There have been a number of times when we have actually not been able to have a Google Hangout or Skype call and had to go back to a traditional phone call. Being a remote studio, having that day-to-day contact with someone and being able to see them through a video-chat system is just essential—body language and so on. It is one of the main ways we communicate.⁷⁵

4.66 The completion of the National Broadband Network (NBN) was urged by many submitters. For example, one submitter wrote that the NBN's completion 'is crucial to growing the games market in Australia'. The implications of inadequate upload speeds for the industry were also highlighted.⁷⁶

74 Mr Paul Stapelberg, Well Placed Cactus, *Committee Hansard*, 19 February 2016, pp. 40–41.

75 Mr Paul Stapelberg, Well Placed Cactus, *Committee Hansard*, 19 February 2016, pp. 40–41.

76 Mr Simon Lydiard, *Submission 10*, p. 6. Mr Lydiard also expressed a preference for fibre-to-the-premises NBN over fibre-to-the-node NBN.

4.67 Evidence taken by the committee at the public hearings affirmed the industry's need for upgraded internet infrastructure. For example, when questioned about the importance of high-speed internet, Ms Rosman from IGDA Melbourne summed up the frustration in the industry with the following straightforwardly response: 'I do not have much more to say then, "Can we have decent internet." It is our lifeline'.⁷⁷ Mr Britten from Mighty Games Group elaborated:

I am very lucky. I was one of the people who got NBN at my house, so I have 100 megabit down and 40 megabit up, which is okay. At The Arcade we have 100 megabit up and down, which is not enough—there is about 80 of us sharing that. On any given day we push terabytes of information up and down the internet. It is actually a measurable productivity drain to wait for files to move up and down. If we had 10 times the amount of bandwidth, we would use it all up. If you gave us 20 times the bandwidth, we would use it all up. The internet is our industry and right now that is one of our big limitations.⁷⁸

4.68 Mr Britten concluded his comments by using an analogy based on roads to compare the current internet infrastructure and the infrastructure developers desire. He remarked: 'Right now, we are all on dirt roads. We are trying to push huge semi trucks down dirt roads and we just need to have some highways'.⁷⁹

4.69 Submitters commented on the internet connections available in other countries with larger video games industries. It was suggested that the high-quality networks elsewhere have directly assisted the growth of their video game development industries. For example, Mighty Kingdom submitted:

When it comes to telecommunication infrastructure, Toronto has an existing a Fibre to the Node (FTTN) network and since 2009 has been upgrading it to full Fibre to the Premises (FTTP). This means that most businesses have access to 1000Mbit fibre connections. The result? There are now over 16,500 people employed in 329 game development companies in Ontario alone.⁸⁰

4.70 Another aspect of higher-quality network infrastructure in many other countries compared to Australia is the concern that Australian video development firms are at a competitive disadvantage. The evidence given by Miss Lauren Clinnick, Marketing Director, Mighty Games Group, demonstrated this:

...if I am speaking to a console holder and they can only understand one word in five, I will lose out to a competitor from South Korea that has perfect internet. So it definitely is holding us back, and there would be a big

77 Ms Giselle Rosman, IGDA Melbourne, *Committee Hansard*, 19 February 2016, p. 16.

78 Mr Benjamin Britten, Member, IGDA Melbourne; Technical Director, Mighty Games Group, *Committee Hansard*, 19 February 2016, p. 16.

79 Mr Benjamin Britten, *Committee Hansard*, 19 February 2016, p. 16.

80 Mighty Kingdom, *Submission 30*, p. 2.

quantum of improvement for our industry if we could get strong, reliable internet.⁸¹

4.71 Similarly, Mr Rennison told the committee:

It is just simple things: for example, I might have a meeting on Skype with a client in the UK, and just being able to talk to those people and draw other people into those meetings, and having that ability to talk openly and freely, is really important—and sometimes impossible, depending on where you are with internet speeds.⁸²

4.72 The cost of obtaining a quality connection adds to the competitive disadvantage that Australian video game developers face relative to their international counterparts. Mr Zachary Griffin from Black Delta informed the committee that his business has a fibre connection, however, it comes at a significant cost. He stated:

It was about \$2,000 to \$3,000 to get the actual fibre into the building, and we pay \$1,500 a month for 100 up and 100 down. Something like the NBN, where we could pay \$100 a month, would be greatly appreciated.⁸³

4.73 Mr Rennison also considered the implications for the Australian industry if future developments in the industry result in access to a quality internet connection being even more important. Although the digital marketplace means it 'is an even playing field' for video game developers around the world, growing divergences in internet infrastructure could disadvantage Australian developers. Mr Rennison mused:

...the one thing that could hamper us down the line when things get even more complex and download speeds need to be even more intense is that: if we do not have that infrastructure in place now, that could damage us later on, I believe.⁸⁴

4.74 Finally, industry participants argued that improved internet infrastructure in Australia could encourage firms to operate in regional areas as well as remote work, thereby addressing the problem that the industry faces from talented developers moving to other countries to further their career. Mr Ben Driehuis submitted that improved internet infrastructure could allow Australians to work in Australia for overseas developers. He explained:

I have worked remotely for both local and American based companies and having access to an Internet connection that can handle the large amounts of downloading and uploading that is required for game development is next to impossible. Remote work is [a] growing option and is especially viable in the Game Development industry. If we can get a competitive internet

81 Miss Lauren Clinnick, Mighty Games Group, *Committee Hansard*, 19 February 2016, p. 40.

82 Mr Neil Rennison, Tin Man Games, *Committee Hansard*, 19 February 2016, p. 40.

83 Mr Zachary Griffin, Founder and Chief Executive Officer, Black Delta, *Committee Hansard*, 19 February 2016, p. 40.

84 Mr Neil Rennison, Tin Man Games, *Committee Hansard*, 19 February 2016, p. 40.

infrastructure in place that is similar to other countries at the forefront of game development, we could provide opportunities for Australians to work for overseas companies from Australia and help bring some of those Australians back home.⁸⁵

4.75 High-speed internet could enable video game development studios to be based in, or employ people, in regional areas. Already, the NBN has influenced decisions taken by firms about their location. Mr Curry from IGEA informed the committee that Disparity Games 'moved to Noosa because there is a great NBN connection'. As a result, the firm is 'employing local staff and...creating employment in a regional centre'.⁸⁶ Mr Curry added:

That is the exciting part about it. You can be in Noosa, or Wangaratta or Wagga and still set up a viable business in our space. What you need is the infrastructure.⁸⁷

Other matters

4.76 The final section of this chapter examines various other matters that stakeholders argue could be considered by the Australian Government as part of efforts to support the future of Australia's video game development industry.

Classification regime

4.77 Despite the introduction of an R18+ classification for video games from 1 January 2013, some submitters questioned apparent inconsistencies between the classification of video games and media content, such as films. These submitters consider that the Australian video games industry suffers as a result.⁸⁸

4.78 Several submitters and witnesses commented on the application of the classification regime to mobile games. Mr Joshua Sanderson observed that games on mobile platforms are generally not being assigned a classification category, but yet are still available for sale. He submitted:

Paying for the classification is too expensive for many small companies, yet selling them in Australia is then a legally grey area. We should reform this area with either an optional rating system as is the case in other competitor countries such as the [Entertainment Software Rating Board] in the USA. Another option would be to make grants available for classification for content creators in Australia who are under a certain level of income. It would be a shame if Australian developers should have to withdraw their products for sale in their own country until they had made enough

85 Mr Ben Driehuis, *Submission 19*, p. 2.

86 Mr Ron Curry, IGEA, *Committee Hansard*, 18 March 2016, p. 2.

87 Mr Ron Curry, IGEA, *Committee Hansard*, 18 March 2016, p. 3.

88 See Mr Joel Dignam, *Submission 6*, p. 1; Mr Daniel Pickering, *Submission 7*, p. 1; Mr Alexander Jeremy, *Submission 17*, pp. 1–2; Name withheld, *Submission 36*, p. 5.

internationally to be able to afford the relevant fees payable to the [Australian Classification Board].⁸⁹

4.79 Mr Ron Curry from IGEA, who described Australia's classification system as 'cumbersome' and 'clunky', noted that 'a lot of product...is launched at the market free'. However, classification requirements mean that free product could cost 'a couple of thousand dollars' to be classified 'just for an Australian market'. Mr Curry stated that developers 'just shrug their shoulders and go "I will either route around it, or I just will not bother"'.⁹⁰ This is an issue that IGEA has been working on to address; Mr Curry advised that his organisation is engaged in 'quite positive' discussions with the Department of Communications and the Arts on this issue.⁹¹

4.80 The ability to engage in gambling through mobile games was also noted as an issue. Dr Dan Golding noted that the games made in Australia 'do not often' exploit the players of the game, however, there are games available for purchase in Australia that are essentially online gambling. Dr Golding explained that 'there are games sold on the Australian App Store that are made internationally' which are:

...digital poker machines, where you pay real money to play a game and the fruit comes down. They are often ranked highly in the highest grossing charts on the Australian App Store. If you look at the reviews that users have left for them, it is disheartening to hear people tell stories of how they have lost money.⁹²

4.81 Dr Golding added that, in another instance where he discovered that users of a soccer game could bet money on games, there was no warning provided on the game's packaging and the relevant regulatory authorities were not 'really interested in pursuing' the matter.⁹³ Dr Golding noted that it 'is difficult to draw a line in the sand between the free-to-play model...and straight-out gambling', however, he suggested that the Classification Board could be tasked with considering the matter further.⁹⁴

4.82 On issues with Australia's classification regime more generally, submitters noted that the regime had been reviewed by the Australian Law Reform Commission (ALRC) in 2012 and, since the report was issued, various changes have been implemented and are under consideration.⁹⁵ The first tranche of reforms based on the

89 Mr Joshua Sanderson, *Submission 60*, p. 4.

90 Mr Ron Curry, IGEA, *Committee Hansard*, 18 March 2016, p. 7.

91 Mr Ron Curry, IGEA, *Committee Hansard*, 18 March 2016, p. 8.

92 Dr Dan Golding, *Committee Hansard*, 19 February 2016, p. 27.

93 Dr Dan Golding, *Committee Hansard*, 19 February 2016, p. 27.

94 Dr Dan Golding, *Committee Hansard*, 19 February 2016, p. 28.

95 The ALRC considered Australia's classification regime in a 2012 report. The ALRC recommended that a new National Classification Scheme should be developed that is based on new legislation that incorporates all classification obligations applying to media content. ALRC, *Classification—Content Regulation and Convergent Media*, Report 118, March 2012.

ALRC's report were passed in 2014.⁹⁶ Since this tranche, the government announced an Australian trial of the International Age Rating Coalition (IARC) tool for classifying mobile and online games. The new classification tool, which assigns a rating based on the developer's responses to a questionnaire, is intended to 'help keep the National Classification Scheme up to date with the pace of growth of mobile and online games'.⁹⁷

4.83 The GDAA and IGEA expressed support for the expected next tranches of legislation based on the ALRC's report. The GDAA submitted:

In embracing a modern classification regime, one that is fair, informative and does not preclude Australian game players from accessing content otherwise available in other territories, Australia establishes itself as a progressive, enlightened investment opportunity.⁹⁸

Employment opportunities for junior employees

4.84 Submitters highlighted the challenges that recent graduates face in obtaining employment in the industry. It was suggested that the Australian Government could develop a program to assist with this issue.

4.85 Ms Laura Crawford, a lecturer at the Swinburne University of Technology, advised that although a small number of recent graduates may open their own studios, the majority generally seek to work as an independent game developer or work for a AA studio of 30 to 60 employees. However, Ms Crawford observed that a graduate would be 'very lucky' to obtain a position at a AA studio, with it 'becoming more rare' for this to occur. Ms Crawford stated that 'the incentives are not really there to employ someone who has just graduated'.⁹⁹

4.86 To overcome this issue, the Swinburne University of Technology suggested that the Government could develop a paid internship scheme.¹⁰⁰ Ms Crawford explained that the initiative would pay either part or all of the first-year wages of 'high-level games graduates'. Ms Crawford argued that both the graduate and the company would benefit: the graduate through the experience they gain from an

96 *The Classification (Publications, Films and Computer Games) Amendment (Classification Tools and Other Measures) Act 2014.*

97 The Hon Michael Keenan MP (Minister for Justice), 'New trial for classification of online games', *Media Release*, 10 March 2015.

98 GDAA, *Submission 55*, p. 19.

99 Ms Laura Crawford, Lecturer, Games and Interactivity, Swinburne University of Technology, *Committee Hansard*, 19 February 2016, p. 28.

100 Associate Professor James Verdon, the Department Chair of Film and Animation at Swinburne, observed that paid internships exist in 'the film industry and, to a lesser extent, within the television industry'. He suggested that a program for the video game industry could be based on the schemes supported by Film Victoria and Screen Australia. *Committee Hansard*, 19 February 2016, p. 30.

employment opportunity that may otherwise have not been available and the company benefiting from the injection of 'new and current thinking to their work culture'.¹⁰¹

4.87 It was noted that safeguards may need to be developed to ensure that the interns have a reasonable opportunity to gain permanent employment and are not exploited, with possible options being inspections of the companies that have interns or limiting internships to companies with a reputation of good workplace practices.¹⁰²

Information and education resources for businesses

4.88 Some submitters highlighted challenges that many small businesses face in being aware of relevant information, such as the government programs for which they are eligible. For example, Mr Alexander Jeremy remarked that he only became aware of the AIGF following the news that it had been defunded.¹⁰³

4.89 Submitters also highlighted how governments can provide information and otherwise assist to facilitate the establishment of local studios by overseas companies. The submission from the Gold Coast chapter of the IGDA included an account of how, in 2010, the New Zealand Government successfully secured the establishment of an Oceania studio by the French company Gameloft. The person tasked by Gameloft with finding a suitable country in the region explained that he 'could not find anyone at any level of government in Australia willing to talk to me'. However, the New Zealand Government 'arranged first class airfares for myself and two senior managers to travel to New Zealand, tour local studios and game schools, inspect office space, and meet with tax and legal professionals who could advise us on operational procedure'.¹⁰⁴

4.90 The submission concluded:

There needs to be a greater, unified effort at providing the information and support international companies need to set up and grow their business in Australia. We recommend providing an online industry portal that pulls together all of this information. Provide a one-stop-shop that decision makers in overseas studios can access to get answers to questions like 'how many VET providers are in Sydney that specialize in video game development?', 'which city has the highest concentration of game studios?', or 'what grant programs are available?'.¹⁰⁵

101 Ms Laura Crawford, Swinburne University of Technology, *Committee Hansard*, 19 February 2016, p. 28.

102 See Ms Laura Crawford, Swinburne University of Technology, *Committee Hansard*, 19 February 2016, p. 33.

103 Mr Alexander Jeremy, *Submission 17*, p. 3.

104 IGDA Gold Coast, *Submission 59*, pp. 4–5.

105 IGDA Gold Coast, *Submission 59*, pp. 4–5.

4.91 Given that serious games have been identified as having significant potential, it was also suggested that the Australian Government could perform a leadership role in connecting the game development industry with possible demand for serious games. Ms Crawford stated:

There are meetings happening between games people and health people, such as between surgeons and heads of hospitals and people who are making games. That kind of thing is happening, for sure. But if we could make it a little more overt perhaps we could benefit from that...I think we are at the point where we need you now to help.¹⁰⁶

National Digital Economy Strategy

4.92 Some stakeholders suggested that the future of the video game development industry is intertwined with efforts to successfully transition Australia to being a leading digital economy. Australian governments have provided high-level strategic guidance on how to progress this transition through the National Digital Economy Strategy (NDES). The NDES was released in 2011, with an updated version issued in July 2013. Submitters consider that the NDES could be improved by giving greater consideration to the video game development industry.

4.93 IGEA was one of the most vocal stakeholders on this issue. In a future update of the strategy, IGEA called for the Australian Government to 'address the issue of support for the Australian interactive games development industry within this broader and more comprehensive strategy'. IGEA added:

Within the updated National Digital Economy Strategy there is also a role for the interactive games development industry to more broadly support the five growth industry sectors identified by the Australian Government: namely, food and agri-business; mining equipment, technology and services; oil, gas and energy resources; medical technologies and pharmaceuticals; and advanced manufacturing sectors. Underlying digital literacy and software in interactive games development could arguably become 'enabling technologies and services' supporting those key sectors of the economy.¹⁰⁷

4.94 The Brisbane Chapter of the IGDA (BrIGDA) similarly called for an update to the NDES that acknowledged and provided 'supportive language' for games.¹⁰⁸

106 Ms Laura Crawford, Swinburne University of Technology, *Committee Hansard*, 19 February 2016, pp. 34–35.

107 IGEA, *Submission 9*, p. 15. This statement was also included in the GDAA's submission: see *Submission 55*, p. 17.

108 BrIGDA, *Submission 71*, p. 6.

4.95 Professor Jeffrey Brand argued that a 'renewed and more aggressive focus' on the NDES could help enable 'innovative Australian businesses to compete in the emerging global economy predicated on high-value experiences'.¹⁰⁹ He presented the following reasoning for giving renewed attention to the NDES:

Revisiting and emboldening a comprehensive national strategy to prioritise the production of digital exports would help innovative Australian businesses to meet the market created by a shift in demand from material to experiential goods and services—what economists refer to as dematerialisation.¹¹⁰

4.96 Professor Brand added that the 2011 and 2013 strategies presented a 'comprehensive argument for promoting a digital economy' that focused on 'infrastructure and issues that require strategic attention to realise the benefits of creating and selling to a dematerialised world'. Professor Brand submitted that 'most of the vision and recommendations of the 2011 and 2013 reports remain unrealised'. In any case, he suggested that the strategies 'could be emboldened by examining the relationship of the digital strategy to every industry in which Australian businesses operate and many of those in which it has struggled to compete [such as the] automotive industry'.¹¹¹

4.97 An updated NDES that encouraged video game development could also help to address other, fundamental challenges Australia is facing. For example, Australia has an ageing population, which is a trend common in many other countries. An ageing population presents many challenges, including for economic growth and labour participation. Professor Brand noted that the 2015 Intergenerational Report 'calls for increased productivity and participation of older Australians'. In his view, a digital strategy could assist in addressing this issue while also ensuring that Australia capitalises on the emerging opportunities that the serious games market presents. Professor Brand presented the following reasoning:

Interactive media, including gamification and serious games, represent enormous market potential for increasing productivity and participation of the ageing population. This is just one example of how video games development and the experience economy are linked beyond entertainment and why fostering an aggressive global digital strategy of substantive vision backed by competitive investment may propel the Australian economy into one that becomes a leading exporter of designed experiences for a rapidly and vastly growing market. Demographic ageing, after all, is a global

109 Professor Jeffrey Brand, *Submission 92*, p. 2.

110 Professor Jeffrey Brand, *Submission 92*, p. 4.

111 Professor Jeffrey Brand, *Submission 92*, p. 4. How the video game industry could potentially assist workers in industries that are undergoing significant change, such as the automotive industry, was noted by Mr Reed from the GDAA. For example, Mr Reed observed that automotive designers and engineers could be retrained in the game development industry to help develop 'the best industry for making car-racing simulators'. See *Committee Hansard*, 19 February 2016, pp. 5–6.

phenomenon and growing market. Export potential is great and competition today is relatively small. Video games are, generally speaking, not usually made with older players in mind.¹¹²

4.98 Since Professor Brand provided his written submission, the Government released the National Innovation and Science Agenda (NISA). Professor Brand noted that the NISA 'by and large fits very much with my vision in my submission'. However, he maintained that the NDES' still has not 'been articulated as broadly and as widely' as he considers is necessary, and that the NISA has not resolved this.¹¹³

Conclusion

4.99 This chapter has canvassed many policy suggestions and issues that industry stakeholders consider require Australian Government to give attention. This concludes the report's synopsis of the evidence received during this inquiry. The committee's findings and recommendations are outlined in the following final chapter.

112 Professor Jeffrey Brand, *Submission 92*, pp. 5–6.

113 Professor Jeffrey Brand, *Committee Hansard*, 10 March 2016, p. 13.

Chapter 5

Committee view and recommendations

5.1 Video games are big business, both in Australia and throughout the world. The evidence available about consumer demand for video games and the value and growth of the global market for them suggests that the industry will continue to expand significantly. Not only are games for entertainment in high demand, but so-called 'serious games' for health, education, workplace training and various other purposes are also expected to become more common. Expected and unknown future technological advances will likely also support the industry's bright future; for example, virtual reality could significantly change how consumers and businesses interact with technology in a wide range of areas. Game development is among the industries that are at the forefront of such developments.

5.2 To maintain economic growth, prosperity and international competitiveness, advanced economies such as Australia need to embrace innovation and transition to a knowledge economy that relies on technology and highly skilled jobs. The game development industry fits this description. Many other countries appear to have already reached this conclusion with respect to their domestic video game development industries. The committee has heard how governments in Canada, various European countries (such as the United Kingdom and Finland) and, closer to home, New Zealand, offer grants, tax incentives and other forms of support to promote growth in their video game industry.

5.3 Conveniently, Australia has a proud record of successful video game development. Opportunities exist, however, for Australia to build on its existing industry and to ensure that this creative and technology-focused industry can play a key role in helping Australia transition to a leading digital economy.

A recent history of challenges and setbacks

5.4 While other countries have expanded their video game industries, Australia's has contracted in size. It is evident that the Australian industry has faced significant challenges in recent years. The downturn in the world's economy following the global financial crisis of 2007–2008 and the sustained appreciation of the Australian dollar relative to the United States dollar has changed the structure of the industry. International game development companies that had studios based in Australia reconsidered their Australian operations. Other Australian-owned companies also closed or downsized.

5.5 The video game industry was not unique in encountering challenges caused by Australia's resources boom and the two-speed economy. However, it has undergone significant structural change and lost many experienced professionals. For example, it appears that many Australian video game professionals have chosen to further their career elsewhere. In an emerging industry, losing experienced developers

whom others can learn from is problematic. The reduction in the number of large, established studios, including international studios that bring expertise from elsewhere, is also a problem: these studios can perform many useful roles that provide positive flow-on effects for the overall industry.

5.6 The video game development industry also suffered a setback as a result of the Australian Government's decision in the 2014–15 Budget to abolish the Australian Interactive Games Fund (AIGF). The AIGF was announced by the former Labor Government to help support the development of the video game industry in Australia. The committee considers that this was a sensible investment in an emerging industry. It was also relatively modest in its upfront cost to the Government: \$20 million over three years from 2012–13.

5.7 As the evidence taken during this inquiry has demonstrated clearly, the AIGF supported several successful projects. These included both specific titles and projects that helped the industry to grow, such as a shared office space that facilitates collaboration and reduces overhead costs. However, the AIGF was ended before the return on investment could be demonstrated.

5.8 Despite the renewed focus and discussion on innovation following the release of the Australian Government's National Innovation and Science Agenda in December 2015, it is not apparent that the Government has given explicit attention to interactive game development and the potential for Australia's future that this industry could provide.

The Australian Government could assist the industry to reach its potential

5.9 The committee is not advocating that the Australian Government 'pick winners' or growth sectors. As noted in Chapter 3, Senate committees and the Australian Government often hear cases for particular industries to receive government support or tax incentives. Regardless of how compelling these arguments may be, it would be neither possible nor desirable for the Government to fund every measure that is proposed.

5.10 The Australian Government does have a role, however, in ensuring policy settings assist entrepreneurs and innovative businesses to flourish. The Government should also consider whether programs or incentives that are provided to one industry are being denied to other similar industries without a clear reason for doing so.

5.11 The committee has also given consideration to the different roles that the Australian Government and state governments can, and should, undertake in relation to support for the video game development industry. Various state government programs, particularly those operated by Film Victoria, appear to be successful. The evidence provided to the committee indicates that state government support has been a significant factor in the different growth rates of the video game development industries in individual states.

5.12 Nevertheless, the Australian Government has previously administered a successful funding program that made a positive net contribution to Australia's economy. The reasoning that originally accompanied the introduction of the AIGF is fundamentally sound and continues to be relevant. The self-sustaining design of the AIGF was also a key feature—the reinvestment of funds recouped from successful projects would have maintained the AIGF beyond the initial funding committed by the previous government.

Recommendations

A successor to the Australian Interactive Games Fund and extension of the producer tax offset

5.13 The primary recommendation made by the committee is that the Australian Government introduces a scheme similar to the previous AIGF. The AIGF is the most effective means to address the access to finance issues that small studios face and to help those studios grow into mature, stable businesses. The economic return from funds provided as grants and loans during the AIGF's short life presents a compelling argument for the Australian Government to return funding to Screen Australia for such a program.

Recommendation 1

5.14 The committee recommends that the Australian Government introduce a funding scheme based on the former Australian Interactive Games Fund.

5.15 Grants and loans from the AIGF, however, are unlikely to be enough to secure a sustainable video game development industry in Australia. Small businesses would typically be targeted for grant funding or government-backed finance; however, businesses operating in Australia that grow beyond that size still face significant challenges. When considering this, the committee was mindful of the apparent inconsistency in the treatment of video game developers and other creative industries that straddle between arts and commerce, such as the film industry.

5.16 The film industry has access to taxation offsets that are designed to support and develop the Australian screen media industry by providing concessional tax treatment for Australian expenditure. In particular, a refundable tax offset for Australian expenditure in making an Australian film is provided in subdivision 376-B of the *Income Tax Assessment Act 1997* (known as the producer offset).

5.17 The committee considers that government support should be provided as equitably as possible across related industries. A tax offset would also be an effective way to support the continued growth of mature game development studios that have progressed beyond initial projects that may, or may not, have been supported by grant funding. The existence of a tax offset would help firms with access to finance, as the ability to borrow against the estimated amount of the tax offset could help alleviate some of the risk financiers associate with creative industries.

5.18 The offset should be modelled on the producer offset, although whether a 20 per cent offset or 40 per cent offset should be applied will require further consideration as part of the policy development process. Adjustments to the general eligibility and expenditure criteria may also be necessary to ensure that the offset is appropriate for the video game development industry. The eligibility criteria should exclude certain types of games, such as games that involve gambling. It may also be appropriate to exclude from the tax offset projects funded under the replacement to the AIGF referred to in recommendation 1.

5.19 Given the small size of the Australian video game development industry, the committee does not envisage that the cost to the Commonwealth associated with this measure would be high. However, the offset should be reviewed at an appropriate time after its introduction, such as two years, to ensure it is operating effectively. It may also be appropriate for a sunset clause, of perhaps ten years, to apply to the offset so a case has to be made in the future for its continued operation.

Recommendation 2

5.20 The committee recommends the introduction of a refundable tax offset for Australian expenditure in the development of game titles. A review of the operation of the offset should be undertaken at least two years after the offset commences.

Shared, collaborative workspaces for video game studios

5.21 Many submissions and witnesses at the committee's public hearings highlighted the benefits of innovation hubs and shared workspaces for video game developers. The site visit to The Arcade in Melbourne organised by the GDAA allowed the committee to see firsthand how a shared space can operate. The committee encourages relevant Australian Government ministers to visit The Arcade.

5.22 Shared workspaces that can house several studios and developers present many advantages. Direct financial benefits for small studios include reduced overhead costs, as expenditure on office space is likely to reduce. A shared workspace can also be fitted with access to high-speed internet that is essential for game developers, but which they may struggle to obtain elsewhere.

5.23 There are other benefits of shared workspaces that are more difficult to quantify. A challenge that the Australian industry faces is project expertise—as the industry consists of many small studios, there is a risk that multiple businesses devote a great amount of time and effort to solving problems that someone else has solved previously. Spaces like The Arcade encourage knowledge sharing and collaboration within a community, allowing developers more time to focus on seeing their projects through to successful completion.

5.24 The committee considers that the Australian Government should contribute funding for the development of additional shared working spaces based on The Arcade. As the committee considers that state government support for their local video game industry is essential for such a project to succeed, the specific location of the next Arcade-type space should take into account whether the relevant state government has demonstrated support for the growth of the industry.

5.25 The committee also considers that the Australian Government should consider the contribution that the game development industry can make to economic activity in regional areas. Games have been developed successfully in regional areas, and the National Broadband Network (NBN) provides a further opportunity for game development to occur outside of metropolitan areas. It may be feasible to support the establishment of an innovation hub in a regional centre that could support video game development and other high-skilled, technology focused businesses.

Recommendation 3

5.26 The committee recommends that the Australian Government encourage, and contribute financial assistance for, the creation of shared working spaces modelled on The Arcade in other locations. This support should be contingent on co-funding provided by a state government and further evidence that the state government supports the growth of a video game development industry in its state.

5.27 The committee further recommends that the Australian Government consider the viability of establishing an innovation hub for video game development and other technology startups in a regional centre.

How the Government can promote the potential of 'serious games'

5.28 The committee received compelling evidence about the potential for 'serious games' in health care, education, training, defence and many other applications. The committee considers that demand for these products will naturally increase without government intervention; however, the immediate need for these products may not be readily apparent in some sectors. The Australian Government could help promote the development of serious games in Australia by assisting the game development industry to connect with the sectors that may have a need for serious games. The Government could also consider how such games could be useful for the various services it provides.

Recommendation 4

5.29 To encourage the further uptake of 'serious games' in health care, education and other sectors, and production of these games by the Australian video game development industry, the committee recommends that the Australian Government facilitate dialogue between video game industry associations and groups that use, or could potentially use, serious games.

Crowd-sourced funding

5.30 The committee received a limited amount of evidence on taxation matters that affect small video game development businesses. As noted in Chapter 4, the committee was provided with an example where money raised by crowd-sourced funding was treated as assessable income for taxation purposes. The crowd-sourced funds were used for a business project, however, they were subject to taxation before the expenses related to the project were incurred.

5.31 This may be an isolated example caused by particular timing issues, such as the rollover of one taxation year to the next. Also, the tax implications of crowd-sourced funding affect a wide range of businesses in different sectors. However, the committee considers the issue is worthy of further investigation.

5.32 The committee does not have sufficient evidence to make a recommendation for a specific amendment to taxation law or administrative practice. Instead, it draws this issue to the Australian Government's attention for further consideration. There may be possible changes that could specifically target startups that use crowd-sourced funding. One option that could be considered is allowing small businesses to rollover assessable income from crowd-sourced funding to the subsequent taxation year.

Recommendation 5

5.33 The committee recommends that the Australian Government consider the tax implication of crowd-sourced funding for startups, including whether temporary tax relief should be available for income that new businesses gain from crowd-sourced funding.

Marketing and travel assistance

5.34 The Australian video game industry is essentially an export industry. The committee is concerned by the evidence it received about the limited utility of the Australian Government's Export Market Development Grant (EMDG) scheme for the video game development industry, despite a need for assistance in developing export markets.

5.35 The committee notes that the scheme was reviewed in 2015. Nevertheless, this is an issue that the Government should consider further, particularly given the growing importance of securing successful businesses that operate in the digital economy. It may be beneficial to consider the relevance of the EMDG scheme to all businesses in the digital economy as, although this inquiry has focused on video game development, there may be other types of businesses in the digital economy that encounter similar issues.

5.36 A related matter is expenses for game developers to travel to domestic and international game conventions and exhibitions. When considering whether changes to the EMDG scheme could make the program more relevant for video game developers, the Government should give attention to this issue as well.

5.37 Overall, however, the committee is of the view that the Australian Government should focus on matters that state governments may not be well-placed to address, such as ensuring to the extent possible that businesses which have grown beyond the initial seed funding stage operate in an environment that supports their continued growth. The committee does not consider it appropriate that the Australian Government supplant state government support for local game development industries. Continued state government engagement with the video game industry is important for the industry's sustainability.

5.38 Game conventions and travel expenses appear to be an area that the state governments can focus on and support. It is clear that state governments are able to provide assistance for travel costs—the Victorian Government's efforts in this regard are a key example. Not only does it appear unnecessary for the Australian Government to duplicate or replace such state-based schemes, the committee considers that it is beneficial for the game development community to engage with state governments about the importance of domestic and international game conventions, particularly as state governments can support such events in their jurisdictions.

Recommendation 6

5.39 The committee recommends that the Australian Government develop a discussion paper and consult on the utility of the Export Market Development Grants scheme for businesses that operate in the digital economy.

Employment matters

5.40 The committee cannot conclude this report without commenting on the state of diversity in the developer workforce and workplace practices in the industry.

5.41 As noted in Chapter 2, the latest estimate of gender breakdown in the industry suggests that only 12.7 per cent of the workforce is female. This is disappointing. The low rate of female participation in the industry weakens not only the industry's case for government support, but also its economic prospects. The committee is of the view that the industry's long-term success and sustainability depend on a more diverse workforce. The committee acknowledges, however, that the industry is working to address this issue.

5.42 The committee also notes the evidence received about past cases of poor working conditions, overworked employees and businesses that collapsed leaving unpaid wages.

5.43 In developing measures to promote growth in the industry, and when later reviewing the success of these measures, the committee calls on the Government to be cognisant of these employment issues. The committee wishes to see meaningful progress towards a more diverse workforce. Separately, the committee also considers it is important to ensure that working conditions do not deteriorate. Government programs should not assist businesses that perform poorly against either of these measures.

Recommendation 7

5.44 When considering and reviewing measures to support the industry, the committee recommends that the Australian Government take into account whether the industry is improving the diversity of its workforce and is providing fair employment conditions.

Broadband infrastructure

5.45 The committee notes that Australian video game businesses are often at a competitive disadvantage when it comes to high-speed, reliable broadband. Evidence received by the committee emphasised the importance of high-speed internet, in terms of both download and upload speeds, for businesses that develop products such as video games. It is clear that inadequate broadband access presents productivity and market access issues for video game developers. The rollout of fast, affordable and reliable broadband is one of the most effective ways to support sustainable growth in industries such as video game development. High-speed, reliable broadband can also help unlock regional Australia's economic potential by supporting the creation of high skilled jobs outside of the capital cities. Game development can and does occur outside metropolitan areas, and the type of work undertaken in the sector accommodates flexible working practices, such as remote work, which can be of particular importance for developers in regional areas.

5.46 The consensus among submitters is that Australia's internet infrastructure is simply not good enough. For Australia to be home to innovative, technology-focused businesses that can successfully compete in the digital economy, 21st century broadband infrastructure needs to be available. Many countries are overtaking Australia in terms of the broadband speeds customers can access. In recent global broadband rankings released by US company Akamai Technologies, Australia has slumped to 60th in terms of average peak connection speed, down from 30th in the third quarter of 2013.¹ This has occurred in part as a result of the current Government's NBN policy to halt the rollout of fibre-to-the-premises (FTTP) and replace it with a 'mix' of technologies, including fibre-to-the-node (FTTN), which relies on the ageing copper network to deliver broadband.

1 Akamai, *The State of the Internet*, Vol. 6, No. 3 (Quarter 3, 2015), p. 22; and Vol. 8, No. 4 (Quarter 4, 2015), p. 30.

5.47 Continued reliance on ageing infrastructure is likely to exacerbate the competitive disadvantage suffered by Australian firms, particularly as overseas markets increasingly gravitate towards gigabit-capable internet infrastructure.

Recommendation 8

5.48 The committee recommends that the Australian Government commit to rolling out 21st century broadband infrastructure.

Final comment

5.49 The committee has devised and outlined in this chapter specific recommendations that should receive immediate consideration from the Government. However, the committee emphasises that the body of this report has relayed and discussed many other ideas that could potentially help Australia's video game industry to flourish into a sustainable and valuable sector that can keep Australia's talent here, rather than overseas.

5.50 The committee calls on the Government to take the opportunity to do everything possible to secure a larger share of this growing, high-skilled industry for Australia. The committee hopes that the industry has a bright future in this country and that this inquiry helps to secure a positive operating environment for local businesses.

5.51 The committee commends this report to the Senate and the Government.

Senator Anne Urquhart
Chair

Appendix 1

Submissions, tabled documents and answers to questions on notice

Submissions

1	ODD Games Pty Ltd
2	Mr Liam Barclay
3	Mr Nick Thiele
4	Mr Julien Roby
5	Mr Robert Marshall
6	Mr Joel Dignam
7	Mr Daniel Pickering
8	Name Withheld
9	Interactive Games & Entertainment Association
10	Mr Simon Lydiard
11	Black Lab Games
12	Lumi Consulting
13	Master Oscar Cooke-Abbott
14	Academy of Interactive Entertainment – Incubator
15	Mr Benjamin Lincoln
16	Mr David Logan
17	Mr Alexander Jeremy
18	Dreamgate Studios Pty Ltd
19	Mr Ben Driehuis
20	Nnooo Pty Ltd
21	Name Withheld
22	Name Withheld
23	Mr Matthew Ford
24	Mr Adric Polkinghorne
25	Ms Siobhan Laphorne
26	Queensland University of Technology Digital Media Research Centre (Distinguished Professor Stuart Cunningham AM and Associate Professor John Banks)
27	Mr Kieran Lord
28	Mr James Fowler
29	Mr Timothy Gurto
30	Mighty Kingdom

31	Dr Dan Golding
32	Mr Jack Kimberley
33	2and2
34	SIGDA
35	Stirfire Studios
36	Name Withheld
37	Master Howsen Kinnunen
38	Name Withheld
39	Mr Leigh Dearden
40	Name Withheld
41	Mr Alexander Jacobs
42	Mr Dylan Ford
43	Gritfish
44	Mr Mark Goninon
45	Mr Timothy Liersch
46	Mr Daniel Sassen
47	Mr Adam Carr
48	SMG Studio
49	Mr Brendan Keogh
50	Mr Nicholas Smith
51	Electronic Arts, Inc
52	Mr Lachlan Kingsford
53	Uppercut Games
54	Blowfish Studios
55	Game Developers' Association of Australia
56	Mr Vincent Kerin
57	Halfbrick
57.1	Halfbrick, Supplementary submission
58	International Digital Games Research Association (Australian Chapter)
59	International Game Developers Association Gold Coast
60	Mr Joshua Sanderson
61	Secret Lab Pty. Ltd.
62	Mr Timothy Nugent
63	Screwtape Studios Pty Ltd
64	Let's Make Games Inc.
65	Mr Taylor Smith
66	IGDA Melbourne
67	Ms Pamela Rosengren

68	Mr Gareth Pavlich
69	Strategic Studies Group Pty Limited
70	Siege Sloth Games
71	Brisbane Chapter International Game Developers Association
72	SAE Creative Media Institute
73	Ruffhaus Pty Ltd
74	Early Worm
75	Tin Man Games Pty Ltd
76	Kumobius Pty Ltd
77	Benjamin Welsh and Liam Harvey
78	Mr Ben Bastian
79	Well Placed Cactus
80	Professor Stuart Smith
81	The Tasmanian Game Development Society
82	Alexander Ocias
83	Developer At Large Pty Ltd
84	CG Spectrum
85	5 Lives Studios
86	Mr Andrew Smith
87	Mighty Games Group
88	Mr Dan Toose
89	Mr Keirron Stach
90	Organic Humans
91	Name Withheld
92	Professor Jeffrey Brand
93	Mr Dean Walshe
94	Mr Nathan Runge
94.1	Mr Nathan Runge, Supplementary submission
95	Academy of Interactive Entertainment Ltd
96	Mr Ed Fricker
97	Mr Devin Doyle
98	Mr Christopher Jarvis
99	Mr Robert Warnes
100	Swinburne University of Technology
101	SK Games Pty Ltd
102	Mr Simon Joslin
103	Mr Samuel Tate
104	Screen Producers Australia
105	KPMG

106	Black Delta Trading Pty Ltd
107	Mr Christopher Dunn
108	Mr Munly Leong
109	Confidential
110	Name Withheld
111	FTI

Tabled documents

Professor Jeffrey Brand – Digital Australia Report 2016 (public hearing, Brisbane, 10 March 2016)

Defiant Development: Revenue Growth 2011-2015 (public hearing, Brisbane, 10 March 2016)

Answers to questions on notice

Swinburne University – Answers to questions taken on notice (public hearing, Melbourne, 19 February 2016)

Halfbrick – Answers to questions taken on notice (public hearing, Brisbane, 10 March 2016)

Appendix 2

Public hearings

Friday, 19 February 2016 – Melbourne

Game Developers' Association of Australia

Mr Antony Reed, Chief Executive Officer

IGDA Melbourne

Ms Giselle Rosman, Chapter Leader

Mr Ben Britten

Dr Dan Golding – in private capacity

Swinburne University of Technology

Dr James Verdon, Department Chair, Film and Animation, Faculty of Health Arts, and Design

Ms Laura Crawford, Lecturer – Games and Interactivity, Faculty of Health Arts and Design

Black Delta

Mr Zach Griffin, Founder and Chief Executive Officer

Mr Tigran Aganesov, Chief Operating Officer

Mighty Games Group

Ms Lauren Clinnick, Marketing Director

Tin Man Games

Mr Neil Rennison, Creative Director

Well Placed Cactus

Mr Paul Stapelberg, Chief Operating Officer

Thursday, 10 March 2016 – Brisbane

QUT Digital Media Research Centre

Distinguished Professor Stuart Cunningham AM

Associate Professor John Banks

Professor Jeffrey Brand – in private capacity

Halfbrick

Mr Rinal Deo, Chief Financial Officer

Ms Kate Hynes, Chief Legal Officer

Mr Tom Murphy, Head of Human Resources

Defiant Development

Mr Morgan Jaffit, Creative Director

Mr Daniel Treble, Director

5 Lives Studios

Mr Mike Diskett, Technical Director / Owner

Screwtape Studios

Mr Anthony Wood, Creative Director

Friday, 11 March 2016 – Sydney

Interactive Games & Entertainment Association

Mr Ron Curry, Chief Executive Officer

Ms Sabiene Heindl, Executive Director, SWH Legal & Business Consulting

Screen Australia

Ms Fiona Cameron, Chief Operating Officer

Mr Tim Phillips, Senior Manager, Interactive and Multiplatform

Screen Producers Australia

Mr Matthew Hancock, Manager, Strategy and Operations

Mr Nathan Anderson, Executive Producer, Start VR

Academy of Interactive Entertainment

Mr Neil Boyd, Director of Marketing & Business Development

2and2

Mr Leon Young, Chief Executive Officer

Nnooo

Mr Bruce Thomson, Business & Marketing Director

Mr Nicholas Watt, Creative Director & Founder

SIGDA

Mr Geoffrey Hill, Chapter Leader

Ms Epona Schweer

Let's Make Games Inc

Mr Jon Hayward-Crichton, Festival Director, Perth Games Festival

Mr Brandan Ragan, Treasurer