



# Let the Games BEGIN

Australia has some key global players in the games industry. They have a fraction of the profile of those in film and television but as much potential. The two major challenges for these players is to maintain their position within the competitive worldwide market and to find ways of making their own projects, which have the ability to deliver much higher rewards. Sandy George reports on a multi-million dollar industry that is the focus of a new parliamentary inquiry.

**R**obert Walsh is chief executive of Krome Studios, the company behind the first Australian game to sell more than one million units worldwide. The game is Ty the Tasmanian Tiger and it has grossed more than US\$30 million.

Ask Walsh how government can help the games industry in ways that don't involve direct financial assistance and his answer is swift: "Training. We struggle to find talented and experienced people without having to take them from other companies or import them from overseas. Adding more games programming

electives to the final year of existing computer science courses would be a simple way of helping."

What also makes Ty special is that the intellectual property is owned within Australia. While there are games developers in this country that can take credit for some very big hits, very few games are owned locally. Developers' revenues flow from work they have won from offshore, usually from the US and in highly competitive circumstances. While the resultant activity creates employment and earns export dollars, only a small proportion of the royalties, if any, flow back into Australia.

*Continued page 14*

*Above and page 14: Characters from the electronic game Ty the Tasmanian Tiger. Images: ©2003 Krome Studios [www.kromestudios.com](http://www.kromestudios.com)*

It is safe to assume, however, that all these companies are self-funding the development of original games in the hope they can get interest from a big international distributor that already knows and trusts them. It is a labour intensive, expensive and highly speculative enterprise but the commercial and creative potential is tremendously exciting.

Walsh spent about A\$1.5 million of his own money on Ty before he got a green light from US-based distributor Electronic Arts. He and those like him all say the same thing: if Australians could get tax breaks for investing in games in the way television and film investors do, it would greatly fuel growth.

“The cost of making games for the main platforms is A\$4-10 million, sometimes \$20-30 million, and very few of us can support that investment so we provide a service to publishers,” says Adam Lancman, managing director of Infogrames Melbourne House. “We are fundamentally export orientated and without the publishers we could not exist. But if you can fund to a significant level on your own and take a prototype and shop it around to publishers you can control the intellectual property and get a larger slice of the pie. But there is more risk.”

Walsh believes there are only about half a dozen games developers with the ability to interest venture capitalists and together they are unlikely to raise more than A\$10 million per year. “What that means in forgone revenue is a drop in the ocean.”

The House of Representatives Committee on Communications, Information Technology and the Arts is conducting an inquiry into the future opportunities for Australia’s film, animation, special effects and electronic games industries. The information paper related to the inquiry directs the focus of submissions to be on creative and technological issues, which underpin the inquiry’s terms of reference. Key Australian players in the games world say shortage of capital is also a fundamental issue.

Lancman sold his company to offshore interests in 1999 because it was either that or close it down. He is also president of the relatively new Game Developers’ Association of Australia (GDAA), which organised 24 companies to attend the all-important E<sup>3</sup> EXPO trade show in Los Angeles in May. The aim was to emphasise that the Australian industry is a strong force, not just one or two companies, and that it is an ideal destination for a number of projects.

This presence at E<sup>3</sup> would not have been possible without financial assistance from

various state and local governments. Multimedia Victoria is a good model of how government authorities can assist. It is also involved in a scheme to loan Sony Playstation2 development kits to companies needing them for development.

Two of these kits are with Ross Symonds, chief executive at Bullant Studios. He is lucky enough to have access to cashflows from a wireless-based business, and has already sunk \$500,000 into a new game, but has not yet been lucky enough to have clinched a deal with a publisher, partly because the company is still in the difficult build-up phase. He is disinterested in taking on work that will “turn the wheel but not make a profit”.



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There is considerable concern that the status and self-sufficiency enjoyed today will disappear tomorrow. Greg Siegele, chief executive of Ratbag Games, emphasises that the industry has to keep getting finance from US publishers—there are none in Australia—and get better tax treatment. “Just as there are a few big film studios, there is going to be just a few big games distributors commissioning blockbusters. This means fewer projects with bigger budgets. A larger proportion is going to American developers already. We have a lot of global players now that have made some of the best-sellers around the world, but we have to make sure that we consolidate our position and not become just niche players.”

Siegele emphasises the importance of flexibility in the granting of work visas. In order for him to maintain quality, he has to import one in every three staff members from overseas. He is keen to take on graduates, but without people with one to five years of experience there is not enough know-how in the team. There are simply not enough people with a high enough level of experience available in Australia.

Whatever screen-based industry is being considered—film, animation, television, commercials, games—the fundamental problem is the size of the Australian market. It is limiting in terms of the investment available and the spending power of consumers, but for all the sectors except games there are either regulations or direct subsidies or both that guarantee that Australian content gets produced.

Especially in an industry full of racing games, shoot-‘em-ups and big US brands, it is difficult to argue there is a cultural imperative to have Australian games up on the shelves alongside those from the US. Arguments about employment benefits, export earnings and perhaps even Australia’s profile abroad are valid, however.

A number of games players do access Export Marketing Development Grants and R&D funding. Criticisms range from the time spent each year educating ever-changing bureaucrats to the insistence of separating content and technology in some cases. The GDAA has already had talks with AusFILM, the organisation with marketing executives in LA and Sydney that promotes Australia as a location for offshore film and television. It seems an obvious fit, given AusFILM’s existing links to the US studios.

Australia has had considerable success attracting high-profile films such as *The Matrix* and *Star Wars* and special effects films such as these are often kicking off points for games development. The games industry is adamant that whoever represents them in the US must have games experience, so additional staff may be required. As the teams of people needed to execute a game grow in size there will be more cross-over of personnel and facilities.

While no-one believes that a publisher will ever be based in Australia, the government may be able to offer sweetheart deals that result in production executives being located in Australia alongside the existing sales and marketing representatives.

A mechanism similar to the tax offset introduced in September 2001 for large-scale film and television production would also be worth considering for games. While incentives introduced by international competitors since then and the uncertain environment for travel have dampened its effect, the model has been praised for its simplicity and transparency.

It becomes very clear very quickly in discussions with key players from various sectors that there needs to be more linkages between different sectors of the industry, particularly in a market where there is only 20 million people, which is not even one-tenth of the US. The formation of sector-based organisations like GDAA pushes this

along but any help the government can offer using its big picture experience would help. ■

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*Screen International and [www.C21media.net](http://www.C21media.net), both of which are based in London.*

*The House of Representatives Committee on Communications, Information Technology and the Arts, chaired by Christopher Pyne (Member for Sturt, SA), has called for industry and public submissions to its inquiry*

*into the future opportunities for Australia's film, animation, special effects and electronic games industries. For the inquiry's terms of reference and more information visit [www.aph.gov.au/house/committee/cita/film](http://www.aph.gov.au/house/committee/cita/film) or phone (02) 6277 4601 or email [cita.reps@aph.gov.au](mailto:cita.reps@aph.gov.au)*



## Recognising animation's difference would be a solid first step

Some strongly held views on what can be done to help the animation industry quickly emerge in conversations with producers and executive producers prominent in Australia's animation industry.

Australia's film and television production industry is supported through direct financial assistance from state and federal governments, tax breaks for investors, and the existence of various regulations, the most important of which is the Australian content rules on commercial television. Expensive formats such as drama and animation are not so much fragile beasts that would have become extinct years ago without these things, as uniquely Australian animals cloned into existence because it is desirable to have them around.

Many in the animation business comment that while it represents a small slice of overall Australian production, it is a mature industry with the talented personnel, the infrastructure, and the financing expertise to dramatically expand under the right conditions. They also say that the closure of the digital channels Fly and ABC Kids is a significant blow.

Animation producers often have to twist animated projects out of shape to fit within guidelines and frameworks designed for live action, because the characteristics and production processes are fundamentally different. They find this particularly annoying because they argue that animation has a longer shelf-life, creates more employment for the same number of finished hours and, because it can be easily dubbed into other languages, has greater sales potential.

It is not possible to get direct assistance, tax-driven investment or content points for children's animated series unless each episode is at least 15 minutes in length—30 minutes if it is for adults. This, says Colin South, is an example of how live action rather than the market has come to dictate the rules that apply to animation. He asks

why episodes of five or even one minute are not permitted and points out that this could lead to animated segments being included in variety and sketch comedy shows, which could act as a valuable test bed for longer series. He would also like to see bonus Australian content points given for animation that is wholly produced locally because his estimate is that 60-80% of the so-called Australian projects are at least partly made offshore.

Australia's principal investor in production, including animation, is the Film Finance Corporation (FFC). It is also accused of being led by live action as the new chief executive Brian Rosen will have been told many times by now during his current consultations with industry. Ron Saunders, for example, talks of the "accidental bias" that has developed towards live action children's series entirely made locally and against animated international co-productions which, by definition, require some of the budget to be spent in the partner country. Some think that by giving animation its own pot of money and separate investment guidelines, better investment decisions would be made.

Australia's co-production regime acts as a mechanism for earning productions local status in each partner's country, making them eligible for direct and indirect benefits in more than one market. Tim Brooke-Hunt

believes Australian producers are going to have to increasingly use co-productions to finance projects but that the system badly needs an overhaul by its administrator, the Australian Film Commission (AFC). Some of the arrangements are memorandums of understanding rather than treaties and don't deliver the full benefits, he says, particularly in the substantial European market. Also, the number of treaties with which Australia has arrangements should be extended to cover Asia, a regular partner in the animation business.

Brooke-Hunt is of the view that the knowledge gap that is created in the market when certain bits of production go offshore requires the introduction of training. Options include adding specific courses to existing institutions such as the Australian Film, Television & Radio School or introducing incentives for producers to take on trainees.

Irrespective of a production's creative strengths, nothing would ever get financed without producers with deal-making ability, international contacts and experience. With people such as Brooke-Hunt and Saunders hiring out their skills to production houses, finding ways of cloning them would also help. So too would travel assistance and negotiating for discount registration fees at the various international television markets.

— Sandy George

