

ABOUT BLACK DELTA

Black Delta Trading Pty Ltd (Black Delta) is a Melbourne-based games development studio that produces simulation and virtual reality software for both consumer games and B2B markets.

Founded in 2012, Black Delta is an end-to-end developer that designs and produces its products for global markets. Using its proprietary vehicle simulation engine, Black Delta is currently producing its first commercial title, KartKraft due to launch internationally in the fourth quarter of 2015.

Averaging 15 years of professional experience, Black Delta's 14 team members have worked on franchises including Star Wars: The Force Unleashed, Spyro, AFL Live, Sprint Cars, Test Drive Unlimited, Transformers and Megamind. The company expects to increase employee numbers to 25 in 2016.

Black Delta also engages in contract development work for third-party studios and has a detailed plan to continue the expansion of its business-focused applications for key vertical sectors. These include health, aeronautical, automotive and military.

The company recently secured private equity funding in a difficult market in order to capitalise on growth opportunities, both here and internationally.

Its broad and varied business portfolio, as well as its in-house technical capabilities, places the studio at the cutting-edge of Australian industry development.

Black Delta welcomes the opportunity to respond to the Senate Environment and Communications References Committee's Inquiry into the future of Australia's video game development industry. The senior leadership team of Black Delta has many years of games industry experience and deep insights into the challenges for emerging games development studios. With that being said, Black Delta's contribution to this inquiry is intended to highlight the challenges of a more mature company that is geared for international expansion and industry diversification.

INDUSTRY BACKGROUND

The games development industry is an underutilised and underdeveloped sector in Australia, bursting with the potential to act as an invaluable resource to a diverse range of industries. As well as its reputation for producing great consumer products, the games development industry is emerging as an important provider of business software, or 'serious games'.

The overall electronic games industry is an excellent place to begin supporting advanced Australian technology firms. It is now worth \$2.46 billion a year, according to the Interactive Games and Entertainment Association (IGEA), but the games development portion of that industry in Australia has gone into reverse in recent years, with many studios closing. The withdrawal of key funding under the Abbott Government is just one small area of blame.

Black Delta's experience means the team is acutely aware that there is far greater growth potential than what is currently being achieved in this industry.

Black Delta's position at the intersection of games development and a wider world of technological innovation allows them to articulate in this submission the key reasons for that lack of growth in recent years and the potential areas for consideration that can assist in enhancing this burgeoning sector.

And finally, the opportunity to benefit from concessions in tax as well as operational activities costs would ensure the maturation of this niche but crucially significant industry.

This Submission is based on the premise that a strong and healthy games development industry in Australia will bring many benefits to the wider economy and to society as whole, and that any investment made now in the industry will be returned many times over as the benefits flow through to other areas of the economy.

If Australia is to succeed in the global information economy, it must have a healthy ecosystem far beyond just the games development industry, but this is a fantastic place to start thanks to its high growth potential.

DISCUSSION AREAS

This submission has been divided into two sections;

1. In the first, we highlight specific areas of insight that highlight Black Delta's requirements as a larger, diversified and internationally focused business.
2. The second part of this submission will echo key recommendations already on record by the GDAA, IGEA and independent development companies. We believe in the vitality of the entire ecosystem and while some of these policy recommendations no longer directly impact our business, we support them nonetheless.

BLACK DELTA RECOMMENDATIONS

1. Establish a Games Advisory Panel
2. Payroll tax relief
3. Dollar for dollar funding of suitable projects
4. Government support for games conferences and exhibitions
5. Taxation relief for start-ups
6. Develop a games development industry program to build skills in Australia
7. Develop specific games development courses at Australia's universities

GENERAL SUBMISSION

Black Delta's submission is structured mainly around the Committee's Terms of Reference (see below). But many of the recommendations are based on the establishment of a Games Advisory Panel, so this Submission makes that its first recommendation:

1. ESTABLISH A GAMES ADVISORY PANEL

Black Delta recommends the establishment of a Games Advisory Panel to advise the Government on matters relating to the industry. Such panels are not uncommon, and are typically established by governments to provide expert advice and opinion on matters affecting particular industry sectors. 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.

The Panel should advise on the broader games industry in Australia, not just games development. There is a large ecosystem, but it all starts with development.

Many of the further recommendations in this submission are predicated, or would be greatly assisted by, the establishment of such a Panel.

RECOMMENDATIONS BASED ON THE INQUIRY'S TERMS OF REFERENCE

REGULATORY AND TAXATION FRAMEWORKS

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.

2. PAYROLL TAX RELIEF

The games development industry typically has a long development time for its products – three to five years is not uncommon for a quality title. During this time substantial money is flowing out, in terms of wages and salaries, and none is coming in. Furthermore, the size of the development team typically grows over time, adding to the burden as time passes. When the squeeze comes at the end, payroll tax can cripple a potentially successful title.

Black Delta recommends a reduction in payroll tax for games developers to accommodate this development cycle. We realise that payroll tax is a State Government responsibility, but the Federal Government has some say in how it is administered.

This relief could come in the form of a reduction or exemption from payroll tax, or a holiday from it for a period of time – conditions could be determined by the Games Advisory Panel.

3. DOLLAR FOR DOLLAR FUNDING OF SUITABLE PROJECTS

The Government has a record of stimulating research and development in particular industries deemed beneficial to Australia's economic development. The Australian Research Council model has been followed with specific programs in other industries, e.g. biotechnology.

Black Delta believes the games development industry meets the criteria for the establishment of such a program, to act as seed funding for projects that games developers are able to demonstrate a commitment to and a business case for success. The 'dollar for dollar' model has been proven to be an effective way of ensuring such funding is well spent. The selection of candidates, and the criteria for selection, could be a responsibility of the Games Advisory Panel.

Diversifying the recipients of SIV visas funds, tax incentives for short-term investors and incentives for global VC firms to establish satellite offices in Australia could also greatly improve the availability of capital to fuel growth in Australia.

4. GOVERNMENT SUPPORT FOR GAMES CONFERENCES AND EXHIBITIONS

There are a number of important and influential games development events held around the world. Australia's events (e.g. PAX) lack the reach of larger international events including Gamescom in Cologne, Germany and E3 in Los Angeles, United States. The games industry is global, and attendance at such events is an important opportunity for networking – they are attended by publishers, distributors and representatives of other ancillary industries as well as developers.

But it is expensive for small developers to exhibit at such events. At many trade shows, in many industries, governments fund 'country stands', which small players can use as display vehicles and as a means of facilitating networking opportunities. Black Delta recommends the Australian Government funds an Australian country stand at such events.

5. TAXATION RELIEF FOR START-UPS

It is widely known and discussed that Australia has an uncompetitive rate of corporate taxation compared to many other countries. Black Delta recommends more sympathetic tax treatment of start-up organisations, a category which includes most games developers. These arguments have been strongly made elsewhere, and the Australian Government's own data shows that while corporate taxation rates have been falling in most of Australia's trading partners, they have not in Australia.

<http://bettertax.gov.au/publications/discussion-paper/chart-data/chpt5/>

Additionally, there is a corollary to this Term of Reference – ensuring the Australian video game companies, and the people they employ, are not lost overseas.

6. DEVELOP A GAMES DEVELOPMENT INDUSTRY PROGRAM TO BUILD SKILLS IN AUSTRALIA

Games developers and video game companies will not be attracted to Australia unless there is an environment sympathetic to their needs. This Submission suggests ways in which such an environment can be created. Not only are games companies not coming to Australia, the country is losing talented individuals and development companies to other countries. Games development involves many disciplines – programming, design, art, business development, marketing, and data analysis. There is no lack of talent in Australia, but there is a lack of a coordinated approach to nurturing these many disciplines to produce sophisticated professionals in the games development sector.

Black Delta recommends the development of such a program in conjunction with the Games Advisory Panel.

7. DEVELOP SPECIFIC GAMES DEVELOPMENT COURSES AT AUSTRALIA'S UNIVERSITIES

As noted above, games development is a very multidisciplinary activity. But most Australian games developers have come into the industry with non-specific skills, and have had to learn through experience or trial-and-error.

Current education and training for potential games developers in Australia is fragmented and piecemeal. Degree and diploma courses addressing the specific skills needed in games development would help address this training gap.

INDUSTRY RECOMMENDATIONS

Black Delta makes its recommendations from its viewpoint as a mid-sized independent Australian games developer.

As such, its recommendations pertain specifically to games development – broader industry recommendations have been made elsewhere, most notably by IGEA. As a member of the Australian games development community Black Delta also strongly supports the seven recommendations made by IGEA in its Submission, namely:

1. Extending the Producer Offset to interactive games development
2. Self-sustaining funding for interactive games projects and studios
3. Supporting innovation clusters, including in regional areas
4. Developing and retaining cutting-edge games developer talent in Australia
5. Creating targeted support for digital economy focused export initiatives
6. Committing to the updated classification regime
7. Updating Australia's National Digital Economy Strategy

More detail on each of these can be found in the IGEA Submission (Submission 9).