



# **Inquiry into the Future of Australia's Video Game Development Industry**

Submission to:  
Senate Environment and Communications References Committee

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## Summary

The Australian games industry is strongly focused on small, independent studios, staffed by highly skilled people who started their own studios after the big studios, backed by international publishers, closed following the global financial crisis.

By following the example of some of the world leaders in digital economy growth and planning, like Canada and Finland, Australia is in an excellent position to become a major hub for game development, which will create hundreds or thousands of jobs and increase our stake in the fastest growing entertainment industry in the world.

Video games added US\$6.2 billion to the US Gross Domestic Product (GDP) in 2012 alone and the growth in this sector is predicted to rise, with year on year growth of more than 8% predicted out to 2018.

There are a few key issues that would greatly help this happen:

- The creation of a investment fund that would aim to become self-sustaining and offer a mix of seed funding for smaller studios and enterprise funding to help expand larger ones.
- Extending tax offsets that are similar to the ones that our film industry enjoys to create an internationally competitive tax framework that would increase local and international investment.
- Offering travel assistance to help Australian companies do business on a world stage.
- Help in the creation of collaborative spaces and environments to drive a critical mass of world-best skills and opportunities, aid our skill development and retention.

## Introduction

The Mighty Games Group is an independent games development studio in Melbourne, Victoria. It has four directors, each of whom have extensive ties to the local and international video games industry. Ben Britten who is also director of Tin Man Games, Matt Ditton owns and runs Many Monkeys Development, Matt Hall operates Klicktock Studio and co-owns Hipster Whale with our fourth director, Andy Sum.

Their backgrounds encompass the creation of several commercially successful games, the creation of a game curriculum at a university level, an Academy Award in a technical field, working at some of Australia's largest studios when they were at their heyday, presenting on stage at the most recent Apple product launch conference, and successfully running a one-person studio with four games that reached #1 on the App Store.

Supporting this team of directors is a number of talented artists, programmers, designers, writers and production personnel directly employed or contracted by Mighty.

Mighty Games is appreciative of the opportunity to lend its combined voice and experience to the Senate Environment and Communications References Committee's (SECR) inquiry into the Future of Australia's Video Game Development Industry.

This submission addresses the Terms of Reference as provided by the SECR:

- A. 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.
- B. How Australia can attract video game companies to set up development operations in Australia and employ local staff.
- C. How export opportunities from Australia's local video game industry can be maximised.
- D. Any other related matters.

## About the Games Industry

We are sure that you'll be bombarded with all manner of figures about the video games industry. You'll see stats from the Global Games Market Report from Newzoo that show the industry will surpass \$100 billion dollars by 2017, showing a year on year growth of 8%.

You'll see growth around the world and especially in developing nations and markets including China, India and South America.

Closer to home, you'll read about Australians spending more than \$2 billion dollars on games and games related hardware in 2015. The 2014 Digital Australia Report out of Bond University

will inform you that games are an influential, diverse and wide-ranging form of mass media and that:

- 98% of homes with children under the age of 18 that have a device for playing computer games.
- 65% of Australians play games.
- 32 years-old is the average age of gamers.
- 47% of game players are women.

There are some quick insights and conclusions that we'd like to add to this data from our knowledge of the industry, starting studios, running studios and seeing studio growth around the world.

- Australia produces games that perform on the world stage at the highest level including Flight Control, Fruit Ninja, Real Racing, Jetpack Joyride, Ski Safari, Temple Run, Crossy Road, Framed and Armello.
  - At the latest **Apple product launch Crossy Road** was used to debut the Apple TV's game capabilities.
- Australian games generate more than 70% of their revenues overseas. They are an export business.
- Games are a truly a global phenomenon. Our latest game will launch in **21 languages**.
- Game studios require comparatively low equipment investment, so most money invested into studios goes into retaining highly skilled creatives and technical people, keeping their talents in Australia and developing them further.
  - Skills developed in the games industry are highly transferable and help enrich the skill sets of programmers, project managers, business analysts, pipeline and process managers.
  - Game technology is becoming more central in simulation, education and training and world-class skills in these areas offer benefits to every sector of Australia's economy and infrastructure.
  - Game development is highly experimental and requires excellent risk management strategies. It is an industry driven by innovation and which creates excellent processes for practical, commercial innovation practices.
- Most Australian studios are independents investing in their own intellectual property, which also has great potential for expanding franchises, further commercialisation and increased business opportunities and new projects (in games and other media) here in Australia.
- Game development is a cultural export that uses Australian values, ways of looking at the world and our lens on the world to create interesting and unique products.
- Games are increasingly crossing boundaries into other media, and physical or digital good economies.

## Assisting the Australian Games Industry

There are a few key issues that would greatly help grow, expand and further commercialise the work being done in game development.

1. Australia lacks an advanced investment network framework, making private investment difficult to obtain, and stunting the growth of the sector.
2. Australia lacks competitive tax frameworks and incentives to entice international investment.
3. Australia's physical remoteness can make it difficult to interact with many of the key players in this global market, especially for smaller, independent studios.
4. Collaborative spaces to help create a critical mass of world-best skills and opportunities.

## Investment

It is difficult to obtain private sector investment in the Australian games industry.

With this in mind, the Australian Interactive Games Fund was created, with industry consultation, in late 2012 to offer \$20 million dollars over three years to promising projects that would grow Australia's game production capabilities. The idea behind this fund was that it would become self-sustaining as the fund continued and diversified its risk across some the best and most-promising projects in Australia. The fund was scrapped without consultation with the industry in May 2014. This was a particularly bitter pill as games funded by the fund, like Defiant's Hand of Fate, went on to commercial success.

A fund like this, which aims to become self-sustaining, and is developed in conjunction with industry and which seeks appropriate commercial/ private partners would allow for the growth of the sector in a sustainable manner, while giving studios the support they need to produce new IP and create new business opportunities in Australia.

Currently, Victoria offers state funding for promising projects through Film Victoria. This support for the games industry helped fund 14 projects in the 2013/2014 financial year, at the cost of \$635,180. The favourable conditions offered by the Victorian Government, including this funding option has contributed to almost 45% of the Australian game industry calling that state home.

Similar funding arrangements have been seeing results around the world. Finland's program, launched in the 90s, helped create 3,000 jobs. In the past five years Finland has doubled its investment in technology and innovation start-ups, to €150 million. This fund helped create gaming industry giants Rovio (Angry Birds) and Supercell (Clash of Clans) which have revenues of €156 million (2013) and €1.5 billion (2014) respectively.

The success of Finland's ideas and innovation economy is forming a model for many countries and the Dutch government launched an investment fund of \$US13.6 million dollars with GameOn in 2014. It looks to offer seed money of between €100-200K.

## Tax Frameworks

With local investment hard to find, another option is looking for international investment in the Australian industry. This can be difficult to secure when we are in competition with other locations that offer better tax frameworks and initiatives that help mitigate the investor's risk.

In the US, Florida, Louisiana and Texas all offer tax credit frameworks up to 35% for games development.

Many Canadian States offer refundable tax credits, including Quebec and British Columbia, which have grown to be two of the biggest games industry hubs in the world. Canada's industry is third behind only the United States and Japan.

The UK has launched the Video Games Tax Relief (VGTR) and France has a 20% tax offset.

Australia has long recognised the cultural and economic advantages of having a strong domestic film and television industry and offers a 40% producer tax offset for qualifying feature films and 20% for other projects. If we extended a similar Producer Offset to the games industry we could compete on favourable terms with the leading game creation hubs in the world.

According to a 2011 Screen Australia report, 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.

## Travel Assistance & Networking

When the financial crisis hit in 2008, the Australian games industry looked very different. We had a number of major games studios producing games for international game publishers all over the world. While our dollar sat well below the US dollar this made financial sense, after it rose to about parity those studios started to close. This led to many of the talented people at those studios moving into the mobile game space and creating a lot of much smaller, independent studios.

One of the barriers for small studios signing key deals and securing international publishing relationships and funding is the difficulty of making face to face connections and building a rapport with the other key members of the industry.

Travel assist programs make this much easier and more manageable. Investment in these key travel assist programs can be quite tightly targeted, too, as there are a few key events where the global games industry tends to meet and make deals. This includes events like Electronic

Entertainment Expo, Tokyo Games Show, PAX conferences and the Game Developers Conference.

Being able to show our products on the world stage allows us to create new opportunities, showcase Australian talent and capability and also make key connections with people who can fund and promote games internationally.

## Collaboration and Critical Mass

One of the things that is difficult for game development in Australia is the distances involved. A critical mass of developers helps to keep the industry healthy. It allows all of the skills required to be recruited from within the country, it gives people learning their trades access to mentors, it allows for skill sharing across different areas of expertise as well as a healthy level of job opportunities to lure and retain world-class talent.

One of the ways to help provide and build that level of critical mass is through organisations like the Game Developers' Association of Australia (which has helped me assemble data for this submission) and through co-operative spaces like The Arcade (which was also created with the help of the GDAA). Mighty Games is located in Melbourne's Arcade along with 25 other studios made up of more than 80 people. We have seen and benefited, first-hand, from the skill sharing and collaboration allowed by collaborative development space.

It has helped us to grow our studio in a sustainable manner and has given us ready access not just to advice but also to our fellow developer's time which helps efficiently distribute work and handle overflow situations, allowing us to schedule and accept work with confidence. It has helped us pitch and market our games. It has given us access to hardware that we might not have been able to trial otherwise. It has given us access to international business and press contacts outside our employee's immediate circle.

It has given Melbourne (and the games industry) a place of contact for entities like Google, GQ, Vogue as well as State and Federal government representatives to see the local game development industry in action and to consult with a variety of industry experts.

We hope that government support will drive other spaces to be developed following in the mould of The Arcade.

## Conclusion

Our industry, especially our, small, independent games industry is seeded with high-level talent in the wake of our big studios closing. This means that our nation is a hotbed of dozens of new and innovative projects led by highly-talented people, which could lead Australia to being a leading game development hub with some key government support and follow the example set

by the clever and cost-efficient forward planning by Finland and Canada that has seen massive growth and great returns to their economy.