GAME DEVELOPERS'
ASSOCIATION OF
AUSTRALIA

Submission to

Senate Environment and Communications References Committee

Subject

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

Date

18 September 2015

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INTRODUCTION

The Game Developers' Association of Australia (GDAA) welcomes the opportunity to respond 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.

In this submission we have provided:

- A brief description of the GDAA
- An insight into the local and global digital games industry
- An overview of the state of the interactive game development sector in Australia
- A synopsis of the challenges and opportunities faced by the interactive game development sector in Australia

For the purposes of clarity, the use of the term 'games' or 'gaming' in this submission does not refer to the gambling sector in any form, but rather the products, and the development of those products, in the digital games industry.

Additionally, the terms 'interactive games', 'video games' and 'digital games' are interchangeable and refer to games that are created for and/or played on digital devices, including but not limited to, mobile and tablet devices, personal computers and home consoles.

ABOUT THE GDAA

The GDAA advocates on behalf of member digital game development companies, associated industry companies, and interactive entertainment training providers to industry stakeholders including governments, publishers, and industry advisors to promote, grow and attract investment in the Australian games development industry.

The following list represents game development businesses that are current members of the GDAA:

o 3 Sprockets	o Con Artist Games
o Bankroll Studios	o Considerable Content
o Big Ant Studios	o Defiant Development
o Black Lab Games	o Disparity Games
o Blowfish Studios	o Dreamgate Studios

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- o EA/Firemonkeys
- o Good Game Productions
- o Hipster Whale
- o Intuitive Game Studios
- o Iron Helmet Games
- o Klick Tock
- o Kumobius
- o Lampshade Games
- o League of Geeks
- o Loveshack Entertainment
- o Many Monkeys Development
- o Mighty Games
- o Minimega
- o Nnooo
- o Odd Games
- o Points of Engagement
- o Prettygreat

- o Pub Games
- o Rise Games
- o Robot Circus
- o RobotHydra
- o Samurai Punk
- o Sculptured Entertainment
- o SealedTech
- o Secret Lab
- o Tantalus
- o Tin Man Games
- o The Binary Mill
- o The Voxel Agents
- o Two Lives Left
- o Uppercut Games
- o Well Placed Cactus
- o Whale Hammer Games
- o Wicked Witch

The following list represents businesses that provide specialist services to the game development sector and are current members of the GDAA:

- o Cam Rogers Legal
- o Firelight Technologies (FMOD)
- o Kpow Audio

- o LDB Chartered Accountants
- o Lumi Consulting
- o Sound Librarian

The following list represents tertiary education providers that are current members of the GDAA:

- o Academy of Interactive Entertainment

- o CG Spectrum
- o SAE/QANTM

In the preparation of this submission, the GDAA consulted with member interactive games development companies, federal and state government departments or agencies[1] and industry associations[2].

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[1] Screen Australia, Film Victoria, Creative Victoria
[2] Interactive Games and Entertainment Association, Screen Producers Australia
This submission does not claim to represent the views of any of these third parties.

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STATE OF THE DIGITAL GAMES INDUSTRY

GLOBAL

The interactive games industry is the fastest growing entertainment industry globally.[3] Growth of the sector is expected to continue, up by 8.9% compounded annually to 2018. This growth will be fuelled by the growing online and mobile games markets and the new generations of consoles[4].

As detailed below, the digital games industry is a significant contributor to creative, knowledge, cultural and financial economies:

In 2012, the video game industry added nearly US$6.2 billion to the U.S. Gross Domestic Product (GDP)[5] and in those territories where Government has elected to invest or implement incentive schemes aimed at generating investment into the sector, the industry has become a significant contributor to the state or national economy.

The U.S. video game industry also continues to function as a vital source of employment. Currently, video game companies provide employment for more than 146,000 people in 36 states. The average compensation for direct employees is $94,747, resulting in total national compensation of more than US$4 billion[6].

In 2013, taking account of the total economic contribution (including multiplier and spillover effects) the core UK video games sector (i.e. UK-made video games) supported 23,900 Full Time Equivalents (FTE) of employment, generated £1.4 billion in Gross Value Added (GVA) and contributed £429 million to the Exchequer[7]. This data is based on a report issued prior to the UK government's introduction of the Video Games Tax Relief[8] in 2014.

Similar published examples of the cultural, creative and economic benefits in territories where the medium is recognised and supported can be found in Canada, Europe and Asia.

AUSTRALIA

In 2014, Australia's interactive games industry reached AU$2.46 billion in retail sales in Australia (excluding revenue generated from interactive games development or exports), a 20% increase from its previous year[9].

The industry generated estimated revenues of AU$2.46 billion in 2014, and for the first time combined digital sales overtook retail sales, generating AU$1.25 billion and AU$1.21 billion respectively[10].

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[3] Entertainment Software Association of Canada, *Levelling Up: Winning Strategies to Support Canada's Dynamic Video Game Industry*, March 2014, page 3

[4] PricewaterhouseCoopers, *Outlook | Global Entertainment & Media 2015-2019*

[5] Economists Incorporated, *Video Games in the 21st Century: The 2014 Report*

[6] Entertainment Software Association, 2014, *Games: Improving the Economy*

[7] Olsberg, SPI, Nordicity, February 2015, *Economic Contribution of the UK's Film, High-End TV, Video Game, and Animation Programming Sectors*

[8] https://www.gov.uk/guidance/corporation-tax-creative-industry-tax-reliefs#video-games-tax-relief-vgtr

[9] Interactive Games & Entertainment Association, March 2014, *Total value of the Australian industry 2014*

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> *"Hardware sales pushed the industry forward in 2014. Bricks and Mortar retailers have seen a boost in demand for the current generation consoles, which in turn has lead to an increase in demand for new console software and accessories and items such as game cards. The tremendous growth in digital sales shows that publishers and developers are effectively catering to the purchasing habits of an increasingly connected customer base."*
>
> *- Ron Curry, CEO, Interactive Games & Entertainment Association*

The Interactive Games & Entertainment Association's (IGEA) *Digital Australia 2016 Report* (July 2015) seeks to understand the Australian game consumer and drawing comparisons between IGEA's data and that of the U.S. shows how closely Australian consumers trend:

Australia *Digital Australia 2016*[11] - IGEA -	**United States** *Essential Facts About The Computer And Video Game Industry 2015*[12] - ESA -
98% of Australian homes with children under the age of 18 have a device for playing interactive games	**Four Out Of Five** U.S. households own a device used to play video games
68% of Australians play interactive games	**42%** of Americans play video games regularly
The average game player is **33** years old	The average game player is **35** years old
47% of game players are female	**44%** of game players are female
The average number of years gamers have been playing video games: **12**	The average number of years gamers have been playing video games: **13**

The IGEA *Digital Australia 2016 Report* also reveals that older Australians comprise the largest group of new players of the last 4 years, with players aged 50 and over representing 23% of the interactive game playing population[13].

GAMES IN NON-TRADITIONAL SECTORS

Games, game methodologies and game technologies are increasingly being adopted in sectors that would be considered non-traditional, i.e. not purely for the purposes of entertainment.

This is particularly evident in healthcare, where games are being used in a broad range of areas, including health education (*BrainyApp*[14]), diagnosis (*Project: EVO*[15]) and rehabilitation (*Songs of Elstryn: Oath of the Gryphon*[16]), as examples.

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[10] Interactive Games & Entertainment Association, March 2014, *Total value of the Australian industry 2014*

[11] http://www.igea.net/wp-content/uploads/2015/07/Digital-Australia-2016-DA16-Final.pdf

[12] http://www.theesa.com/wp-content/uploads/2015/04/ESA-Essential-Facts-2015.pdf

[13] http://www.igea.net/wp-content/uploads/2015/07/Digital-Australia-2016-DA16-Final.pdf

[14] http://www.brainyapp.com.au/aus/

[15] http://www.brain.akiliinteractive.com/

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Similarly games are being used in education, and will become more prevalent in Australian classrooms with the rollout of the digital technology curriculum into primary and secondary schools, following similar initiatives in the UK[17] and Estonia[18].

Games are also being utilised in training (from work safety to triage), in defence, and have become a part of employee motivation/rewards programs.

There is no doubt that the use of games in these and new non-entertainment industries will grow exponentially over the next few years.

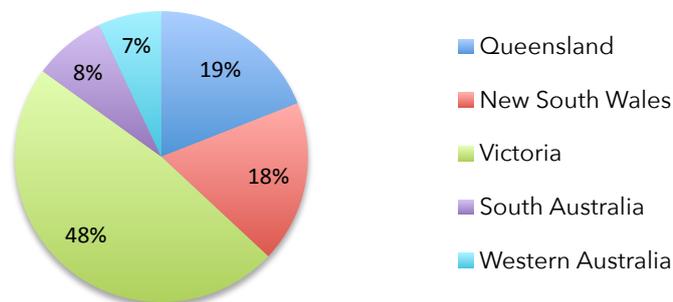## THE AUSTRALIAN GAME DEVELOPMENT INDUSTRY

Australia has a 34-year history in digital games development with the first game produced in 1981.

The Australian sector continues to exceed global expectations by continually producing and exporting successful games from within an ecosystem that remains woefully under supported. Australian game developers have won prestigious awards around the world, including four Apple design awards in the past five years[19].

The game development industry is labour intensive, relies on a highly skilled work force, provides secure employment and constantly improves productivity driven by innovation. The Australian sector operates in the highly competitive global market and is almost entirely export focused.

Nationally the game development industry comprises 225 businesses[20], largely dynamic small and medium enterprises specialising in the delivery of games content for mobile and tablet devices, personal computers and, to a lesser extent, consoles. Development of games on console devices (PlayStation 4, Xbox One, Wii U) has been limited in Australia, cost of development and lack of investment in the sector being a significant inhibitor.

Geographic Spread of Australian Game Development Businesses

- Queensland — 19%
- New South Wales — 18%
- Victoria — 48%
- South Australia — 8%
- Western Australia — 7%

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[16] http://www.grendel-games.com/index.php/products/serious-games/50-seriousgames-oathofthegryphon
[17] http://www.bbc.com/news/technology-29010511
[18] http://ubuntulife.net/computer-programming-for-all-estonian-schoolchildren/
[19] *Real Racing* (Firemint), *Flight Control* (Firemint), *Jetpack Joyride* (Halfbrick), *Crossy Road* (Hipster Whale)
[20] Based on GDAA database of game development and supporting companies. The GDAA only records ASIC registered companies.

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The GDAA's *National Industry Survey of Australian Game Developers 2014*, the vast majority (75.7%) of respondents nominated 'Independent Game Developer' as their primary business type. 'Commercial Game Developer' (generally recognised as companies who do work for third parties, including publishers) was the second most popular option, but only accounted for 12.15% of responses. In the Australian Bureau of Statistics *Digital Game Development Services Australia 2006/07*, almost all of the 45 game development companies[21] identified 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.

In the GDAA's *National Industry Survey of Australian Game Developers 2012* report, 77% of respondents identified as 'Self-owned and managed', a growth trend that has continued as this figure has now increased to 90.65%[22]

Based on the results of the 2014 industry survey, the Australian game development sector is employing at least 827 people in full time, part time, casual and contract positions[23].

Nationally, 2013 gross revenues increased by around 14% on the 2012 figure of approximately AU$56.5[24] million to almost AU$64.5 million. It is important to note that the multinational companies based in Australia, including EA Firemonkeys, 2K Canberra[25] and Kizeye, did not provide revenues results to the survey although games produced by these local studios are known to have been enormously successful internationally generating revenues estimated at over a hundred million dollars.

A large percentage of the companies (83.87%) responding to the *National Survey of Australian Game Developers 2014* are anticipating growth, with almost 70% of those expecting significant growth over the next twelve months.

In education, there are 37 tertiary providers nationally offering 172 games or games-related courses. In 2011, 4,528 students were enrolled in courses recognised as pathways to working in the games industry. In 2013, this figure had increased by 25.8% to 5,697 enrolments.[26]

A historical overview of the interactive games industry in Australia can be found in a number of previous reports including Screen Australia's *Playing for Keeps*,[27] the Australian Centre for

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[21] The same data can be found in the ABS' 2012 *Film, Television and Digital Games, Australia, 2011-12* report.
http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/E612C796E7A5461FCA257BA50012F64A/$File/86790_2011-12.pdf

[22] GDAA, 2014, *National Industry Survey of Australian Game Developers 2014*

[23] Based on the 92 respondents to the *National Industry Survey of Australian Game Developers 2014*. Current GDAA data suggest the sector employs over 1,000 people.

[24] GDAA, 2012, *National Industry Survey of Australian Game Developers 2012*

[25] The 2K Canberra studio was closed in April 2015 citing high production costs in Australia,
http://www.smh.com.au/digital-life/games/game-developer-2k-australia-closes-canberra-studio-20150416-1mmg3l.html

[26] GDAA, 2015, *Skills And Capability In The Victorian Game Development Sector Review*

[27] http://www.screenaustralia.gov.au/about_us/pub_gamesreport.aspx

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Moving Images' *History of Games Development in Australia*[28] and the CCI's *Working in Australia's Digital Game Industry: Consolidation Report.*[29]

CHALLENGES FACED BY THE AUSTRALIAN GAME DEVELOPMENT INDUSTRY

There are a number of challenges confronting the Australian game development industry that have contributed to the restricted growth of the sector, especially of established Australian game development businesses, that have:

• impeded inward investment from large multinationals or institutional investors,
• seen local talent migrate overseas,
• and limited the opportunity for Australian-made content to reach a broader global audience.

The modern Australian game development industry was defined during Global Financial Crisis (GFC) in 2007/2008. The period saw many large international game publishers, who to that point had been the primary source of contract work for the Australian sector, to review their business models, which in turn led to a reduction in work being outsourced to Australia[30]. Coupled with the rising Australian dollar, the lack of a tax relief system for games production, and proactive activity in Eastern Europe, Asia and India supporting game development activity, the period saw the closure of many large, established Australian game development studios[31].

The closures saw a significant loss of talent in the sector with many highly skilled industry practitioners moving overseas to pursue their careers or leaving the industry entirely. By 2012, employment numbers had dropped to almost one-third of the 2007 levels, from 1,431[32] to 581[33].

During the same period, digital distribution, a means of delivering content to a player without the involvement of a traditional games publisher, rose as a viable business opportunity for independent game development businesses. Driven by Apple with the launch of the iPhone (in 2007) and the iTunes store, the model was embraced early by the Australian game development industry and the sector saw early success with the release Firemint's *Flight Control* (2009) and *Real Racing* (2009), Halfbrick Studios' *Fruit Ninja* (2010) and *Jetpack Joyride* (2011), Defiant Development's *Ski Safari* (2012) and more recently, Hipster Whale's *Crossy Road* (2014). In these examples alone, Australian originated ideas and productions have reached hundreds of millions of players around the world[34].

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[28] Knight, S and Brand, J, *History of Game Development in Australia*, ACMI, 2007.

[29] Australian Research Council Centre of Excellence for Creative Industries and Innovation (CCI) and Queensland University of Technology in partnership with the Games Developers' Association of Australia, *Working in Australia's Game Development Industry, A Consolidated Report*, May 2011, at http://www.cci.edu.au/sites/default/files/shaukka/Working%20in%20Australia%27s%20Digital%20Games%20Industry%20Consolidation%20Report%20May%202011.pdf

[30] Screen Australia Report, pages 2-3 and Screen Australia, *Australian Interactive Games Fund: Options paper for comment*, 2012, page 5, at http://www.screenaustralia.gov.au/getmedia/4aa35671-58b6-409c-9d04-3d8d3304ae37/Games_consult_10Dec2012.pdf (accessed 27 July 2015).

[31] Pandemic Studios, THQ Australia, THQ BlueTongue, Krome Studios, Transmission Games

[32] Australian Bureau of Statistics, *Digital Game Development Services Australia 2006/07* (Catalogue Number 8515.0)

[33] Australian Bureau of Statistics, 2012, *Film, Television and Digital Games, Australia, 2011-12* (Catalogue Number 8679.0)

[34] http://www.smh.com.au/digital-life/games/fruit-ninja-seo-here-20150831-gjbiuc.html

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While highly regarded internationally for its consistent output of quality games, the Australian game development industry has not grown at a pace consistent with the overall growth of the Australian interactive games industry more broadly and the increasing engagement by Australians with interactive games and the digital economy.

The impediments to growth and further challenges faced by the industry can be summarised as follows:

1. Lack of a sophisticated investment network in Australia to provide capital for innovative interactive game development

2. Non-competitive tax structures for interactive games development limits investment in new technologies

3. Lack of internationally competitive tax incentive initiative required to drive local and international investment into the Australian ecosystem

4. Limited business assistance is required for the promotion of Australian made content to a global audience

5. Lack of support programs to help develop innovative game development clusters and/or precincts required to foster a knowledge sharing culture and collaboration.

6. Limited employment opportunities for graduates, despite the strong pipeline of new talent coming through innovative Australian training institutions specialising in interactive game development and computer science

7. Inadequate broadband infrastructure.

SUPPORT OF THE GAME DEVELOPMENT SECTOR IS IMPORTANT

Digital games are the first truly international art form. The Internet, social networking and digital distribution provide a path for existing and emerging content creators to a worldwide group of peers and audience.

The digital games industry has a significant part to play in expressing Australia's culture, values and capability to a global audience. Now the largest creative industry sector in the world, and growing, the digital games sector should and can be a significant contributor to Australia's creative, cultural and knowledge economy.

With a growing game playing audience comes the opportunity to create experiences that are outside of the scope of what once might have been considered a 'typical' game. Game developers are experimenting with new ways of delivering complex experiences, exploring challenging and topical narratives, and designing mechanics intended to engage their audience in an experience like no other medium can. Powerful examples of these experiences can be found in *This War Of Mine* (the civilian experience of war), *Papo & Yo* (alcohol abuse) and *That Dragon, Cancer* (the experiences of raising a child with terminal cancer).

The production of a digital game requires a multitude of creative and technical skills. Of the creative industries, the skills developed and honed in the digital games sector are transferable across a number of other industries, creative and otherwise.

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Accessible new technologies and an understanding of global delivery platforms allow game development studios to provide a unique training environment for young people to develop entrepreneurial skills in an international marketplace. Employment opportunities for Australian youth continue to be high on the nation's agenda with unemployment at levels unseen since the 1992 recession.[35] Game development businesses provide opportunities to link the needs of employers in the broader digital economy with the skills of young people focusing on both hard and soft skill innovation.

The Australian game development industry is also open to exploring collaboration with other creative sectors and practitioners with the understanding that supporting diversity is critical to the growth and development of Australia's creative industries. The digital games space is an ideal, pervasive and accessible format available to Australian creative practitioners, and offers a means for Australian creativity to be seen by a broad audience.

Committed and assured support of the Australian digital games industry, at all levels, will encourage and achieve production of globally competitive new content, technologies and business models. A strong game development sector will also produce positive benefits to all Australians in terms of health, educational, training and even standards of living. The sector also has the potential to grow the digital literacy of Australians, particularly important for the older generations who increasingly utilise digital platforms to engage in banking, social services, e-commerce and health provision.

The GDAA encourages a holistic approach be adopted in the development of support activity for the Australian digital games industry, including the establishment of appropriate regulatory and taxation frameworks, talent acquisition and retention incentives and export opportunities aligned as part of a broader Federal Government digital economy strategy.

KEY RECOMMENDATIONS

To effectively capitalise on the local and global opportunities available to Australian game development businesses and the broader Australian games industry, the GDAA recommends the Senate's ECRC consider the following:

1. Reintroduction or establishment of a self-sustaining funding program for digital game projects and game development businesses

2. Extension of the Producer Offset to include digital game production

3. Supporting innovation precincts and clusters

4. Updating Australia's National Digital Economy Strategy, acknowledging and providing supportive language for games

5. Developing and retaining games developer talent in Australia, and attracting skilled game developers back to Australia

6. Committing to the updated classification regime

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[35] Campbell, L, "Universities offer 'education to nowhere' as youth jobs dry up", Australian Financial Review, 16 August 2015, at http://www.afr.com/leadership/careers/jobs/universities-offer-education-to-nowhere-as-youth-jobs-dry-up-20150811-giwi5g#ixzz3jgtqTR6Y

7. Establish an export support program with a focus on trade activity and business development

These recommendations, all of which are realistic and attainable, are proposed to ensure a sustainable and positive future for the Australian game development sector, and further to the broader Australian games industry. Support of the Australian game development sector has the potential to generate positive spill-on effects for other sectors and consumers in the Australian digital economy.

Note: The recommendations listed above are not in priority order, but arranged to address the ECRC's Terms of Reference.

TERMS OF REFERENCE

In addressing the questions posed by the Senate Environment and Communications References Committee in the Terms of Reference, and referencing the Key Recommendations, the GDAA is proposing the enhancement of, inclusion in or reintroduction of incentive programs that currently exist or have existed in Australia, or emulating support initiatives implemented in territories that have chosen to support their respective game development sectors with successful results.

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?

RECOMMENDATION 1: REINTRODUCTION OR ESTABLISHMENT OF A SELF-SUSTAINING FUNDING PROGRAM FOR DIGITAL GAME PROJECTS AND GAME DEVELOPMENT BUSINESSES

There is currently no specific national support for the Australian game development industry. The sector does have limited access to general incentivised regulatory or taxation frameworks, available to all businesses, including the Research & Development Tax Incentive[36], the Export Market Development Grant[37] and Enterprise Australia.

In November 2012, then Minister for the Arts, Simon Crean, announced the Australian Interactive Games Fund (AIGF), a three-year, AU$20 million fund intended as a platform for growth for the Australian game development industry[38]. The program was developed by the Minister's office, the GDAA and Screen Australia, who would administer the fund, and after extensive consultation with the game development sector. Determined not to become a sector reliant on patronage from government, it was the Australian game development industry that proposed the program become self-sustaining i.e. that the profits from successful projects would be invested back into the program to fund future projects or enterprises[39].

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[36] Information on the R&D Tax Incentive is available at: http://www.business.gov.au/grants-and-assistance/innovation-rd/RD-TaxIncentive/Pages/default.aspx

[37] Austrade, http://www.austrade.gov.au/Australian/Export/Export-Grants/What-is-EMDG

[38] http://mumbrella.com.au/crean-announces-20m-goverment-investment-in-games-industry-administered-by-screen-australia-125926

[39] More information on the program guidelines and public consultation process and industry feedback can be found at http://www.screenaustralia.gov.au/about_us/new_directions/games_consult.aspx

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In May 2014, and one year into the program, the current Federal Government in the announcement of the Federal Budget discontinued support for the AIGF[40]. The decision was made without consideration of or consultation with the Australian game development industry.

In the period since the AIGF was discontinued, several companies and projects that received support through the program have achieved global success, clearly demonstrating that the sector's commitment and determination that the fund be self-sustaining was reasonable and achievable.

Victoria stands alone as the only State that has and continues to provide long term support to its game development sector. Film Victoria, the State's screen agency, administers three programs that directly support production, commercialisation and skills development:

1. Assigned Production Investment – Games: Generally capped at $150,000, funding is available to assist Victorian games companies to produce a prototype or full game, and also for marketing and related expenses.[41] In FY 2013/2014, Film Victoria funded 14 games projects, with a total commitment of $635,180.[42]

2. Games Release: Up to $30,000 is available as a grant to support Victoria's newer and smaller interactive games studios to deliver a well-planned and marketed release of their project. In FY 2013-2014, Film Victoria supported 8 projects, with a total commitment of $173,300.[43]

3. Games Professional Placements: This program supports Victorian games companies to engage a Victorian practitioner. In FY 2013-2014, Film Victoria supported 6 companies through Games – Professional Industry Placements.[44]

This State level support has contributed substantially to Victoria now representing over 45% of the national game development industry.[45] The GDAA supports and encourages industry access to development funds at a State level, such funding being important to the creation of new businesses, the development of new intellectual property and support of existing enterprises.

The GDAA proposes the Australian Government either reinstate the AIGF or introduce a similar supportive funding program, one that provides direct funding to the Australian game development industry for project or enterprise development, and that is based on the same or similar self-sustaining model effected in the now-defunct AIGF, i.e. based on soft or limited recourse loans that are repaid on the successful commercialisation of projects or enterprise growth. The introduction of the fund would stimulate growth in the sector, particularly for

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[40] http://www.screenaustralia.gov.au/news_and_events/2014/ia_140514_games.aspx

[41] Film Victoria website at http://www.film.vic.gov.au/funding/games

[42] Film Victoria Annual Report 2013-2014 (page 11),
http://www.film.vic.gov.au/__data/assets/pdf_file/0004/92740/Film-Victoria-Annual-Report-2013-14-Screen-Version.pdf

[43] Film Victoria Annual Report 2013-2014 (page 11),
http://www.film.vic.gov.au/__data/assets/pdf_file/0004/92740/Film-Victoria-Annual-Report-2013-14-Screen-Version.pdf

[44] Film Victoria Annual Report 2013-2014 (page 11),
http://www.film.vic.gov.au/__data/assets/pdf_file/0004/92740/Film-Victoria-Annual-Report-2013-14-Screen-Version.pdf

[45] GDAA, *National Industry Survey of Australian Game Developers 2014*

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established game development companies seeking to grow and in turn creating more employment opportunities within the sector.

Note that the GDAA and Screen Australia[46], as well as other industry organisations, recommended the introduction of a direct funding model for the Australian game development industry in their respective responses to the National Cultural Policy and Convergence Review in 2011. The GDAA posited then that:

> The digital game industry requires significant investment in the early stages of its development process. As investor/publisher interest is the initial requirement for a game's success, developers in growing regions must be able to progress their concept to the point where it appeals to investment partners. Government support for content creation is a typical way that these kinds of 'incubation' activities are facilitated for development studios, typically through such mechanisms as grants, tax credits, support for expenditures that indirectly lead to content development (including talent, R&D, and infrastructure), and encouragement of foreign investment.

Government-driven direct funding models for games are not new and have been introduced in many countries, Finland being the most recent to report the successes of its support fund, where games are recognized as a form of culture. This recognition has positive affects not only on the public perception of games, but also on the attitudes of the public sector towards the game industry. TEKES, the Finnish Funding Agency for Technology and Innovation, has invested over €70 million over the 20 years they have been supporting the games industry. In 2013 the sector recorded annual turnover of
€830 million.[47]

RECOMMENDATION 2: EXTENSION OF THE PRODUCER OFFSET TO INCLUDE DIGITAL GAME PRODUCTION

Necessary to the Australian game development industry realising sustainable growth, increasing its international competitiveness and becoming a substantial contributor to the Australian economy is the introduction of a tax incentive program that will attract higher levels of investment in both projects and enterprises. The GDAA is proposing extending the Producer Offset to include digital games.

The Australian game development industry has struggled to attract investment support locally, mostly driven by the lack of a sophisticated investment network and an uninformed perspective of the games industry. Attempts to attract international investment are even more challenging with either publishers or investment companies seeking to mitigate risk by investing in territories with established tax incentive structures.

For reference, Screen Australia is the primary Federal Government agency that administers direct and indirect investment into the independent screen production sector in Australia. This encompasses a mix of direct investment (grants, interest-free loans and pro-rata equity investment) and indirect investments in the form of the Producer Offset. The Producer Offset is a refundable tax offset available to producers of content for qualifying Australian production

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[46] Under the name of an Online Production Fund: Screen Australia Report, page 28.
[47] Neogames, *The Games Industry of Finland,* 2014, http://www.tekes.fi/globalassets/ohjelmat-ja-palvelut_uusin/skene/brochure/game-industry-finland-brochure-2015.pdf.pdf

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expenditure (QAPE). If eligible, producers can receive a 40% offset of QAPE for feature films and 20% for other projects with certain expenditure thresholds. The Producer Offset is paid through the Australian company tax system after a project is completed and Screen Australia has issued the production company with a Final Certificate.[48]

It is generally acknowledged that the Producer Offset tax regime for Australian film and television productions has worked well to achieve the original policy intention to:[49]

> *… help the film and television industry to become more competitive and responsive to audiences, and will be a major incentive for projects with significant commercial potential… The [Offset] provides a substantial opportunity for producers to retain significant equity in their productions and build stable and sustainable production companies, both important for the long term growth of the film industry.*

The GDAA has advocated for inclusion in the Producer Offset for many years, however the GDAA and the Australian game development industry are seeing greater support from agencies and industry associations for the same. As recently as 2011, the Convergence Review final report recommended[50]:

> *Interactive entertainment, such as games and other applications, should be supported by an offset scheme and the converged content production fund.*

And referenced the inclusion of games and Producer Offset in the submissions to the Convergence Review[51]:

> *Submissions to the Review indicated broad support for the Producer Offset but also called for a number of changes to rationalise the different levels of incentives offered to television productions when compared to film productions and to recognise newer forms of interactive entertainment, such as games and applications.*

In 2011, Screen Australia released their *Playing for Keeps* report in which the agency proposed the introduction of an Interactive Entertainment (Games) Offset with two levels of support, namely a 30% tax credit on eligible expenditure with a minimum threshold expenditure of $500,000 and a 20% tax credit on eligible expenditure with a minimum threshold expenditure of $200,000.[52]

In an economic impact statement included in the report, Screen Australia stated:[53]

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[48] https://www.screenaustralia.gov.au/producer_offset/default.aspx

[49] Senator Helen Coonan and Senator George Brandis SC, New producer incentive for Australian film and television productions, Joint Media Release, 8 May 2007.

[50] Convergence Review Final Report, 2011, Page 59, http://www.abc.net.au/mediawatch/transcripts/1339_convergence.pdf

[51] Convergence Review Final Report, 2011, Page 73, http://www.abc.net.au/mediawatch/transcripts/1339_convergence.pdf

[52] Screen Australia, 2011, *Playing for Keeps*, Page 27, http://www.screenaustralia.gov.au/about_us/pub_gamesreport.aspx

[53] Screen Australia, 2011, *Playing for Keeps*, Page 29, http://www.screenaustralia.gov.au/about_us/pub_gamesreport.aspx

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> *This modelling indicates that over a five-year period from the introduction of the Offset there would be an additional investment in the interactive entertainment industry of $146 million, of which $100 million would come from foreign sources. This would result in an additional contribution of $76 million to Australia's Gross Domestic Product. Furthermore, 383 new jobs would be created and sustained, which is an increase of around 50 per cent on those currently working on projects with budgets in excess of $200,000.*

The Games Development Association of Australia and Screen Producers Australia have also previously argued for the extension of the Producer Offset to interactive games on the basis that it will provide a smart and efficient, market-driven tax incentive that will stimulate investment and the increased content creation in Australia for the long-term sustainability of the interactive games development industry.

There is clear evidence from around the world on the success of tax offsets for boosting the interactive games development sector in those territories, including in the following territories:

1. A number of Canadian States, including British Columbia, Manitoba, New Brunswick, Nova Scotia, Ontario, Prince Edward Island and Quebec provide competitive tax incentives for games development as digital media. These are refundable tax credits ranging from 17.5% to 40% on labour incentives.[54] As a result, Canada is now home to the third largest games industry in the world, second only to the United States and Japan.[55] In 2014 it employed 16,500 people directly and created the equivalent of 27,000 full-time jobs with 329 interactive games development studios.[56]

2. In the United States, a number of states including Florida, Louisiana and Texas offer tax credit frameworks of up to 35% for interactive games development.

3. In the United Kingdom, since 1 April 2014 Video Games Tax Relief (VGTR) can be claimed for interactive games which are British, intended for supply and where at least 25% of core expenditure (expenditure on pre-development, principal photography and post-development) is incurred on goods or services that are provided from within the European Economic Area.[57] If a studio qualifies for the VGTR then it can claim an additional deduction worth 100% of core expenditure (where core expenditure is a maximum of 80% of total core expenditure). If the interactive games development studio is loss-making, it will be able to surrender such losses for a payable tax credit worth 25% of core expenditure (i.e. effectively a payable credit of a maximum 20% of total core expenditure). Interactive games development studios may separately be eligible for research and development relief in certain circumstances.[58]

4. France offers a 20% tax offset for production expenditure for games.[59]

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[54] PWC, *The Big Table,* at http://www.pwc.com/ca/en/entertainment-media/publications/pwc-big-table-digital-animation-2014-08-en.pdf
[55] ESAC Submission, page 2.
[56] Ibid, page 4.
[57] GOV.UK, *Video Games Development Company Manual*, at http://www.hmrc.gov.uk/manuals/vgdcmanual/index.htm
[58] GOV.UK, *Corporation Tax: creative industry tax reliefs*, at https://www.gov.uk/corporation-tax-creative-industry-tax-reliefs
[59] Subject to the production expenditure passing a cultural significance test.

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Other countries, including New Zealand, are looking at the extension of producer offsets to the interactive games development industry.[60]

Extending the Producer Offset to games will assure the long-term future of the Australian game development industry. The tax incentive will see growth in existing enterprises that will in turn provide career paths for young graduates and attract Australian expat talent back to the country. Additionally the Offset will encourage greater investment into the local sector; from within existing businesses seeking take greater risks in creative content and technology development, and capital investment from publishers or institutional investors. Stability and security will also encourage the sector to explore and invest more energy into new merging markets or penetrating existing markets where Australian developers have little presence, including Asia, South America and Eastern Europe.

RECOMMENDATION 3: SUPPORTING INNOVATION PRECINCTS/CLUSTERS

In an era of global competition, proximity can still provide industries with significant competitive benefits, such as increased industry productivity, better access to skilled employees and public infrastructure, potential benchmarking, improved networking, and overall market knowledge. In addition, the pressure of operating in close proximity to 'competitors' creates constant pressure to innovate and differentiate. Regions that have successfully implemented a digital game growth model have often done so around a major urban cluster, allowing these regions to concentrate their efforts and investments in a contained area.

In Melbourne, The Arcade[61], a collaborative workspace created for digital game creators, has demonstrated the value of clustering like-minded, creative and talented people. 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[62].

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[60] New Zealand Games Developers Association, "Jobs in NZ Games Industry Grow in FY2015", Press Release, 21 August 2015 at http://nzgda.com/news/survey2015/

[61] http://thearcade.melboune

[62] Creative Victoria holds a desk at The Arcade and representatives from the department work from the space every week. This is done to ensure the department's knowledge of the sector remains current and government is aware of industry conversation.

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The development of innovation clusters is a strategy that has been used with success in many of the Scandinavian countries, including Finland, which boasts seven regional games clusters, many funded by support through the European Union.[63] Hubs are currently in in Turku, Tampere, Oulu, Kajaani, Joensuu, Kotka and Kouvola and there are also plans to set up clusters in Jyväskylä and Rovaniemi.

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.

The GDAA recommends 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.

RECOMMENDATION 4: UPDATING AUSTRALIA'S NATIONAL DIGITAL ECONOMY STRATEGY, ACKNOWLEDGING AND PROVIDING SUPPORTIVE LANGUAGE FOR GAMES

The GDAA supports the Australian Government's commitment to update the National Digital Economy Strategy and encourages it to address the issue of support for the Australian game development industry within this broader and more comprehensive strategy. This strategy should also reinforce the importance of broadband infrastructure, which is critical for the digital economy, particularly in regional and remote Australian consumers and businesses.

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.

b.   How Australia can attract video game companies to set up development operations in Australia and employ local staff

Recommendations 1-4 (previous) will contribute considerably to establishing Australia as an attractive investment opportunity. The implementation of these recommendations will portray Australia as a country that recognises the importance of the medium and showing ongoing commitment to the development of the sector. However, attracting overseas interactive games companies to Australia to set up their development operations and employ local staff will require a holistic digital economy strategy, with Australia's regulatory and taxation frameworks critical to that decision making process.

The following recommendations, when implemented, will strengthen the Australian bid to attract interactive games companies into the country.

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[63] Neogames, *The Games Industry of Finland,* 2014, Page 18, http://www.tekes.fi/globalassets/ohjelmat-ja-palvelut_uusin/skene/brochure/game-industry-finland-brochure-2015.pdf.pdf

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RECOMMENDATION 5: DEVELOPING AND RETAINING GAME DEVELOPER TALENT IN AUSTRALIA, AND
ATTRACTING SKILLED GAME DEVELOPERS BACK TO AUSTRALIA

If Australia is to maintain a successful digital economy it must develop and retain a talented and
highly skilled workforce with the necessary technical capabilities plus creative talent. There are
already a number of Australian educational and training institutions that provide talent to the
interactive games development industry, including private colleges such as SAE and the
Academy of Interactive Entertainment, as well as a number of traditional universities. These
skills can be leveraged across not just interactive games, but also games-based technologies
used increasingly across a number of traditional industries.

However, the Australian games development industry now employs slightly more than 1,000
industry professionals. This is less than half of the number of active participants recorded in
2008, and is only double the employment of its smaller neighbour, New Zealand, who currently
employs 568 full-time employees.[64] A recent GDAA study confirmed that there is presently an
over-supply of graduates in interactive game development in Australia, resulting in fierce
competition for getting jobs after graduation, with many graduates forced to find contracting
positions or seeking employment in other sectors.

Interactive games development studios locally also noted that while many of the Australian
graduates have excellent technical skills there is often a lack of soft and business skills essential
for working in a small Australian studio. Therefore, there is a need for educational courses to
focus on the needs of small interactive games development studios in requiring employees to
be multi-skilled, particularly given the small size of the studios and then need to apply
themselves in various areas e.g. across development, design, marketing, sales and distribution.

In contrast to the potential over-supply of graduates in interactive games development in
Australia, there is also now a severe shortage of highly skilled professionals. As Screen
Australia noted previously, the closure of games development studios in Australia in the late
2000s resulted in the talent pool of highly skilled and experienced human capital leaving
Australia.[65]

Therefore, the extension of the Producer Offset (Recommendation 2), together with other
recommended regulatory and taxation measure provide a key opportunity to strengthen the
interactive games development industry in Australia, helping also the retention and attraction
of key talent. These talented individuals are likely to not only be beneficial to the interactive
games development industry, but more broadly to the Australia's digital economy where their
skills can be leveraged. For example, in digital agencies which work with a number of clients to
maximise a range of interactive digital assets.

Increasing the skills base in Australia will serve as a major attractor to multinational game
development companies seeking to establish in the country. As stated recently by the
Entertainment Software Association of Canada in their submission entitled *Levelling Up:
Winning Strategies to Support Canada's Dynamic Video Game Industry* in March 2014:[66]

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[64] New Zealand Games Developers Association, "Jobs in NZ Games Industry Grow in FY2015", *Press* Release, 21
August 2015 at http://nzgda.com/news/survey2015/
[65] Screen Australia Report, page 22.
[66] ESAC Submission, page 5.

> *Access to capital and investment incentives alone are inadequate to support an*
> *industry in the absence of a talented and highly skilled workforce. Without talent,*
> *games development studios are unable to remain on the cutting edge regardless*
> *of how cost effective they may be.*

RECOMMENDATION 6: COMMITTING TO THE UPDATED CLASSIFICATION REGIME

The GDAA supports the recent amendments to the *Classification Act*[67]*,* which enable certain
content, including relevant online and mobile device content, to be classified using
classification tools. The GDAA also acknowledges and appreciates the tireless efforts of the
Interactive Games & Entertainment Association (IGEA) in driving this important agenda.

On 10 March 2015, the Australian Government announced that Australia would join the
International Age Rating Coalition (IARC) and participate in the pilot of their online
classification tool. The IARC tool was created as a global solution to make it as straightforward
as possible for both Australian and international developers to assign local classifications,
enabling them to inform parents, caregivers and other purchasers of the age appropriateness
of their digital games in a way with which they are familiar.

The amendment of the legislation, together with the decision to allow Australian interactive
games developers to leverage the IARC tool is a welcomed recent regulatory development.
The GDAA supports the ongoing utilisation of the IARC tool to reduce the regulatory barriers
to the commercialisation of interactive game products, which will be further enhanced by the
implementation of the next tranche of reforms as outlined in the Australian Law Reform
Commission's report on classification and content regulation.[68]

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.

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c.   How export opportunities from Australia's local video game industry can be maximised

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RECOMMENDATION 7: ESTABLISH AN EXPORT SUPPORT PROGRAM WITH A FOCUS ON TRADE ACTIVITY AND BUSINESS DEVELOPMENT

The Australian game development industry is predominantly export oriented with more than
70% of Australian developed content distributed on global-reach digital platforms. Western
markets remain the central focus and major revenue source for the Australian industry, with
some inroads made into Asian territories, mostly with product that has already seen substantial
success in the U.S. and not as a result of direct marketing or promotion in the region. There is
significant opportunity for the Australian game development industry to advantage of its
proximity to Asia and to cultivate the territory as a future market.

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[67] Through the Classification (Publications, Films and Computer Games) Amendment (Classification Tools and Other
Measures) Bill (Cth) 2014.
[68] Australian Law Reform Commission, Content Regulation and Convergence Media, Report 118 available at
http://www.alrc.gov.au/publications/classification-content-regulation-and-convergent-media-alrc-report-118 (accessed
25 August 2015).

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Global success has been achieved by Australian game developers for the content they have created, but also a direct result of the promotional activities undertaken at major international events and trade shows. Presence at these event has been critical not only for the promotion of a single game, but in building the profile of the sector.

The GDAA recommends a targeted program that provides assistance to Australian digital game developers with:

- Travel costs associated with attending key interactive games conferences around the world such as the Games Development Conference (GDC), the Electronic Entertainment Expo (E3), PAX EAST/PRIME/SOUTH or Gamescom, which operate as critical market places to market projects and garner investment and support

- Commercial skills and knowledge training focused on the practical elements of doing business in the digital global economy.

The Export Market Development Grant, administered by Austrade, aims to assist small and medium exporters to seek out and develop export markets by partially reimbursing their expenditure on export promotion (such as travel and promotional materials). The program could be better targeted towards digital businesses.

CONCLUSION

There can be very little doubt that a strong digital game development industry can be a substantial contributor to Australia's cultural, knowledge, creative and financial economies, as the sector has in territories that have embraced the modern medium.

As the premier representative body of the Australian game development industry, the GDAA has done much to change perceptions of game development, and more importantly of the extraordinarily talented people that create games, within education, commercial and government departments, organisations and agencies. The Australian game development industry has the potential, and is poised, for extraordinary growth, and can be a meaningful contributor to Australia's digital economy.

A lack of national support is one of the largest impediments to sector growth. The GDAA strongly urges the Senate ECRC to consider:

1. Reintroduction or establishment of a self-sustaining funding program for digital game projects and game development businesses

2. Extension of the Producer Offset to include digital game production

3. Supporting innovation precincts/clusters

4. Updating Australia's National Digital Economy Strategy, acknowledging and providing supportive language for games

5. Developing and retaining games developer talent in Australia, and attracting skilled game developers back to Australia

6. Committing to the updated classification regime

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7. Establish an export support program with a focus on trade activity and business development

On behalf of the Australian game development industry, the GDAA appreciates the opportunity to provide a submission to the inquiry and we look forward to presenting and discussing the sector with the Senate ECRC in the future.