

# Chapter 4

## Policy options for consideration

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

### **Calls for a successor to the Australian Interactive Games Fund**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Extension of the producer tax offset to include video games**

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

#### ***How the producer tax offset works***

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

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

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

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

9 ATO, 'The producer tax offset'.

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

***Evidence regarding the extension of the offset to game production***

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

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

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

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

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

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

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

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

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

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

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

...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.<sup>15</sup>

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

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

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

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

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

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

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

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

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

## Other finance, taxation and regulatory issues

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

address other matters related to crowd-funding was introduced into the Parliament in December 2015.<sup>29</sup>

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

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

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

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

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

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

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### *Export Market Development Grants*

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

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

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

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

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

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

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32 KPMG, *Submission 105*, pp. 15–16.

33 KPMG, *Submission 105*, pp. 15–16.

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

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

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

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

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

### **Gaming conventions and trade missions**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Innovation hubs and shared workspaces**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### ***Replicating the success of The Arcade elsewhere***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Advice to government**

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

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

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

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

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

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

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

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

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

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

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

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

## Internet infrastructure

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4.71 Similarly, Mr Rennison told the committee:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Other matters**

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

#### ***Classification regime***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ALRC's report were passed in 2014.<sup>96</sup> Since this tranche, the government announced an Australian trial of the International Age Rating Coalition (IARC) tool for classifying mobile and online games. The new classification tool, which assigns a rating based on the developer's responses to a questionnaire, is intended to 'help keep the National Classification Scheme up to date with the pace of growth of mobile and online games'.<sup>97</sup>

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

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

### *Employment opportunities for junior employees*

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

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

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

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

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

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

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

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

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

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

### ***Information and education resources for businesses***

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

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

4.90 The submission concluded:

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

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

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

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

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

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

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

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

### ***National Digital Economy Strategy***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **Conclusion**

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

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

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

