

Chapter 3

Government support for the video game industry

3.1 Many submitters commented on current and previous government assistance available to Australia's video game development industry. This chapter outlines the Australian Interactive Games Fund (which was discontinued in 2014), existing non-specific industry support that the video games industry can access and state government programs that support video games developers. Following this, the chapter outlines specific government support programs for the video games industry that are available in several other countries and which various individuals and organisations endorsed in their submissions.

3.2 This chapter concludes with the various arguments put to the committee for providing government assistance to support growth in the domestic video game development industry.

The former Australian Interactive Games Fund

3.3 In 2012, the then Minister for the Arts, the Hon. Simon Crean, announced the establishment of the Australian Interactive Games Fund (AIGF), to be administered by Screen Australia. The objectives of the AIGF were to 'promote industry growth and sustainability, support the development of new [intellectual property], encourage skills retention and renewal, and maximise the creative opportunities of fast broadband'.¹

3.4 Mr Tony Reed, the Chief Executive Officer of the Game Developers' Association of Australia (GDAA), explained that the AIGF was intended to address the 'lack of sophisticated investment' that creative industries such as the game development industry encounter. He stated:

Without that investment it is very, very difficult for companies to invest in experimental ideas and to take risks. As such, when we built the fund and created the guidelines for it, it was about exactly that—addressing that need to take those risks. We still do not have that network. There are no incentives for investors to invest in the innovation in Australia. That was what the fund was originally intended to address.²

3.5 The AIGF commenced in 2012–13, with \$20 million earmarked for three years. Of the \$20 million, \$5 million per year was provided to Screen Australia in the first two financial years of the AIGF's operation. The remaining \$10 million was not provided as, in the 2014–15 Budget, it was announced that the program would be

1 Ms Fiona Cameron, Chief Operating Officer, Screen Australia, *Committee Hansard*, 18 March 2016, p. 10.

2 Mr Antony Reed, Chief Executive Officer, Game Developers' Association of Australia (GDAA), *Committee Hansard*, 19 February 2016, p. 2.

discontinued. The AIGF ceased operation from 1 July 2014, with new applications no longer accepted following the Budget announcement.³

Design of the AIGF

3.6 Screen Australia developed two programs as part of the AIGF: the Games Enterprise program and the Games Production program. Under the Games Enterprise program, applicants could seek funding of up to \$1 million (allocated over a three-year period) for operating costs that would grow their business as well as a contribution towards the costs of specific projects being developed.⁴ The funding was provided to recipients in two components: grant funding and a loan. At least 25 per cent of the funding was treated as a loan.⁵

3.7 The Games Production program provided assistance of up to \$500,000 per individual project (that is, funding to assist the development of a single game).⁶ Under this program, funding below a \$50,000 threshold was provided to developers as a grant, whereas funding over \$50,000 was treated as a recoupable investment.⁷

3.8 The AIGF was intended to be self-sustaining; that is, funds repaid or recouped would be allocated to further funding of the programs.⁸ The GDAА advised that the industry proposed the self-sustaining feature of the AIGF as it was determined 'not to become a sector reliant on patronage from government'.⁹

3 The Hon Simon Crean MP, 'Australian interactive games fund announced to support a global industry', *Media Release*, 15 November 2012; Australian Government, *Budget 2014–15: Budget measures—Budget Paper No. 2*, May 2014, p. 57; Screen Australia, 'News alert 2014: Screen Australia games programs discontinued', 14 May 2014, www.screenaustralia.gov.au/news_and_events/2014/ia_140514_games.aspx (accessed 29 September 2015).

4 Funds could be used 'to cover the cost of activities including prototyping, production, marketing and release of game titles, travel to industry events, porting titles to different platforms, commercialising middleware, expanding staff, internships, training or enhancing business skills, as well as infrastructure costs such as office set-up or equipment purchases that directly contribute to revenue-generating activities integral to the applicant's Games Enterprise proposal'. Screen Australia, *Guidelines: Games programs*, 9 December 2013 www.screenaustralia.gov.au/getmedia/943c1729-4701-4d5a-990d-4bb762e9ea0f/Glines_IMP_Games.pdf (accessed 29 September 2015), p. 4.

5 Ms Fiona Cameron, Screen Australia, *Committee Hansard*, 18 March 2016, p. 10; Screen Australia, *Guidelines: Games programs*, p. 7.

6 Screen Australia, *Guidelines: Games programs*, pp. 4, 8.

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

8 Screen Australia, *Guidelines: Games programs*, p. 3.

9 GDAА, *Submission 55*, p. 11. See also Mr Antony Reed, GDAА, *Committee Hansard*, 19 February 2016, p. 1.

3.9 The self-sustaining design of the AIGF was demonstrated by evidence from a funding recipient, Tin Man Games. Mr Neil Rennison from Tin Man Games informed the committee that a quarter of the funding provided to his business is required to be repaid within five years.¹⁰

3.10 Another noteworthy feature of the AIGF's design is that Screen Australia utilised advice from industry experts, both in Australia and from other countries, to assist it when deciding which companies to support.¹¹

Projects funded by the AIGF

3.11 The \$10 million available to Screen Australia during the operation of the AIGF was spent as follows:

- approximately \$6 million was used to support ten development studios;
- approximately \$3.7 million supported 36 game projects
- around \$120,000 was used for sector building, such as to support 'professional development and screen culture activities'.¹²

Evidence regarding the abolition of the AIGF

3.12 Mr Reed noted that the decision to discontinue the AIGF was taken by the Government 'without consultation or any attempt at understanding the purpose or structure of the program'. He added that although the abolition of the AIGF created a 'new hurdle' for the industry, it 'did not stifle creativity...[it] did not hamper production'. However, Mr Reed is of the view that the 'absence of the fund impedes the growth of the sector'.¹³

3.13 Whether the AIGF was designed appropriately and was a successful program, or likely to be a successful program, was discussed in submissions and explored by the committee at the public hearings. The Interactive Games and Entertainment Association (IGEA) stated that it is difficult to assess the effectiveness of the scheme given it ceased after one year of operation. However, IGEA submitted the following comments:

Anecdotal evidence suggests that many of the studios that were recipients of the initial funds were able to leverage those funds for commercial

10 Mr Rennison also provided information about how the program is administered; he explained that Tin Man Games is required to provide a report to Screen Australia every six months that 'is very detailed and shows all of our successes. It breaks down how much things have cost and how well we are doing and the publicity we gained'. Mr Neil Rennison, Founder and Creative Director, Tin Man Games, *Committee Hansard*, 19 February 2016, p. 37.

11 For details on the experts who assisted Screen Australia, see *Committee Hansard*, 18 March 2016, p. 14.

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

13 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 1.

success. One studio, Flat Earth Games, noted that initial AIGF funding allowed it to bring its successful Australian release of *Towncraft* to new platforms and overseas markets. Based on that success Flat Earth Games has since developed three further interactive games. Such examples provide an initial positive indication of the potential of a self-funding model of seed assistance for interactive games development.¹⁴

3.14 The GDAА commented that since the AIGF was discontinued 'several companies and projects that received support through the program have achieved global success'. The GDAА argued this demonstrates 'that the sector's commitment and determination that the fund be self-sustaining was reasonable and achievable'.¹⁵ At the Melbourne public hearing, the GDAА's Mr Reed added that the AIGF 'was working'. He elaborated:

Some funding recipients have generated export revenues more than 10 times the original investment from the fund. Some have doubled or tripled the size of their studios or moved from contract arrangements to full-time employment. Many have won international awards for their work.¹⁶

3.15 The committee was provided with examples of how the AIGF help facilitate growth in the industry. Mr Neil Rennison from Tin Man Games told the committee that prior to receiving funds under the AIGF program, the two directors of the company were essentially working from home offices. Funding from the AIGF enabled the business to hire junior programmers, which Mr Rennison confirmed was only possible at that time because of the funding provided.¹⁷ As the following description of Tin Man Games' early days demonstrates, funding under the AIGF program had a direct and significant influence on the realisation of the business' expansion plans:

We were working really hard with lots of contractors around the world, probably punching well above our weight for two guys sitting at home, but we had massive plans and we had already developed lots of relationships with potential licensors. We were building our tech, and getting that enterprise funding was just the catalyst. It opened so many doors for us. We immediately hired three staff. We moved to permanent offices.

Having those key staff enabled us to suddenly have skill diversity, because obviously the other director and I had a certain number of skills, and having new staff on the team brought a whole load of new skills to the table which meant that our technology became better very quickly. We were able to release more titles quicker than we were before. Just since we have had that

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

15 GDAА, *Submission 55*, p. 12.

16 Mr Antony Reed, GDAА, *Committee Hansard*, 19 February 2016, p. 1.

17 Mr Neil Rennison, Tin Man Games, *Committee Hansard*, 19 February 2016, p. 39.

funding, for example, we have released 23 new titles on iOS and Android, and we have taken 11 of those and released them on PC, Mac and Linux.¹⁸

3.16 Mr Rennison further highlighted the benefits to the business from the additional employees made possible by the AIGF. He explained that Tin Man Games was initially not planning to release its titles on PC, Mac and Linux platforms; the titles would only be available on iOS and Android. However, the addition of another team member with knowledge about the marketplaces for PC, Mac and Linux products led to titles being released for those platforms. As a result, Tin Man Games achieved a greater amount of revenue than it would have otherwise. Mr Rennison stated:

I just looked at the figures this morning, and our 11 titles on that marketplace since he has been employed have grossed US\$160,000. So that is just one person coming onto the team and the impact that person made.¹⁹

3.17 Other businesses also highlighted the benefits from the AIGF for the industry. Mr Benjamin Britten, Technical Director, Mighty Games Group, told the committee that the AIGF's enterprise fund assisted Mighty Games to offer more stable working arrangements that were necessary to attract skilled employees from overseas. He explained:

As an employer at Mighty Games, right now it is kind of hard to find talented people. Often we are looking for mid-level people or better and it is hard to find those people locally. We do not have quite the long-term stability that we need to say: 'Relocate back to Australia. We can guarantee you 12 or 24 months.' We do not quite have that stability yet. The enterprise fund was a stopgap to provide that for certain companies: 'Here's a chunk of money so you have a stable base for two to three years. We know you're not going to go out of business.' You can then start to take those risks and bring the talent back in. Right now—at least at Mighty—we are looking at our current growth and success, which we owe very much to the funds we got. With our current success we can now start to look at bringing people back in. I think trying to bring that stability out to the industry as a whole will allow us, as an industry as a whole, to reclaim our Australian talent back to Australia.²⁰

3.18 The Chief Operating Officer of Screen Australia, the agency that administered the program, argued that although the program was 'short-lived', it 'did deliver against its objectives'. In particular, Ms Cameron noted how the AIGF has assisted businesses to expand and retain local intellectual property. Ms Cameron referred to the game *Hand of Fate* produced by Defiant Development to illustrate this point:

18 Mr Neil Rennison, Tin Man Games, *Committee Hansard*, 19 February 2016, pp. 36–37.

19 Mr Neil Rennison, Tin Man Games, *Committee Hansard*, 19 February 2016, pp. 36–37.

20 Mr Benjamin Britten, Member, Melbourne Chapter of the International Game Developers Association (IGDA Melbourne); Technical Director, Mighty Games Group, *Committee Hansard*, 19 February 2016, p. 13.

The game is an original title for PC, PS4 and Xbox, and to date has returned over \$4 million to the developers—more than twice the development cost. The team are already working on a sequel to the game. Defiant owns the IP, controls the distribution and is the chief beneficiary of all revenue...Defiant Development has gone from a company staffed entirely by contractors to a company now with 18 full-time staff. We believe the fund has made a difference, especially with reference to retaining local [intellectual property] and building Australian businesses that can compete for a slice of the fastest-growing entertainment sector.²¹

3.19 In addition to the permanent employment created, Mr Morgan Jaffit from Defiant Development informed the committee that the company now makes a valuable contribution to government revenue. He advised that the business received 'relatively small amounts of funding: \$650,000 over three years', which is 'roughly equivalent to the tax we are paying this year'.²²

3.20 Ms Cameron noted that, for the 36 game projects funded by Screen Australia, the \$3.7 million provided generated total production budgets of \$14 million—a 'multiplier of more than four'.²³ Ms Cameron's evidence also indicated that, as ten of the 36 games are yet to be released, the observable benefits from the AIGF are likely to increase further.²⁴

Current Commonwealth support

3.21 Since the abolition of the AIGF, Commonwealth support programs available to video games businesses are not industry-specific. Programs referred to in evidence received by the committee were the research and development (R&D) tax incentive and the Export Market Development Grant (EMDG) scheme.

R&D tax incentive

3.22 The R&D tax incentive provides eligible entities with a tax offset for expenditure on eligible R&D activities and for the decline in the value of depreciating assets used for eligible R&D activities.²⁵

21 Ms Fiona Cameron, Screen Australia, *Committee Hansard*, 18 March 2016, pp. 10–11.

22 Mr Morgan Jaffit, Creative Director, Defiant Development, *Committee Hansard*, 10 March 2016, p. 21.

23 Mr Timothy Phillips, Senior Manager, Interactive and Multiplatform, Screen Australia, *Committee Hansard*, 18 March 2016, p. 13.

24 Ms Fiona Cameron, Screen Australia, *Committee Hansard*, 18 March 2016, p. 11.

25 The incentive has two components. For eligible entities with an aggregated turnover of less than \$20 million (provided that they are not controlled by tax exempt entities), a 45 per cent refundable R&D tax offset is available. For all other eligible entities, a non-refundable 40 per cent R&D tax offset is available. See *Income Tax Assessment Act 1997*, Division 355.

3.23 KPMG suggested that the R&D tax incentive is of limited utility for video games businesses. It stated:

While some fledgling companies under \$20 million aggregate turnover benefit from this incentive months after the expenditure has been raised and spent, the vast majority need upfront capital, not post-tax refunds. By extension, more established companies or subsidiaries with global parent companies, over \$20 million aggregated turnover only receive tax breaks, not cash refunds, under the Incentive. This means that if you are a game developer in losses (a common scenario in the current Australian climate) the only assistance program available to you simply adds to your losses, with no immediate benefit whatsoever. More importantly, support for this industry should not be limited to innovation that meets the requirements of the Incentive; innovation in gaming is more subjective, and can come in the form of new features or styles rather than completely new technologies.²⁶

3.24 KPMG added that the development of new engines or functionalities are the types of development that are generally eligible under the R&D tax incentive. However, it noted that these activities, 'at least initially', were undertaken by the major global companies that have billions in revenue and the necessary capability and flexibility.²⁷

Export Market Development Grants

3.25 The EMDG scheme is a financial assistance program administered by Austrade that provides partial reimbursement of eligible export marketing expenditure for small and medium enterprise exporters. KPMG argued that the current EMDG scheme 'has limited application for software companies and game developers' for the following reasons:

- cashflow—KPMG stated that 'small game developers require upfront cash to develop an exportable product, but the EMDG reimburses funds already spent and up to 24 months after they were incurred'; and
- the reality of exporting digital products—KPMG argued that 'the current EMDG framework...precludes the claiming of in-house labour costs for the production of display equipment...which are the vast majority of export product development costs for video games'.²⁸

3.26 Changes that submitters suggested could be made to the EMDG scheme are discussed in Chapter 4.

26 KPMG, *Submission 105*, p. 6.

27 KPMG, *Submission 105*, p. 6.

28 KPMG, *Submission 105*, pp. 15–16.

Initiatives under the National Innovation and Science Agenda

3.27 In December 2015, the Australian Government released a policy statement entitled the National Innovation and Science Agenda (NISA). As part of the NISA, the Government announced that it will 'promote investment in innovative, high growth potential startups by providing concessional tax treatment for investors'. One aspect of the concessional taxation treatment is a 20 per cent non-refundable tax offset on investments, capped at \$200,000 per investor per year.²⁹ Mr Reed from the GDAA commented that the offset would 'very definitely' be of use to businesses in the industry. He stated:

What we have seen in international territories where you do have a very similar model is reinvestment straight back into the company. That would be exactly the same. Back in the early 2000s, the games industry, for a very short period of time, had access to the 10BA which provided a very similar tax break. We saw, in that very short amount of time, reinvestment straight back into the companies. The games sector does not generally take that money and hide away with it. They want to play more so they make more.³⁰

3.28 Although this aspect of the NISA was viewed favourably, the committee was informed that, despite the recent emphasis on innovation and preparing Australia 'for the jobs of the future',³¹ the Government has not engaged with the video game industry about how it could support future jobs and growth. When questioned about his engagement with the Government, Mr Reed stated:

In all of the dialogue and the vocabulary being used by the Prime Minister right now...it describes us to a T. There is no question; we encapsulate every one of the innovation arguments that he makes. But the federal government has not reached out to us in any form at all—yet.³²

State government support

3.29 According to the GDAA, Victoria currently has the largest number of game development businesses in Australia, with 48 per cent of businesses located in that state. Queensland and New South Wales follow Victoria with 19 per cent and 18 per cent of total businesses respectively.³³

29 Australian Government, 'Tax incentive for early stage investors' www.innovation.gov.au/factsheets/tax-incentive-early-stage-investors (accessed 4 March 2016).

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

31 Australian Government, *National Innovation and Science Agenda*, 2015, <http://innovation.gov.au/system/files/case-study/National%20Innovation%20and%20Science%20Agenda%20-%20Report.pdf> (accessed 19 January 2016), p. 13.

32 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 4.

33 GDAA, *Submission 55*, p. 6.

3.30 When discussing the support provided to the industry by the state governments, submitters focused on the programs implemented in Victoria.³⁴ The programs offered by Film Victoria were put forward by the GDAA and IGEA as being the most comprehensive support available in Australia for interactive games developers. The GDAA and IGEA advised that Film Victoria administers the following three programs relevant to the video games sector:

- Assigned Production Investment—Games: under this program, funding (generally capped at \$150,000) is available to 'assist Victorian games companies to produce a prototype or full game, and also for marketing and related expenses'. In 2013–14, 14 games projects were funded at a total cost of around \$635,000.
- Games Release: grants of up to \$30,000 are available to support 'newer and smaller interactive games studios to deliver a well-planned and marketed release of their project'. In 2013–14, nine projects were supported with a total commitment of around \$173,000.
- Games Professional Placements: a program that supports Victorian games companies to engage a Victorian practitioner (six companies were supported in 2013–14).³⁵

3.31 A former program referred to in submissions was the Victorian Government's Technology Trade and International Partnering (TRIP) program, which enabled Victorian ICT companies to apply for a grant to attend a trade show or event that is relevant to their business.³⁶

3.32 Several witnesses indicated that the approach taken in Victoria to support for the video game development industry has been successful. Mr Reed from the GDAA provided the following overview of the current programs available that are supported by the Victorian Government:

Victoria supports production funding, understanding that, especially for new businesses, that project funding will help a new business and mitigate some of the financial risk to them. It supports, very cleverly, marketing. One of the great issues that we have in the digital distribution space is getting to that audience and making them aware of the product. Film Victoria have a special program that endorses and supports marketing,

34 Industry participants indicated that support offered by other state government either did not exist or, in the case of New South Wales, was 'ad hoc'. See Mr Bruce Thomson, Business and Marketing Director, Nnooo, *Committee Hansard*, 18 March 2016, p. 31 and Mr Jon Hayward-Crichton, Festival Director, Perth Games Festival and Operations Manager, Let's Make Games; Mr Brendan Ragan, Treasurer, Let's Make Games, *Committee Hansard*, 18 March 2016, p. 37.

35 GDAA, *Submission 55*, p. 12. See also IGEA, *Submission 9*, p. 9.

36 See www.business.vic.gov.au/support-for-your-business/grants-and-assistance/international-technology.

and they also support internships into game digital studios, so they are really nurturing that talent going forward.³⁷

3.33 Mr Benjamin Britten, who represented the Melbourne Chapter of the International Game Developers Association (IGDA Melbourne), stated:

We tend to owe the maturity in the Victorian market almost solely to Film Victoria support. They have been very good at supporting games and very forward thinking in their support of the small-screen industry as it were.³⁸

3.34 The GDAA argued that the state level support has 'contributed substantially' to the large share of businesses that Victoria has.³⁹ The submission from QUT's Digital Media Research Centre stated that, based on interviews and other discussions with developers, the programs in place in Victoria and the 'lack of government support in Queensland' may have contributed to the shift in 'the centre of gravity for games development in Australia...from Queensland to Melbourne'.⁴⁰

Government support available in other countries

3.35 A variety of tax incentives and dedicated government programs designed to support video game development are in place in countries with established and successful video game industries. The following paragraphs outline the key programs that submissions identified.

Canada

3.36 Submitters outlined both provincial and federal support that is available in Canada.

3.37 IGEA submitted that several Canadian provinces 'provide competitive tax incentives for games development as digital media' consisting of refundable tax credits ranging from 17.5 per cent to 40 per cent.⁴¹ Various submitters highlighted the programs available to game companies in Toronto. These include:

- the Ontario Interactive Digital Media Tax Credit—a 35 per cent–40 per cent refundable tax credit for eligible labour and marketing expenses up to a C\$100,000 per product;

37 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 3.

38 Mr Benjamin Britten, Member, IGDA Melbourne; Technical Director, Mighty Games Group, *Committee Hansard*, 19 February 2016, p. 14.

39 GDAA, *Submission 55*, p. 12.

40 Queensland University of Technology (QUT) Digital Media Research Centre, *Submission 26*, p. 23.

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

- grants up to C\$50,000 for concept development and up to C\$250,000 for production 'with a 1:1 matched funding model';⁴² and
- support from the Ontario Media Development Corporation (OMDC), which provides grants up to a maximum of 50 per cent of a project (capped at C\$150,000). The OMDC also has 'a trade development program they finance by partnering with existing trade and event organisations'.⁴³

3.38 Support available in Montreal was also noted. The committee was advised that the provincial government in Quebec provides video games companies with a tax credit of up to 37.5 per cent. Further, the Montreal local government provides support through 'programs to drive investment such as Montréal International'. The following description of that program was provided:

Montréal International is a private/public nonprofit organization dedicated to aggressively encouraging growth in the creative industries in Montréal. It enjoys support from all levels of government and also from the creative industries resulting in the immense benefits that these structures create for the growth of said industries. Since its creation, Montréal International has helped to attract \$10.6 billion in foreign direct investments to Greater Montreal. From these investments, 52,000 jobs have been created or maintained. To date, MI's activities have also allowed almost half of some 60 international organizations to establish themselves in the city and attract and retain more than 9,000 international strategic workers.⁴⁴

3.39 The federal support available in Canada includes:

- upfront R&D support, which can provide companies with less than 500 employees up to 50–80 per cent of the total project cost—Mighty Kingdom explained that 'unlike the R&D tax offset in Australia, the Canadian R&D support 'is paid up front and not at the conclusion of R&D activities';
- support from the Business Development Bank of Canada, which has a mandate to 'aggressively support video game start-ups within Canada';
- 'favourable visa conditions' to attract overseas talent;⁴⁵ and
- support from the Canada Media Fund, which provides 'repayable contributions for specific funds, and for development, production, and marketing'.⁴⁶

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

43 QUT Digital Media Research Centre, *Submission 26*, p. 6.

44 Mr Benjamin Welsh and Mr Liam Harvey, *Submission 77*, p. 2.

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

46 QUT Digital Media Research Centre, *Submission 26*, p. 6.

Finland

3.40 Helsinki, Finland is home to large mobile game companies such as Rovio, which developed Angry Birds, and Supercell. Mighty Kingdom prefaced its overview of the Finland system by noting that Helsinki 'has become one of the leaders in mobile gaming', with the combined annual revenue from these two companies surpassing A\$2.64 billion. Mighty Kingdom added that the companies 'are former beneficiaries of government funding'.⁴⁷

3.41 Mighty Kingdom explained that support in Finland stems from the Tekes system, which 'consolidates a number of different grants and loans that cover almost the entire lifecycle of a business, from initial planning, to R&D, and then on to commercialisation'. Relevant grants under the Tekes system include:

- the Planning for Global Growth grant—grants of up to 75 per cent of various early stage business costs such as market research are available to any small business under five years old Finland;
- R&D grants—small businesses can apply for a grant of between 50–65 per cent of the R&D project cost, with simplified reporting models available for small companies where the grant funding is under €100,000;
- the Development and Piloting program—under this program, which is intended to assist with commercialisation, small companies are eligible for a low interest loan (with no collateral required) to cover 50–70 per cent of the project cost.⁴⁸

3.42 Mighty Kingdom added that the above programs are 'just the tip of the iceberg when it comes to Tekes'. He elaborated:

Amongst the many other offerings, the system also identifies promising young (6 years or less) companies that it will then provide additional funding to accelerate their growth. Recognising the potential of the games sector, a special €70 million Tekes fund, Skene, was set up in 2013 just for game companies.⁴⁹

United Kingdom

3.43 The committee was advised that, since 1 April 2014, companies can claim Video Games Tax Relief for games that 'are British, intended for supply and where at least 25 per cent of core expenditure (expenditure on pre-development, principal photography and post-development) is incurred on goods or services that are provided

47 Mighty Kingdom, *Submission 30*, p. 3.

48 Mighty Kingdom, *Submission 30*, p. 3.

49 Mighty Kingdom, *Submission 30*, p. 3.

from within the European Economic Area'.⁵⁰ The games 'must be certified as a British production by meeting certain cultural criteria'.⁵¹

3.44 Under this scheme, 80 per cent of eligible spending can be deducted or, if the business is loss-making, these losses can be surrendered 'for a payable tax credit worth 25 per cent of core expenditure (i.e. effectively a payable credit of a maximum 20 per cent of total core expenditure)'. Other tax benefits that are available to businesses generally, such as R&D Relief, may also be utilised.⁵²

3.45 Mighty Kingdom, which expressed its preference for the profit-oriented models used by Helsinki and Toronto, questioned the effectiveness of the cultural criteria. It argued that 'there is still a place for arts-based funding of games, but we are unlikely to see significant growth if funding is still applied using irrelevant eligibility criteria'. Mighty Kingdom explained:

In theory, having cultural criteria leads to more uniquely British products, but in practice, due to the commercial and global nature of the business, they tend to exclude far too many projects. At best, they result in developers simply 'ticking the boxes' in order to get the funding. At worst, they force developers to look elsewhere for support.

This situation often occurs when support for the games industry is funded through creative or arts funding, often through an extension of existing film or television funding. There are many problems with this approach, not the least of which is that a game project never 'ends' in the way that a film does; the most successful gaming projects are continuously developed and updated for years.⁵³

Other countries

3.46 The committee also received evidence about the support for video games companies in the following countries:

- France—a 20 per cent tax offset for production expenditure for games is available.⁵⁴
- New Zealand—the committee was informed of the Grow Wellington program, which is intended to 'turn Wellington into an innovation destination'. Grow Wellington provides a single point of contact for R&D, training, mentoring, investment and funding programs. Mighty Kingdom explained that 'although they have limited resources themselves, by acting as a mediator for

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

51 Mighty Kingdom, *Submission 30*, p. 4.

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

53 Mighty Kingdom, *Submission 30*, p. 4.

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

all these services they take a lot of the burden off SMEs and allow them to focus on building their product'.⁵⁵

- United States of America—several states (including Florida, Louisiana and Texas) have a tax incentive program for video games production, with tax credits for interactive game development of up to 35 per cent available.⁵⁶

The case for government support in Australia

3.47 A recurring theme in the evidence taken by the committee is that the video game development industry presents many economic opportunities; however, the potential has not been recognised adequately in Australia. As the preceding paragraphs suggest, many other countries have favourable taxation and regulatory frameworks designed to encourage game development companies to be based and grow in their jurisdictions. It was suggested that the lack of similar incentives in Australia provides an additional challenge for Australian companies that compete in the global marketplace with companies that have benefited from support provided by their governments. Submitters also contrasted the government support available to other domestic industries. This section outlines submitters' views about the approach to government support in Australia and explores the case for government support of the video game development industry.

Government support to help manage recent economic difficulties and structural change

3.48 One of the reasons put forward for government attention to be given to the video game development industry is the effect that the global financial crisis and the appreciation of the Australian dollar had on the size and structure of the industry.

3.49 Mr Zachary Griffin, the Founder and Chief Executive Officer of Black Delta, focused on the effects that the studio closures and job losses caused by the global financial crisis had on the ability of firms to recruit experienced employees. Mr Griffin outlined the difficulties that Black Delta has faced in recruiting employees; he informed the committee that two candidates the business sought 'were both picked up by Microsoft and Amazon'. Mr Griffin remarked that, in his experience, 'the only talent we do have in Australia will, if it is any good, get poached offshore'. Mr Griffin concluded that the industry 'needs to be artificially supported until such time as it can be on its own feet and we have this talent here that we are fostering'.⁵⁷

55 Mighty Kingdom, *Submission 30*, p. 4.

56 IGEA, *Submission 9*, p. 12. See also QUT Digital Media Research Centre, *Submission 26*, p. 6. The effects associated with the introduction of incentives for video game development in Florida were outlined in detail in the IGEA submission: see *Submission 9*, pp. 26–28.

57 Mr Zachary Griffin, Founder and Chief Executive Officer, Black Delta, *Committee Hansard*, 19 February 2016, p. 38.

3.50 Given the recent decline in the size of the video games industry in Australia, submitters highlighted what they consider is an inconsistent approach to the provision of government support to industries that have faced challenges. For example, 5 Lives Studios commented:

In the past 10 years, we've witnessed the collapse of companies like Krome Studios, which at its height had 400 employees, along with Pandemic Studios, THQ Australia and Sega Studios Australia—each having 100+ employees at their peaks...When an automotive factory employing several hundred workers is forced to shut down local operations, the government and media take note. Compare that to when a multitude of games studios close their doors in Australia, nobody is any the wiser.⁵⁸

Challenges with accessing finance

3.51 Even without developments such as the global financial crisis, video game developers face difficulties obtaining finance. According to IGEA, government support could mitigate the perceived financial risks that are often associated with the development of interactive games (and many other forms of content and technology).⁵⁹

3.52 The risks associated with video game development were explained by Mr Morgan Jaffit from Defiant Development. He noted that 'never before has it been so easy to get started in game development, with access to technology and markets through digital distribution'. However, he added that successful games in the industry 'remains at a one in five or 10 level' and 'few, if any, private investors can afford to fund nine misses'. Mr Jaffit noted that government support can provide a 'safety net' that allows 'developers the time to find and polish' the experience that is needed to 'stand out from the crowd'.⁶⁰

3.53 Even when financiers are familiar with technology businesses there can be challenges. Mr Leon Young, the Chief Executive Officer of 2and2, explained that 'games creation is a content creation business and therefore it is quite different from other tech start-ups'. He elaborated on this point:

Whereas typical tech start-ups only need to fund a minimum viable product—that is, a very cut down version of that product to attract initial customers and validate the market—video games are much more like feature films. No-one wants to pay to see 10 minutes of rushes of a recently commenced feature film. Likewise, no-one wants to buy a half-baked video game; they want to see the fully realised creative vision. This means that the financial ecosystem that has recently blossomed in Australia to support

58 5 Lives Studios, *Submission 85*, p. 4.

59 IGEA, *Submission 9*, p. 11.

60 Mr Morgan Jaffit, Creative Director, Defiant Development, *Committee Hansard*, 10 March 2016, p. 22.

tech start-ups is in some ways pretty inadequate for, and not very relevant to, the video games industry.⁶¹

Treatment of the video game development industry compared to the film, television and music industries

3.54 The government support given to the film industry was also presented as a reason for government assistance for video game development. Similarities between the nature of projects within the video game industry and the film industry were highlighted; for example, ODD Games observed that 'the video game industry is best akin to that of the film industry whereby the success of the business lies on the typical hit or bust scenarios'.⁶²

3.55 In addition, it was suggested that video games should be considered an art form and, therefore, there are cultural reasons for government policies and frameworks that support the growth of the Australian game development industry. Mr Paul Turbett, the founder of the Perth-based company Black Lab Games, submitted:

...games are becoming increasing[ly] important as a form of cultural expression. Just as film started in the late 1800s as a technology experiment, and went on to become an art form that reflected or challenged values in society, games are fast becoming an art form also. The technology of games is still in development, and the constructs and delivery means for provoking thought and asking questions of the audience are also still being discovered. Having seen the medium evolve significantly from the 1980s to today, I [firmly] believe that games as medium will become a dominate form of cultural expression in the 21st century.

This leads to an important question: Does Australia want to be a contributor and exporter of 21st century culture, or merely a consumer and importer?⁶³

3.56 Also on this matter, Mr Adric Polkinghorne wrote:

As I have ventured deeper and deeper into the games industry, my life resembles that of an aspiring artist more each day. Game Development is an art form, regardless of what trade you take up within it. Whether you work for a multinational game developer or as an aspiring indie developer, you are an artist none the less. As a result, it is only sensible that we treat the games industry as equal to our film and music industry.⁶⁴

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

62 ODD Games, *Submission 1*, p. 2.

63 Black Lab Games, *Submission 11*, p. 4.

64 Mr Adric Polkinghorne, *Submission 24*, p. 2.

3.57 Various tax concessions are available to the film and television industries, however, these are unavailable to the video game industry. Stakeholders in the video game industry queried the rationale for this. An individual quoted in a submission expressed their view that:

...there is a great deal more potential for the games industry here in Australia than the film industry (which receives a lot more attention) as games are not as vulnerable to cultural difference as films tend to be (accents etc.).⁶⁵

3.58 The relative stability of the video game industry, compared to the film industry, was noted. The following observation given by Mr Reed of the GDAA is instructive in that, potentially, government support for the video game industry could have longer-lasting effects than support provided to the film industry:

...we are a very labour-intensive industry as well, unlike film, where it is quite disparate; after a project, people vanish into the ether. We do not. We provide full-time employment, and our talent is valued.⁶⁶

3.59 Submitters also questioned why video game development was not included in other arts programs.⁶⁷ In particular, some submitters objected to the Government's decision, as announced in the 2015–16 Budget, to redirect funding from the Australia Council to establish a National Programme for Excellence in the Arts (NPEA). Interactive games were not included in the NPEA.⁶⁸ The program that replaced the NPEA similarly excluded interactive games.⁶⁹

Other programs available to small-to-medium sized enterprises are of limited use

3.60 The point that video game developers need access to measures designed with the specific features of the industry in mind was also made by highlighting existing small business measures that are of limited use for video game developers. For example, Stirfire Studios remarked that the expanded accelerated depreciation for

65 IGDA Gold Coast, *Submission 59*, p. 8.

66 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 3.

67 Mr Geoffrey Hill, the chapter leader of the Sydney chapter of the International Game Developers Association, used the Canada-Australia Interactive Digital Media Initiative to demonstrate that game development is excluded from screen and media funding initiatives. Mr Hill observed that the Initiative 'sounds ideal—interactive digital media; that is what games are—except the terms explicitly state that the project must not be a game'. See *Committee Hansard*, 18 March 2016, p. 28.

68 For example, see Mr Brendan Keogh, *Submission 49*, pp. 3–4.

69 Department of Communications and the Arts, *Catalyst – Australian Arts and Culture Fund: Guidelines*, November 2015, <http://arts.gov.au/sites/default/files/funding/catalyst-guidelines-24Nov.pdf>, p. 5.

small businesses that the Government announced in the 2015–16 Budget⁷⁰ was 'not particularly useful to a single developer or small team working on their project'. In this scenario, Stirfire Studios explained that the chief investment is the labour cost; that is, the time of the people working on the project. Stirfire added:

Although as game developers we do have hardware and software costs, often we are starting off with small budgets, if really any capital at all.⁷¹

Government support for the game industry is successful in other countries

3.61 The approach to government support for video game development elsewhere was also discussed. It was argued that tax credits and government support programs in several other countries (such as Canada and the United Kingdom) have been successful in supporting the growth of the video games industry in those countries.⁷²

3.62 Mighty Kingdom submitted that 'investing in new [intellectual property] is risky, and therefore government support is crucial'.⁷³ It argued that the existence of extensive government support programs in other countries makes it challenging to compete with international firms. Might Kingdom stated:

There is not a level playing field internationally when it comes to support for the games industry. When considering starting a games company there are many more reasons to look overseas than there are to look domestically.⁷⁴

The video game industry can make a valuable contribution to the Australian economy and government revenue

3.63 The contribution that the video game industry could make to the economy was another issue canvassed by stakeholders in support for targeted measures designed to encourage growth in the industry. In this regard, the export-oriented nature of the industry was emphasised. Mr Reed from the GDAA stated:

Our markets are around the world. We are entirely export orientated...and we look at all territories as potential markets. We do not make games specifically for any particular territory. This is particularly true of Australia. We are export-oriented because Australia is two per cent of the global

70 The Government announced that it would 'significantly expand accelerated depreciation for small businesses by allowing small businesses with aggregate annual turnover of less than \$2 million to immediately deduct assets they start to use or install ready for use, provided the asset costs less than \$20,000'. This accelerated depreciation would only apply to assets that were acquired and installed ready for use between the Budget announcement on 12 May 2015 and 30 June 2017. Australian Government, *Budget 2014–15: Budget Measures—Budget Paper No. 2*, May 2015, p. 19.

71 Stirfire Studios, *Submission 35*, p. 2.

72 Nnooo, *Submission 20*, p. 2; QUT Digital Media Research Centre, *Submission 26*, p. 11.

73 Mighty Kingdom, *Submission 30*, cover letter.

74 Mighty Kingdom, *Submission 30*, p. 1.

market. It really could not sustain an industry of our scale. So we look to the Western markets. The reason we are as good as we are is that we do not see ourselves as being competitors. We see the rest of the world as our competitors. That is the bar we challenge ourselves with.⁷⁵

3.64 Mr Reed added that the Australian industry's focus on foreign video game markets provides a benefit for the Australian Government, as the revenue generated from overseas sales 'comes back into Australia as taxable income'. Accordingly, Mr Reed argued that the 'economic argument for supporting games is compelling'.⁷⁶

3.65 Submitters also suggested that the treatment of the industry in other countries supports the development of other emerging technologies that will be essential for future economic activity. Mr Jack Kimberley commented:

One of the more important factors of how the games industry is treated in Canada, is that it is not just recognised as entertainment, but also as research...[G]ame development is at the forefront of computer science/entertainment/animation/psychology and communications research, and is more often becoming involved in the creation and development of the emerging technologies across a multitude of different industries which will ultimately change the future of the world.⁷⁷

3.66 Key stakeholders saw government assistance as being necessary to enable the industry to grow, not to support an industry that was fundamentally struggling. For example, Ms Giselle Rosman from IGDA Melbourne noted that the Australian game development industry will continue to exist and make games without government involvement. However, Ms Rosman stated that 'we want to grow the sector, stabilise the industry and ensure Australian games have the best opportunities with regard to commercial, cultural and artistic success'.⁷⁸ Mr Reed similarly argued that the industry seeks government intervention to allow it to grow:

Why do we seek government intervention? It is for the same reason we always have. The sector wants to grow. We want to create more content. We want to provide more employment opportunities. We want to be significant contributors to Australia's cultural knowledge and financial economies.⁷⁹

3.67 To support this reasoning, the exceptional potential for growth in the Australian industry was emphasised. Ms Giselle Rosman from IGDA Melbourne argued that the Australian industry benefits from being 'native speakers of the language of the internet—English' and from cultural similarities with North America:

75 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 3.

76 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 2.

77 Mr Jack Kimberley, *Submission 32*, p. 2.

78 Ms Giselle Rosman, Chapter Leader, IGDA Melbourne, *Committee Hansard*, 19 February 2016, p. 12.

79 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 2.

'the powerhouse of the Western game development world'. In addition, Australia benefits from its geographical and social ties 'with the lucrative Asian market'. Ms Rosman concluded that Australia needs to 'make the most of' these advantages.⁸⁰

3.68 Professor Stuart Cunningham noted that the video game industry does not appear to be as reliant on government support to survive as the film industry. Instead, support is called for to enable the industry to grow. He explained:

Film industry leaders have always been clear: we cannot survive without ongoing government support. Games industry leaders do not make that claim. The claim they do make is: if you want to grow an industry and have it achieve some viability and have it play an important growth role in employment, high-tech recruitment and cultural outcomes, then you probably do need to support it. The amounts are tiny, but the impacts can be significant. People do not stay in the games industry if they are not viable. Businesses go bust. They are small businesses typically, but if they are not making enough money, they go bust. As you saw, almost every leading games company, or two-thirds of them anyway, went bust in the GFC. How many film industry companies went bust in the GFC? Not nearly as many.⁸¹

3.69 Furthermore, evidence of government support successfully enabling opportunities and growth was provided. Mr Benjamin Britten from the Mighty Games Group provided the following example of a successful return on government investment:

Mighty Games, specifically, were funded by Film Vic and Screen Australia for two different projects and when we do our tax at the end of this year we will have paid back by twice in taxes the amount we got from the government. If you do the math, that is about 10 times or 15 times gross revenue.⁸²

3.70 Referring to Mighty Games again, Ms Rosman stated:

Mighty Games was fortunate enough to receive funding from both Film Victoria and the discontinued Screen Australia fund. These funds were instrumental in making it possible for them to release *Shooty Skies*, which has already had over five million downloads since its release in October last year. *Shooty Skies* has already generated revenue nearly 10 times the funding it has received.⁸³

80 Ms Giselle Rosman, IGDA Melbourne, *Committee Hansard*, 19 February 2016, p. 12.

81 Professor Stuart Cunningham, QUT Digital Media Research Centre, *Committee Hansard*, 10 March 2016, p. 4.

82 Mr Benjamin Britten, Member, IGDA Melbourne; Technical Director, Mighty Games Group, *Committee Hansard*, 19 February 2016, p. 14.

83 Ms Giselle Rosman, IGDA Melbourne, *Committee Hansard*, 19 February 2016, p. 12.

3.71 The Victorian Government assistance has been particularly useful for smaller businesses. Ms Giselle Rosman, who represented IGDA Melbourne told the committee that the amounts of funding available from Screen Victoria 'are not massive but they are enough to make a difference to start-up studios'.⁸⁴ However, the committee was also informed by Mr Benjamin Britten, who also represented IGDA Melbourne, that at least ten studios have successfully expanded and are now 'a bit too big to take advantage of Film Vic funding'. Mr Britten argued that other potential government programs, such as tax offsets and investment funds are more relevant to those larger businesses.⁸⁵

Other matters to consider

3.72 Although key stakeholders were in agreement that government assistance presents several benefits, consideration needs to be given to how any support provided by the Australian Government can be most effectively deployed.

3.73 As this chapter has demonstrated, the Australian Government and state governments can develop incentives and programs to support the video game development industry. It was argued that it would be desirable for some degree of coordination between different levels of government in the development of support programs. Mr Mark Goninon suggested that the Australian Government should also encourage state governments to complement any Commonwealth assistance with state-level support for video game development.⁸⁶

3.74 Policymakers were also warned against the adoption of programs and tax incentives in place in other countries without consideration of whether they are appropriate for Australia or need to be adapted for Australian conditions. For example, Dr Dan Golding submitted that 'Australia has a global profile as a hub for thoughtful, creative, and independently-minded game makers'. Although he acknowledged that Canada and the United Kingdom 'do in many ways have admirable industries', Dr Golding argued that:

...endeavouring to uncritically transplant the international model for success can only continue to fail to grasp what kind of creative videogame culture already exists and is already successful in Australia.⁸⁷

84 Ms Giselle Rosman, *Committee Hansard*, 19 February 2016, p. 12.

85 Mr Benjamin Britten, *Committee Hansard*, 19 February 2016, p. 14.

86 Mr Mark Goninon, *Submission 44*, p. 1.

87 Dr Dan Golding, *Submission 31*, pp. 4–5. The submission from QUT's Digital Media Research Centre also noted that international programs would need to be adapted for Australian conditions. See *Submission 26*, p. 11.

3.75 When considering and designing government assistance programs, it was also argued that care should be taken not to risk the future of the studios that have survived or started since the global financial crisis. Mr Reed argued that if an incentive scheme was developed to encourage large, international publishers back to Australia, it 'would swallow the talent that we have in our independent space right now'.⁸⁸ Mr Reed stated:

We do want to protect what we have. It has been a lot of hard work and a lot of sweat equity for the developers to build the success that they have. We do not want that undermined in any form.⁸⁹

3.76 The final point that this section will discuss is the argument that any government support provided to the video game development industry should ideally encourage, or be contingent on, recipients of the support working to address identified problems in the industry. For example, with respect to gender diversity, Dr Golding argued:

I would...strongly suggest that, if any tax breaks or funding mechanisms were installed to focus on the games industry, it would be a terrific idea to include at least a program that rewards companies that actively pursue a diverse workforce, and possibly representation as well.⁹⁰

Conclusion

3.77 The evidence presented to the committee provides several examples of how government programs for video game developers, both in Australia and in other countries, have been valuable in promoting the growth of a sustainable industry. Additional government programs or policies that support or are favourable to video game development could help ensure that Australia secures a greater share of the economic activity and highly skilled jobs this growing global industry generates.

3.78 Nevertheless, Senate committees and the Australian Government often hear enthusiastic cases for particular industries to receive government support or tax incentives. Of course, it would not be possible for the Government to fund every program that interested parties propose, regardless of merit. Accordingly, the committee has devoted a significant part of its deliberations and this report to considering the merits of the various specific measures that video game industry stakeholders proposed. Among other things, it is essential for proposals to respond to a demonstrable problem, have a clear goal and be appropriately targeted.

3.79 The next chapter examines specific proposals in detail. The committee's overall conclusions are outlined in Chapter 5.

88 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 10.

89 Mr Antony Reed, GDAA, *Committee Hansard*, 19 February 2016, p. 10.

90 Dr Dan Golding, *Committee Hansard*, 19 February 2016, p. 23. A similar point was made by Associate Professor John Banks of QUT's Digital Media Research Centre. See *Committee Hansard*, 10 March 2016, p. 6.