Submission to the Inquiry into supporting Australia’s exports and attracting investment

September 2019

Interactive Games & Entertainment Association
Introduction and overview

The Interactive Games & Entertainment Association (IGEA) thanks the Joint Standing Committee on Trade and Investment Growth (the Committee) for undertaking this important inquiry into supporting Australia’s exports and attracting investments (the Inquiry). We also thank the Minister for Trade, Tourism and Investment, Senator the Hon Simon Birmingham for asking the Committee to conduct this Inquiry and we recognise the Minister’s track record of promoting technology and digital export industries within Australia.

IGEA is the peak industry association representing the business and public policy interests of Australian and New Zealand companies in the interactive games industry. Our members develop, publish, market and distribute interactive games and entertainment content and related hardware. We proudly represent a whole range of businesses, from the regional arms of the world’s largest interactive and video game companies to the many independent and homegrown game development studios currently developing Australian games for domestic consumers and the wider world.

We appreciate the opportunity to contribute to this consultation process from the perspective of the highly innovative, creative, digital, technology-driven, culturally-significant and export-focused industry that we represent. The world continues to evolve rapidly and the global economy with it. While Australia has traditionally relied heavily on its key export industries of mining, energy, agriculture, services and education, there is an urgent need to diversify our economy and export base. This reality is a clear subtext of the Inquiry’s Terms of Reference.

We believe that our video game development industry can play an important role in Australia’s future economy and must be given the opportunity to reach its full potential. While it may surprise some members of the Committee, this submission outlines the opportunity that can be gained from this industry and how the Government can achieve it. We look forward to further conversations with the Committee and would be happy to provide any supplementary information.

The global games market and opportunities for Australia

Video games comprise the largest creative industry in the world, the fastest growing media industry in the world, the second largest media industry in the world (behind television as a whole) and a major driver of the technology industry. Video games are no longer the simple pastime for children that some dismissed them as in decades past. They are now one of the most significant, if not the most significant, forms of media and entertainment in the world.
played by around 2.2 billion people - with around half of that figure located in our own Asia-Pacific region. The global video games market was worth $200 billion in 2018 and rising, greater than film, music and streaming services combined. These figures are important as it demonstrates the potential offered by the behemoth export market that Australian game developers face.

Video games are not just a global demand, but have a deep domestic market too. Video games have amongst the largest support base of any creative industry in Australia, with Australians spending over $4 billion on video games and games hardware in 2018, a 25 per cent increase from 2017. This means Australians spend more on games than they spend on films, streaming services, pay TV, music, books or likely any other creative or entertainment activity. Based on our Digital Australia 2020 research, two out of three Australians played video games in 2018, almost three quarters of Australian game players were adults and games were roughly equally played by men and women alike. Video games are clearly a serious social, cultural and economic force.

With this level of consumer demand, a similarly significant level of investment and industry has been built to supply it. However, while globally there are likely to be around 200,000–300,000 video game developers in the world, according to our research Australia has only around 1,000 (although there are many Australian game developers working overseas supporting other countries’ industries). And while the global video games industry earned $200 billion in revenue last year, Australian developers earned just $118.5 million, or about 0.06% of the global market share. Despite these modest numbers, we have examples of what we can achieve. Australia’s most successful cultural exports over the past decade in terms of global revenue and popularity are likely to all be games. For example, the Brisbane-made Fruit Ninja games franchise has had over a billion players, while Victorian game Crossy Road has had over 200 million players. Unfortunately, it has been many years since this success has been replicated to this scale.

Games are the ideal archetype digital export to encourage

Games are a high potential export industry for Australia given that they are increasingly digital and therefore exported instantaneously around the world without transportation costs or significant environmental footprint. Unlike many other kinds of Australian products that may only have viable or sustainable export markets in certain parts of the world, the global digital games market is the entirety of the 2.2 billion game players across six continents. The ability of video games to transcend language and cultural barriers by focussing on interactive user engagement, visual communication,
universal themes and fantasy worlds gives our medium an automatic edge in universal exportability over Australian films, television programs, books and other kinds of culture.

The vast majority of Australian digital games, possibly in the region of 90 per cent, are already developed for a global audience. Australian games are already popular in English-speaking and European countries and our proximity to Asia means that we are on the doorstep of the region of the world where digital games are most popular. Also, unlike many other kinds of Australian exports, including other digital exports, individual games have the potential to provide a long revenue tail and generate sustained wealth through ongoing content that capture and grow player bases and leverage diverse income streams. With video game streaming services like Google Stadia and Apple Arcade being the next innovations on the horizon, Australian developers are well position to reap continued rewards, but must be supported in doing so.

While video games continue to be popular as entertainment for people of all ages across the world, games are also finding ‘serious’ applications, including in the education, health care, defence, business, research and community sectors. Some Australian game developers, potentially given the lack of traditional screen funding available to them, have adapted by developing niche expertise in serious games. This expertise provides an extra level of diversification to the Australian game development industry and in future, can turn Australia into a key exporter of digital ‘gamification’ services. Even the Department of Foreign Affairs and Trade has recognised games as both an economic and cultural export priority, with the 2017 Foreign Policy White Paper stating the “need to invest in exporting Australia’s software development and interactive content expertise to take advantage of growth in digital games development”.

Games can be a lightning rod for tens of millions in investment

Games are among the most complex, costly and labour-intensive consumer products currently being made in any industry. Some games can cost tens or even hundreds of millions of dollars to make and involve thousands of different workers. This level of investment makes sense, given that games are also highly lucrative, with the most profitable entertainment product of all time, and many of the most profitable entertainment franchises of all time, being video games. The economic significant of video games means that every year there are tens of billions of dollars being invested in game development all around the world. Unfortunately, little of this investment is currently coming into Australia due to a short-sighted lack of incentives for investment in this sector,
meaning that we are missing out on a significant level of foreign capital inflows that would otherwise go to building businesses and growing skills and jobs.

Australia’s three largest game studios *Firemonkeys, Wargaming* and *Gameloft*, who were all either newly established or acquired studios, have together brought a pipeline of work, jobs and millions in investment with them and it is no coincidence that they also happen to be the three largest studios in Australia. A typical 50-person studio might spend approximately $7 million each year on staffing, expenses, investments and development costs. Furthermore, many Australian-made games are built on original intellectual property, meaning that export profits flow through to local businesses who re-invest these profits into building even more and better products to export. Australia’s pool of English-speaking talent is also highly regarded, and our advantageous time zone makes our game development businesses ideal candidates for collaborative or joint projects with overseas partners.

The fact that the Australian Government has not invested a dollar into its local game development sector stands in stark contrast to the hundreds of millions of dollars that it provides each year to the film and television industries. While we support these industries as fellow screen industries in Australia and creators of vital Australian content, the reality is that these investment dollars more often than not go towards Australian films and programs that have little export potential and to Hollywood productions that generally shoot for a handful of months on location before moving back overseas. And unlike the fleeting international footloose film and television productions that are receiving significant portions of Australia’s screen industry incentives, our video game businesses will be investments for the long term, establishing a footprint via bricks and mortar studios that will continual grow, hire more workers, pay taxes and bring in revenue and new investment year after year.

**An industry almost every other developed country has recognised**

So, if Australia’s video game development sector is currently so small, how do we know what it can hope to achieve? We have this answer because almost every other developed economy around the world has invested in a video games sector and are seeing its tremendous benefits.

**Canada**

Despite roughly similar populations and economic size, there is sadly no defensible comparison between the scale of Australia’s industry and Canada’s industry. While Australian game developers achieved revenues of $118.5 million and employed 928 workers last year, Canadian game developers
achieved revenues of AUD $3.5 billion and employed 21,700 workers.¹ There are 3,500 workers in one Canadian studio alone (Ubisoft Montreal – just one of five studios that Ubisoft has in Canada), well over three times more than in the entire Australian industry. Although it is well known and often joked about within our industry that American and Canadian studios currently employ many Australians and benefit from their talent and creativity, the loss of this talent from our shores is no laughing matter.

United Kingdom

The successes of Canada are likewise echoed in the UK. The UK game development industry achieved revenues of AUD $3.23 billion in 2018, having almost tripled in value from 2013 figures, and employed 16,532 workers, up from 9,400 in 2013.² As of 2018, there were 2,261 active games companies in the UK, two of which being Rockstar North and Rockstar Games which developed Grand Theft Auto V, the most financially successful entertainment product of all time.

United States

Giving a detailed analysis of the US industry in this submission would not provide a helpful comparison to Australia, with the US industry dwarfing even the most significant countries in this list. There are a number of reasons why the US games industry has the scale that it does, but like most other countries in this list, tax incentives for game development are a common denominator with close to half of all US states having them. For example, even a state like Georgia, which is far from the most significant US state for video game development but is supported by an attractive game development tax credit, has 160 gaming companies.³ One studio in Georgia alone, Hi-Rez, employs over 450 programmers, digital artists and designers – or around half the number of video game workers in Australia.

France

France is another successful environment for video game developers, where the industry achieved revenues of AUD $8 billion and employed over 5,000 people in 2018, making it France’s second largest cultural industry behind books.⁴ The French video game business Ubisoft is one of the largest video game companies in the world and the publishers of globally successful games like the Tom Clancy and Assassin’s Creed franchises, although many of these are made in the many studios they have established around the world.

¹ ESA Canada, 6 Essential facts about the Canadian video game industry, 2018
² TIGA, Making Games in the UK Today, 2019
Finland

People familiar with the Finnish game development industry will not be surprised that the sector achieved revenues of AUD $3.44 billion and employed 3,200 workers in 2018. What is more surprising is that they have achieved this with a population less than the population of Victoria. The Finnish Government’s support for the industry has helped to grow companies like Rovio and Supercell that have created some of the most internationally popular and successful mobile games of the decade.

Poland

The total value of the Polish game development industry reached AUD $837 million in 2018. While total employment numbers are unclear, there are understood to be around 400 active studios operating in the country. The Polish game studio CD Projekt created The Witcher, based on a Polish novel and regarded as one of the greatest game series of all time, and is working on Cyberpunk 2077, potentially the most anticipated game of 2020. Poland is not even particularly unique in the region and this submission has included it as a marker of what is happening all across Europe, from Spain and Portugal to Romania and the Czech Republic, where innovative and successful game studios are taking root, often hastened through tax incentives to encourage investment and entrepreneurship.

New Zealand

While New Zealand’s industry does not have the scale of most of the economies listed above, it still outperforms Australia on many metrics. New Zealand’s game development industry achieved revenues of AUD $135 million in 2018 – greater than the entirety of Australia’s industry – despite having a significantly smaller population than our larger states. The industry across the Tasman also employed 550 workers, approximately three times as many per capita as Australia. Like Australia, New Zealand game developers have a strong export focus and in 2018, Auckland-based studio Grinding Gear Games was acquired by Tencent for over NZD $100 million in one of the country’s largest ever deals not only in games, but in their whole technology sector. Even though New Zealand is arguably already ahead of Australia, they are not content with their progress and the New Zealand Game Developer’s Association, with support from the New Zealand Government, recently launching their Interactive Aotearoa strategy to accelerate growth.

6 Research and Markets, Poland Animation, VFX & Games Industry: Strategies, Trends & Opportunities, 2019
7 NZGDA, Interactive Aotearoa, 2019, p. 10
8 NZGDA, p. 17
The global common denominator: tax incentives for investment

So another question - how have these other countries achieved these successes? The answer is through investment and thoughtful, long-term planning and support. The primary investment tool that these countries have used are government tax incentives to encourage investment, jobs and game production, an investment attraction mechanism that is available in Australia for film and television, among other industries, but is not available for video games.

The below table provides examples of just some of the offsets, credits and rebates currently available around the world. Please note that the table is indicative only and individual incentives may differ significantly in terms of eligibility requirements, type of expenditure covered, minimum expenditure thresholds, maximum rebate available and other criteria. Many of these measures also exist alongside separate grant-based incentives and many regions have multiple layers of incentives, such as in Canada and the UK which has both federal and provincial/country incentives, and in the European Union which has EU and national (and sometimes regional) incentives.

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<thead>
<tr>
<th>Country, state or province (alphabetical)</th>
<th>Per cent of eligible production / labour costs refunded</th>
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<tr>
<td>British Columbia (Canada)</td>
<td>17.5 per cent</td>
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<td>Colorado (US)</td>
<td>20 per cent</td>
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<tr>
<td>France</td>
<td>30 per cent</td>
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<td>Georgia (US)</td>
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<td>Germany</td>
<td>25–50 per cent</td>
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<td>Poland</td>
<td>19 per cent (proposed)</td>
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<td>Prince Edward Island (Canada)</td>
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<td>Quebec (Canada)</td>
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<td>22.5 per cent</td>
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<tr>
<td>United Kingdom</td>
<td>20 per cent</td>
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The urgent need for policy reform to support game development

Having identified the opportunity from supporting game development, what are the policy reforms that are needed? Last December, we released our Building a thriving game development industry in Australia paper (also provided at Attachment A to this submission) which set out the economic and cultural case for supporting game development and the benefits to Australia. It also set out a suggested pathway for federal reform – specifically by removing the prohibitions preventing video games from accessing Screen Australia funding and tax offsets currently only available to the film and television sectors.

One of the goals that Australia must adopt is to increase the number of game development companies with 50+ workers, which we just don’t have enough of and which are often the least supported. These larger studios are vital to the ecosystem as they draw in significant investment, often provide the lion’s share of the industry’s employment opportunities, can support a variety of projects and can collaborate with smaller studios. Clusters of larger studios also help to create an attractive eco-system, with many talented foreign and expatriate Australian game developers (and particularly those with families) often reluctant to come here because of a perceived lack of ‘safety net’ job opportunities. Clusters of larger studios also help to increase competition for talent and increase overall salaries, and while we acknowledge this can lead to difficulties obtaining high-demand talent in the short term, particularly for smaller studios, over the longer term it will lead to a much larger and more successful and sustainable workforce and industry.

Concentrating on this objective, the rest of this submission will focus on a tax offset as we believe it is the most important reform that is needed. Specifically, we call for a 30 per cent tax offset for video game development, similar to the 30 per cent offset that the Australian Government has provided for its post-production, digital and visual effects (PDV) sector (which incidentally has been uplifted by an additional 10 per cent state incentive in SA, QLD and NSW to 40 per cent). The absence of a tax offset is the reason why Australia lags behind almost all other developed regions of the world with their games sector.
by such a significant margin. Coincidentally, an offset is also why Australia have been able to become global leaders in the adjacent PDV sector. An expenditure-based incentive has worked to encourage investment in game development everywhere around the world it has been implemented in, and it has worked here to build up Australia PDV sector in a relatively short period of time. Just like how the PDV Offset turned Australia into a leading exporter of special effects expertise, a Video Games Offset will do the same for our talented game development sector. As a policy solution, offsets have proven time and time again to work – and it’s needed.

The case for a 30 per cent tax offset for game development

As outlined in our policy paper, Building a thriving game development industry, percentage-based expenditure incentives work because they attract investment and encourage economic activity. Expenditure-based incentives help small-to-medium sized studios grow into industry leaders while simultaneously attracting the largest game developers in the world to either invest heavily to grow existing studios or set up brand new studios of their own here. A 30 per cent tax offset would provide studios in Australia that develop high quality games every opportunity to scale up into larger studios. It would also create the right environment to turn existing studios into investment opportunities and trigger the establishment or acquisition of studios by global publishers, who are vital to the industry.

Australia’s three largest studios Firemonkeys, Wargaming and Gameloft, who as we have discussed were all either newly established or acquired studios, have together brought in a pipeline of work, jobs and millions in investment with them and it is worth repeating that it is no coincidence that they also happen to be the three largest studios in Australia. However, these larger studios are currently experiencing a range of challenges – including higher development costs compared to overseas territories and difficulties finding talent at home – and it cannot be taken for granted that in the future they will continue to grow or even stay in Australia at all in the long run.

An expenditure-based incentive would help turn Australia into an affordable and cost-effective place to do business and allow Australian studios to compete on a more level playing field. As we mentioned, every year there are tens of billions of dollars of game development investment that are currently being spent on projects, contracts and studios everywhere else around the world where conditions are more attractive, and it is time that we give our studios the ability to compete based on their talents and creativity – because they will win. It is entirely possible, if not probable, that within a few short years after the introduction of a tax offset, we can have several thousand-person
studios attracting tens of millions in investments per year and rejuvenating entire precincts.

A percentage-based model works because it reduces costs, leads to sustainable growth, promotes healthy risk-taking and attracts commitment from private investors over the long term. This has a number of flow-on effects, including supporting Australian studios to create and leverage original intellectual property and make them attractive providers of commission-based and ‘fee-for-service’ development work to the global industry. It will also reduce the cost to global game publishers of locating game production activity in Australia, encouraging them to create substantial studios here that have the creative and financial freedom to develop their own projects and contribute to or even lead ‘AAA’ projects.

These are not just hypothetical opportunities. There are currently global publishers, including the parent publishers of some IGEA members, actively and seriously scoping opportunities to set up studios in Australia. While our talent and a low dollar are keeping Australia in the game, our worry is that a lack of the same kind of expenditure-based incentives that exist in the US, Canada, UK and Europe will again mean that those studios are instead established in those countries that already have an embarrassing number of studios. The fact that these other regions continue to implement their expenditure-based incentives year after year, and subject them to exhaustive analysis, shows that they work.

For example, research identified that across the UK in 2016, £78 million of tax offsets helped generated £390 million in game development expenditure.9 It also provided £294 million in Gross Value Added and directly supported 4,640 full-time jobs.10 All of this benefits the state through economic growth – through the games sector and flow-on effects on other industries – and increased tax revenue. Analysis showed that the same £78 million in offsets helped to generate £156 million in tax revenues through the video games sector.11 Analysis of France’s incentive likewise identified similar results, with each €1 of support providing €8 of additional investment and €1.80 of additional taxation revenue.12

While it would undoubtedly be a significant policy, a percentage-based expenditure incentive is necessary if Australia is committed to moving its

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10 British Film Institute, p. 77
11 British Film Institute, p. 89
12 NZGDA, p. 31, citing Deutscher Games Fonds, Ernst & Young analysis of Fonds d’Aide au Jeu Vidéo for Game, the German Games Industry Association, 2018
sector from a creative and ambitious, but undersized ecosystem of largely small and medium sized studios, to one that hires thousands, attracts tens or hundreds of millions in investment and work and competes for attention globally. We therefore urge this Committee through this Inquiry to please give some consideration to this wonderful, future-focussed and deeply high-potential industry of ours.
Attachment A

Building a thriving game development industry in Australia

Policy Paper by IGEA
Building a thriving INTERACTIVE GAMES DEVELOPMENT INDUSTRY in Australia

A reminder to government of the value in supporting a thriving games development industry and recommendations for industry support

December 2018
About IGEA

The Interactive Games & Entertainment Association (IGEA) is the peak industry association representing the business and public policy interests of Australian and New Zealand companies in the computer and video games industry. Our members publish, market, develop and distribute interactive games, entertainment content and related hardware.

Our mission is to create an environment that drives sustainable growth for the interactive games and entertainment industry.

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Game development is an industry of the future that will provide highly skilled employees, high paying jobs and the creation of digital exports in one of the fastest growing creative, entertainment and technology sectors in the global economy. There is a need for Australia to modernise and diversify its economy for the 21st century and games can help lead this digital evolution.

Australia’s game development industry is a sleeping giant and with the right support it can employ thousands of people and add hundreds of millions of dollars to Australia’s GDP. In particular, it can help to build a whole new generation of Australians with vital digital skills. This is not a hypothetical scenario, with Canada and the United Kingdom providing proven and concrete examples of what can be achieved.

Games provide wonderful entertainment but also so much more. Serious games are finding innovative uses in sectors including health, education, defence and business. Games are also vital to Australian culture and support digital and social inclusion. Of Australia’s various types of screen content, games arguably provide the most relevant and effective form of cultural export and can help the world and particularly the countries within our region to better understand Australia and its people.

While both federal and state and territory governments have a role to play to help build a thriving game development industry in Australia, this paper focuses on mapping out the effective and sustainable investment and support that is needed at the federal level.

The most vital financial incentives that are needed from the Australian Government are a $40 million Australian Interactive Games Fund based on the fund that previously existed in 2013, and a 30 per cent refundable tax offset for game development modelled off the successful tax offset for Australia’s post-production, visual and digital effects industry.

In addition to a new fund and tax offset, other targeted funding and support measures are also outlined in this paper, including support for culturally-significant and serious games, support for co-working spaces and potential re-calibration of Export Market Development Grants and Research & Development tax incentives to better suit game development.

These financial incentives and support measures will kick start the rapid growth of our game development sector through the establishment of new game studios in Australia, investment and projects flowing into Australian businesses and a range of joint ventures.

The costs of government support for a game development sector will easily be recouped through economic growth and increased tax receipts, particularly given the export-driven global market for games. The social and cultural benefits of Australian-made games and the increased opportunities for training and education of students and young graduates that would result from industry support will be further returns on the government’s investment.

Finally, these industry support measures can be introduced via a budget-neutral package funded through savings that can be found by streamlining and modernising the government’s existing framework of financial incentives for the broader screen industry.
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<th>Policy recommendation</th>
<th>What it will achieve</th>
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<tr>
<td>Reinstall the Australian Interactive Games Fund and provide support of $40 million over four years</td>
<td>Seed funding to help game development businesses to expand, encourage new businesses and multiply projects, private investment, employment and expenditure</td>
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<td>Provide a 30 per cent refundable tax offset for video game development</td>
<td>In addition to the benefits above, it will draw global game developers to work or base in Australia, potentially setting up studios with hundreds of jobs each and bringing over projects worth tens of millions in expenditure, if not more</td>
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<td>Provide strategic funding and support for cultural, educational and serious games</td>
<td>Targeted funding to encourage the development of games with culturally-significant Australian content, games with a high educational focus and games with a ‘serious’ focus, an emerging and high potential sector of the industry</td>
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<td>Provide additional funding and support for game developers, such as to:</td>
<td>Targeted support as recommended or discussed by various Parliamentary inquiries to help game developers to break into the industry and take advantage of existing industry support mechanisms</td>
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|  • *Provide assistance for shared working spaces*  
  • *Establish a regional innovation hub*  
  • *Review taxation of crowd-sourced funding*  
  • *Review Export Market Development Grants*  
  • *Review Research & Development tax incentives* |
WHY AUSTRALIA NEEDS AN INTERACTIVE GAMES INDUSTRY

Why Australia needs an interactive games industry

1. Game development is an innovative and future-looking creative industry

Interactive games have the wonderful ability to tell unique and compelling stories that provide a voice for Australian content creators and can provide a key pillar of a modern, digital and creative Australia. At the same time, games represent the perfect intersection of Australia’s technology, information and creative industries and if supported, they can drive Australia’s economic growth, productivity and competitiveness in the 21st century.

The interactive games sector is one of the largest and fastest growing entertainment and media industries in the world. Estimated to be worth almost AUD $200 billion globally in 2018, games are bigger businesses than films, music and books. By contrast, the Australian game development industry employed around 928 full-time employees and generated just $118.5 million in 2016-17. Disappointingly, Australian game developers only capture 0.08 per cent of the global market, but this also means the opportunities for growth are enormous.

The size of our industry has not reached anywhere near its potential and was outpaced by even the New Zealand game development industry, which generated AUD $131 million in the 12 months to March 2018 and has grown 43 per cent since the preceding year. However, it is not too late and with the right support, an Australian game development industry can become a powerhouse of the economy.

Twenty years ago, Canada was in a similar position to where we are today with just 1,000 people employed in game development. Aided by government support, it has grown to an industry that employs 21,700 full-time workers and adds AUD $4 billion to its GDP, a growth of 24 per cent since 2015. The UK also shows what can be achieved with government investment and now has 2,261 game development companies – 62 per cent of which were created this decade – employing 13,840 full-time workers.

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5 UKIE, The games industry in numbers, https://ukie.org.uk/research
A competitor but also a vision for the future: the Canadian game development industry

There are 596 video game studios in Canada, a 21 per cent increase since 2015. Canada’s game development industry employs 21,800 workers and is worth CAN $3.7 billion, with 83 per cent of game studios being Canadian-owned and controlled. Canadian game studios are spread around the country with 198 companies in Quebec, 171 in Ontario and 152 in British Columbia. 2,100 video game projects were completed in Canada in 2017, a 67 per cent increase since 2015. 15 per cent of games completed in Canada in 2017 were serious games, while 23 per cent of developers worked on a virtual reality game.


2. Game development will help build a modern and talented Australian workforce

A home-grown game development industry will nurture Australia’s next generation of entrepreneurial, skilled and knowledge-based workers. The businesses and jobs that will be created through games can literally be located anywhere in the country and can support regional Australia. For example, the Australian game Crossy Road by Hipster Whale, which has been downloaded over 100 million times around the world and is an unbridled success story, was developed in the town of Creswick north of Ballarat. The TAFE NSW Digital Lab, which is helping to apply digital technologies like those developed in the games industry to education, is based in Armidale. Many of the jobs that will be created will also be high paying, with the average salary of a full-time worker in Canada’s game development industry currently paying AUD $85,000.6

6 ESA Canada, p 7
Thriving game development businesses will also fuel other parts of the interactive games industry, including game publishing, hardware and accessories, exhibitions and esports, education, marketing and both online and ‘bricks and mortar’ retail. For example, Canada estimates that its 21,700-strong game development sector supports an additional 18,900 jobs across the broader economy.\(^7\) Esports in particular provides a wonderful opportunity to boost Australian tourism and we are already seeing stadium owners and cinemas developing partnerships with esports leagues and teams to fill venues around Australia.

The benefits of a successful game development industry will flow to many other parts of Australia’s broader economy by providing diverse skills that are uniquely transferrable to other sectors, from IT and software expertise to digital design and media production skills. Game engines like Unity and Unreal Engine are increasingly being used in many non-game fields and skilled practitioners of those engines are becoming some of the most highly-sought workers across the entire IT sector globally. Given that Australia’s film and TV production sectors have been static or have declined over the past decade,\(^8\) interactive games – which are increasingly narrative-driven – can fill the void and provide work for writers, directors, actors, artists, composers, editors and animators among many others.

Finally, supporting our game development industry means that Australia will be able to reverse the brain drain that has been leading to a loss of our skilled game developers, not to mention the thousands of game development and design graduates Australia is producing each year. Our talent is currently needing to move overseas to find work, taking with them not only their skills, experience and creative ideas, but also their taxable incomes. If we don’t support our industry, we will continue to lose an entire generation of talented Australians to grateful studios in the US, Europe, the UK and Canada.

\(^7\) ESA Canada, p 5-6

\(^8\) Screen Producers Australia, Submission to the Standing Committee on Communications and the Arts Inquiry into Factors Contributing to the Growth and Sustainability of the Australian Film and Television Industry, https://www.aph.gov.au/DocumentStore.ashx?id=05ee381e-fa9e-4cc1-b00e-daa388f3d9d0&subId=509714, p. 18

The budding next generation of Australian game developers

Young Australians are passionate about developing games and are making it happen, with around 5,000 students enrolled in game-related courses each year. Australia has some of the best games courses in the world, from the diverse range of courses taught by the Academy of Interactive Entertainment to university courses like RMIT’s Bachelor of Design (Games), UTS’s Bachelor of Science in Games Development and Torrens University’s Bachelor of Creative Technologies (Game Art). Unfortunately, with an unsupported industry at home there are currently not enough jobs to keep these graduates in Australia, but we are doing a great job feeding studios and economies overseas.
3. Games are a valuable, IP-driven and weightless export with high global demand

Games are arguably the perfect export product for Australia. Australian-made games are generally digital, so there are no transportation costs, and the majority of games are built on original intellectual property, meaning that profits generated overseas are typically kept in Australia. Mobile and online games are particularly attractive to emerging developers, as barriers to entry can be low and the option for self-publishing games on platforms like the Google Play Store provides a way to reach global markets easily and quickly.

The interactive focus of games and the popularity of Australian settings and stories means that games made in this country have the potential to find real mainstream popularity around the world. The Australian-made game Fruit Ninja has been downloaded over 1 billion times and its creator, Brisbane-based Halfbrick Studios, is a shining example of the heights that Australian game development businesses can achieve. Across the industry, the majority of Australian game developers already own their own intellectual property and earn 80 per cent of their revenues from overseas. In short, our industry is ready to take on the world.

Given that the Asia-Pacific region has an estimated 1 billion gamers and already accounts for more than half of all global game revenue, Australia has a massive export opportunity right on its doorstep and should be doing a better job exploiting it. Digital exports are already the fourth largest export sector in the Australian economy, valued at $6 billion, and if Australia’s interactive games industry can reach its full potential this can rise even further.

Virtual reality and augmented reality (VR/AR) are on the cusp of becoming one of the transformative and keystone technologies of the 21st century and are estimated to grow into a AUS $110 billion industry by 2020. Interactive games are driving VR/AR’s evolution and some Australian game studios are on the cutting edge of these technologies for both entertainment and their wider applications. Games have also been instrumental to the development of better artificial intelligence, which is rapidly becoming a vital driver of growth across many parts of the global economy. Support for our game development industry is therefore a strategic and future-looking investment into technologies, markets and export opportunities well beyond games.
Australia’s growing but under-supported game development scene

Australia’s game development sector has ebbed and flowed over the past two decades in an environment of low and inconsistent government funding. While several major game studios closed down around a decade ago due to the global financial crisis and a high Australian dollar, some smaller and more nimble studios have taken their place. IGEA is proud to count ambitious, innovative and successful games studios among its members like Big Ant, Firemonkeys and Wicked Witch in Melbourne, Mighty Kingdom in Adelaide and Nnooo and SMG Studio in Sydney. A new breed of game developers are also breaking through via collaborative working spaces that have emerged with support from state and territory governments, including The Arcade in Melbourne and Game Plus in Adelaide and Canberra.

WHY AUSTRALIA NEEDS AN INTERACTIVE GAMES INDUSTRY

4. We have entered an era of serious games and their uses have limitless potential

Called by many names, ‘serious games’, ‘applied games’, ‘games for purpose’ and ‘gamification’ means that interactive games are no longer just used for entertainment but are finding applications across a range of sectors, including health, education, defence, emergency management, sociology, engineering, urban planning, research, training and service delivery. These industries are hungry to explore the potential uses of serious games and their demand for games continues to expand. Globally, the serious games market is expected to grow from AUD $4.5 billion in 2017 to over $24 billion in 2023, growing at an estimated compound rate of 37 per cent each year.12

Many Australian game developers have already branched into serious games and some even specialise in them. In its analysis of Australia’s game development industry, the government trade body Austrade specifically highlighted the inherent value that serious games are providing to the industry by adding innovation, diversity and scope.13 We are just at the start of the wave of serious games and many Australian companies are on the cutting edge of showing the world what they can achieve, including:

• The Australian-made mobile game Sound Scouts that has been designed to aid the process of detecting hearing difficulties in young children and has received $4 million in Australian Government funding for a national rollout.14

• Opaque Media, which has developed the Virtual Dementia Experience for Alzheimer’s Australia Victoria as well as Earthlight, a spacewalking simulator completed with NASA.

• Well Placed Cactus, which has developed a niche providing expertise in VR/AR technology to businesses, leading to its acquisition by Deloitte Australia in 2017.

• Big Ant Studios, which has developed Australian games for almost two decades but also leverages its expertise to provide training and simulated environments for a range of businesses and government agencies.

12 Statistics MRC, ‘Serious games global market outlook and trends forecast and opportunity assessment 2014-2022’, Global Serious Games Market, 2018
• SMG Studio, which worked with the youth mental health organisation ReachOut to develop the ReachOut Orb game teaching Australian students about wellbeing.

• Bohemia Interactive Simulations (BISim), which has developed gaming software that has become the flagship military simulation training program for the US Army and several NATO countries.

• Neuroscience Research Australia, which developed Smartstep, a game-based stepping exercise for people with MS to help their balance and agility.

• Orbit and Orb Rescue, a game-based child sexual abuse prevention program developed at the University of the Sunshine Coast.

There are also enormous possibilities for educational games for children, with just one example being the ABC which offers a range of games on its education website on subjects including english, maths, science and technologies.\(^\text{15}\) Games are a perfect driver for getting children interested early in their lives in studying and pursuing careers in STEM and developing skills that will provide them with diverse opportunities in sectors beyond games. A great example of this is the Australian STEM Video Game Challenge, a competition which helps students engage in STEM, alters children’s perception of STEM subjects and which specifically seeks to target gender disbalance in STEM fields. Video games are powerful tools in this regard and research has found that girls who played video games were over three times more likely to study a STEM degree.\(^\text{16}\) Games have a wonderful adaptability for education and can be used in unique ways, such as to inspire Indigenous children and to get them interested in technology and coding.\(^\text{17}\)

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\(^{15}\) ABC, Education, http://education.abc.net.au/home#!/games


Gamification can also be used to support public and community education campaigns, such as a game being made by Mighty Serious Games in partnership with the Victorian Government to combat homophobia. The eSafety Commissioner has also developed The Lost Summer, an innovative game to promote online safety and combat cyberbullying, while the South Australian Water Corporation developed Project Desal to teach Australian children about the desalination process. In perhaps the most prominent Australian example to date, the Dumb Ways to Die train safety games created by Metro Trains Melbourne have been downloaded a total of 200 million times in Australia and around the world.


5. The power of games for digital inclusion and its cultural dividend for Australia

Rather than worrying about the impact of games on children’s social lives, researchers and communities are finally recognising the positive benefits of games as they become the method of choice for children to connect with their friends and to make new ones. There is increasing evidence that games can help to improve the social skills of children and that the focus of multiplayer interactivity in games can promote teamwork, leadership and communication. The shared experience of playing games also provide a wonderful way for parents, grandparents and older siblings to bond with young children.

Games encourage digital inclusion among adults by helping to bring together people who are divided by geographical or practical boundaries. They also play an important role to help Australians in regional areas feel more connected to society, something which other forms of screen content like films and TV shows can struggle to do. Games can be particularly beneficial to Australians with disabilities and game developers have worked tirelessly in recent years to ensure that games are as accessible as possible, from the use of captioning and control remapping to the development of controllers designed for players with disabilities such as Microsoft’s adaptive Xbox controller.

Games have a range of other positive impacts above and beyond social and digital inclusion. Research conducted by IGEA found that Australians love playing games for many reasons beyond entertainment, including to de-stress, keep their minds active, be challenged, learn and to exercise. Games like Ubisoft’s Just Dance and Nintendo’s Joy-Con controllers encourage people of all ages to be active, while games also have the power to help people explore ethical choices uniquely through gameplay or to better experience and understand social issues, such as the game An Aspie Life by an Australian developer with autism.

Building a Thriving Interactive Games Development Industry in Australia

Home-grown games can also provide a vital cultural export for Australia and will help to shape Australia’s image to the world and particularly our region. The fact that more people have played Florence in China than the US shows both the economic and cultural impact that Australian games can have. The role that Australian games can play as part of our foreign diplomacy and trade is so significant that the Australian Government highlighted it in its 2017 Foreign Policy White Paper. Sadly, the Government’s support has not followed.

All the cultural arguments for supporting Australian films and TV shows, including the need to ensure Australian children are exposed to Australian stories, also apply to games. Australians are no longer watching Australian films and TV like they used to and are increasingly playing games, with 67 per cent of Australians playing games and 97 per cent of Australian homes with children owning video games.25 While Australians spend over twice as much on games ($3 billion)26 as they do at the cinema ($1.2 billion),27 they likely have a much harder time finding Australian games than movies. Australian children deserve to play Australian-made games just as much as they deserve to watch Australian films and shows.

25 IGEA, Digital Australia Report 2018, p 6
26 IGEA, Australian Video Game Development Industry Snapshot 2016-7

Australian-made games like Ty the Tasmanian Tiger by Krome Studios, a series that has sold a million copies, provide wonderful opportunities to expose Australian children to native characters and settings. Interactive games are now as narrative-driven as films and TV shows and games developed in a thriving Australian industry can have the potential to tell limitless stories about Australians past, present and future. The award-winning game Florence by Melbourne studio Mountains tells the story of 25 year-old Florence Yeoh as she finds love and navigates life. Other examples include Virtual Songlines, which is helping to preserve and share Indigenous culture, stories and worlds through video games, and Kokoda VR, which was developed by the ABC to provide an experience of the Kokoda campaign.
Paperbark

Created by Paper House with support from the Victorian Government, Paperbark is an award-winning game that tells the short story of a wombat in the Australian bush in summer. The player follows a sleepy wombat as it explores an Australian bushland inspired by landscape artists and Australian children’s literature. In the words of its developers, the game has been created “as a love letter to wandering through the bush and will resonate with anyone who grew up in Australia or is interested in it.”

http://www.paperbarkgame.com

Blueprint for fostering a strong Australian game development industry

1. Provide a $40 million fund for game development

Funding in the form of grants and loans will provide an effective way for game developers to access seed and gap financing to help them develop products and grow as businesses. Like other emerging industries of the future, Government support is vital in this growth stage of Australia’s game development sector to help turn it into a successful and sustainable industry, giving it a chance to flourish that it has never been provided. By providing capital for production and staffing costs, a game development fund will help to turn ideas into games, skills into careers, game developers into businesses and businesses into locally and internationally renowned studios.

The former Australian Interactive Games Fund (AIGF) provides a practical model for a game development fund. It was introduced in 2013 by the Labor Government but only lasted until 2014 when it was ended by the Coalition Government without explanation. The AIGF was administered by Screen Australia and provided $20 million over four years to game developers through two streams, a Games Enterprise and a Games Production program. The Games Enterprise program provided funding of up to $1 million over three years to developers for operating costs to help them grow as businesses and to fund operations. The Games Production program provided funding of up to $500,000 for specific game projects.

Providing direct funding and support is a proven model that works and IGEA is calling for a $40 million fund to make up for lost years and to bring Australia to the global stage quicker. The AIGF was providing tangible results in Australia before it ended. Of the $10 million that was made available to industry through the AIGF before it was cut short, around
$6 million was used to support ten development studios, around $3.7 million was provided to help 36 game projects get off the ground and around $120,000 was used for sector building, such as professional development and screen culture activities.

Screen Australia has experience in running the AIGF and can leverage its expertise and the advice of industry experts to help guide how funding should be allocated, including setting the funding criteria and evaluating applicants. The AIGF model ensures that funding is provided not only for specific game development projects, but also for enterprise support to help developers to transition from content creators to small and medium sized businesses that are not only professionally-organised (including able to manage contracts, payroll and everything else that can be daunting to those starting off) but also strategically-minded. Some game funds overseas also provide support for marketing costs, an option that could also be considered here to help local developers promote their products.

The AIGF model provides Screen Australia with the ability and flexibility to allocate funding most effectively in a rapidly-changing game development landscape, taking into account global trends, new technologies and consumer tastes. As an ancillary benefit, the involvement of Screen Australia in the games industry means that the Government has an active voice to work in partnership with businesses on issues of broader relevance to the sector, including on trade, diversity, accessibility and industrial issues.

Finally, specific funding for game development is needed because other forms of funding are simply not available to developers. Game developers are inexplicably locked out of support from Screen Australia, despite games being a form of screen content and other forms of interactive content like VR/AR being eligible. The 2016 Senate Environment and Communications References Committee Inquiry into the future of Australia’s video games development industry (the Video Games Inquiry) examined the funding landscape and accepted evidence that other sources of support like Export Market Development Grants and research and development (R&D) tax incentives were of limited use to game developers.

A success story from the Australian Interactive Games Fund

The action role-playing game Hand of Fate was developed by Australian game developer Defiant Development. Supported by the AIGF, the game returned over $4 million to Defiant and made more than twice the development cost, providing funding that the studio used to start work on a sequel. Defiant moved from a business reliant on contractors to one that could hire 18 full-time staff. The success of the game meant that the Government has already been ‘repaid’ its investment in Defiant through increased income tax from the business.

Environment and Communications References Committee, Game on: more than playing around. The future of the Australia’s video games development industry, Final report, April 2016, para 3.18-3.19
2. Create a 30 per cent refundable tax offset for game development

The creation of a refundable tax offset, sometimes referred to as a tax credit or rebate, for game development will create an environment that allows independent Australian studios to grow while also attracting the largest game developers in the world to set up studios here, bringing jobs, projects and investment with them. A refundable tax offset complements a direct games fund in two significant ways. First, while the games fund particularly supports growing game developers and provides upfront seed capital to help projects get off the ground, a refundable tax offset is particularly useful for established game studios with larger budgets and provides annual cash streams throughout the life of a project.

A refundable tax offset will specifically help businesses to invest in production and staffing and, depending on its design, could also be used to support marketing expenses. It will also help game developers and studios to access finance more easily from private investors and financial institutions by enabling them to borrow against the likely amount of the tax refund and to obtain credit on more favourable terms than would otherwise be possible, if at all. By ensuring that the tax offset is available to both Australian and foreign-owned studios based in Australia, it will encourage global game developers to open studios in Australia, hire Australian developers and to launch joint ventures with Australian businesses.

While it is certain that a tax offset will help many Australian game developers get their own projects off the ground, it will also help the Australian game development industry take advantage of the multi-billion dollar global industry more broadly. Modern game development practices mean that a large global game developer may draw on its various studios around the world to work on a massive project together, or to engage an independent Australian game developer on a “fee-for-service” basis. Providing a refundable tax offset for the Australian component of a project will make Australian game developers and studios internationally attractive and will provide them access to potentially hundreds of millions of dollars’ worth of projects a year and the invaluable experience it will bring.

There are already a range of refundable tax offsets available to the film and TV production industries, including the 40 per cent producer offset for Australian films, 20 percent producer offset for Australian TV shows, the 16.5 per cent location offset for films shot in Australia (with $140 million available in top-up funding) and the 30 per cent offset for post-production, digital and visual effects (PDV) work performed in Australia. Screen Australia and the Department of Communications and the Arts run these tax offsets and would already have the necessary skills and capacity to run a tax offset for game development.

The 30 per cent PDV offset provides a particularly useful benchmark for a game development tax offset. Like the games sector, the PDV sector is a rapidly-growing and highly-skilled digital export that serves a global market and is also one where Australia’s geographical isolation is no barrier. Rather than an emphasis on an Australian story or setting like the Producer Offset, the PDV tax offset was designed to turn Australia into a PDV hub and that is what it has achieved (see below). A tax offset for games would have a similar effect on our industry.

Refundable tax offsets for game development is a model of financial
Building a Thriving Interactive Games Development Industry in Australia

Incentives that have been proven to work. In the UK, AUS $144 million of Video Games Tax Relief (VGTR) helped generate AUS $720 million in game development expenditure in 2016. The VGTR also provided AUD $543 million in Gross Value Added and directly supported 4,460 full-time jobs. The total economic contribution of the VGTR to the UK economy in 2016, taking into account its broader impacts on related industries, was estimated to be almost AUS $1 billion in Gross Value Added, including AUS $288 million in tax revenues and 9,240 full-time jobs.

Finally, there will be natural synergies to be gained in providing support to both the PDV and game development sectors. They are both innovative, growing and lucrative digital industries with tremendous export potential. They also share workers with similar skill sets who can help to cross-pollinate each other’s businesses while creating a richer and more talented workforce. And as seen with the PDV sector in states like Victoria and Queensland, a federal tax offset is stackable with state and territory tax offsets to encourage governments to work together to create effective and sustainable incentives. The existence of both a PDV and game development tax offset will set Australia up as a true global centre of excellence for the digital creative industries of the future.

How the PDV offset turned Australia into a world leader in post-production and effects

Some of the most innovative and successful special effects companies in the world are Australian. While much of this is due to the talent of these Australian businesses of course, the impact of the 30 per cent PDV offset cannot be underestimated and it has helped them attract work from around the world. Australian PDV businesses that have been able to transform into world leaders include Method (Game of Thrones), Luma (Black Panther) and Rising Sun Pictures (Thor: Ragnarok).

Analysis conducted by Olsberg SPI in 2018 indicated that the PDV sector has grown from 304 full time equivalent workers generating $20 million in income in 2009-10 to 5,979 workers with $456 million in income in 2014-15. The same analysis found that the producer offset for Australian films has helped to create a film industry that employs 25,000 workers and is worth $1.575 billion.


29 British Film Institute, p 77
30 British Film Institute, p 89
3. Provide strategic support for cultural, educational and serious games

To augment the games fund and refundable tax offset, targeted support through dedicated funding or increased tax offsets could be provided to games that satisfy an Australian content or cultural threshold. This will help to encourage the development of games with unique Australian characteristics for both Australians and overseas markets.

Targeted funding or other support could also be made available to support the development of serious games, such as educational games or the development of games for scientific, health, social or research purposes. An example of this forward-thinking support was the Serious Games Initiative that was run by Screen Australia and the ABC which provided development funding for educational games.31 Some of the funding currently provided to the Australian Children’s Television Foundation could also be opened up for the development of high-quality Australian interactive games for children, reflecting the practical reality that Australian children are watching less TV and playing more games.

The Video Games Inquiry also recommended that the Government facilitate dialogue between interactive games associations and groups that use or could potentially use serious games.32 This dialogue could help to improve and expand the linkages between game developers and other industries, shedding light on broader and deeper opportunities for innovation and collaboration. An appropriate government agency like the Department of Industry, Innovation and Science could be tasked to lead this work.

4. Additional funding and policy support to foster a game development industry

IGEA also supports the following recommendations that were made by the bipartisan report of the Video Games Inquiry – all of which are still relevant and will help to grow the sector:33

- Encouraging and providing financial assistance for the creation of shared working spaces for video game development, with support contingent on co-funding provided by relevant state or territory governments.

- Establishing an innovation hub for video game development and other technology startups in a regional centre, recognising that video game development is not restricted to the capital cities but can happen anywhere in Australia.

- Investigating the tax implications of crowd-sourced funding for startups, including whether temporary tax relief should be available for income that new businesses gain from crowd-sourced funding.34

- Investigating the utility of the Export Market Development Grant scheme, following evidence that it was of limited use to game developers in its current form.

The final report of the Video Games Inquiry provided a strong evidence-base for each of the above recommendations, which there is no need to repeat in this paper. The full report can be found on the Parliament House website.35

33 Environment and Communications References Committee, recommendations 3, 5 and 6
34 Crowdfunding can be vital for firms in creative industries. Video games, which often develop large, passionate and lasting fan bases, can be particularly attractive for this funding model.
In addition to these recommendations, the report also noted evidence that the Government’s R&D tax incentive was of limited utility for game developers. R&D tax incentives can play an important role in the Government’s framework of support and can help drive the development of innovative game engines and functionalities and further explore the boundaries of what is possible in games for both entertainment and broader applied purposes. IGEA therefore recommends that the Government review and consult on the R&D tax incentive from a game development perspective and consider what changes could be made to improve its usability. Some ideas identified by the Video Games Inquiry included Canada’s structure of R&D support which is an upfront payment rather than a payment at the end of R&D.

36 Environment and Communications References Committee, para 3.23
The fiscal and economic case for supporting game development

1. The cost of supporting game development is modest and sustainable

The Video Games Inquiry concluded that given the small size of the Australian game development industry, the cost to the Australian Government of providing support through a reinstated games fund would be unlikely to be high.\(^{37}\) The games fund that IGEA is calling for would have an upfront cost of $10 million a year for four years, with much of this funding taking the form of recoupable investments. This cost would represent a fraction of the almost $100 million a year in funding that is provided to Australian films and TV shows by Screen Australia grants and loans alone, let alone funding for ABC and SBS programming.

The cost of a refundable tax offset would potentially be higher than a fund over time, but would also ramp up more gradually as studios establish themselves in Australia. The Parliamentary Budget Office costed the Australian Greens’ proposed 40 per cent refundable tax offset for game development at $133 million over the forward estimates.\(^{38}\) A strategically designed and potentially scalable or capped 30 per cent tax offset for game development would almost certainly have a smaller impact on the Budget. Screen Australia has previously been supportive of a tiered tax offset for game development comprising a 20 per cent rebate for projects below a certain expenditure threshold and 30 per cent for projects above it.\(^{39}\)

Both the games fund and a refundable tax offset would also be designed to ensure that funding is provided to game developers that can demonstrate that they are worth backing. For example, the fund would be subject to a comprehensive application and screening process and could leverage experienced game developers on evaluation panels (who would be subjected to rigorous conflict of interest controls). A refundable tax offset would also be subject to eligibility criteria including minimum Australian expenditure requirements to encourage projects of scale.

Grants and loans can also be structured so that it is paid out in ‘stages’ subject to certain milestones to minimise risk, while tax offsets are generally only refundable in the financial year following expenditure, creating further safety nets through rigorous reporting requirements. All financial incentives would also be evaluated regularly and calibrated as needed to ensure they remain effective, efficient and sustainable.

Finally, both the games fund and a refundable tax offset could be administered at low additional cost to the Australian Government, given that they would slot neatly into the range of existing grants, loans and tax offsets for the screen industry already being managed by Screen Australia and the Department of Communications and the Arts.

\(^{37}\) Environment and Communications References Committee, para 5.19


2. Games funding is recoupable, while a tax offset will lead to increased tax receipts

By its very design, the games fund is recoupable and much of the funding provided will take the form of a refundable investment. Under the previous Games Enterprise program, at least 25 per cent of funding was required to be provided as a loan with the rest provided as a grant, while the Games Production program provided funding below $50,000 as a grant and funding over $50,000 as a recoupable investment.

There will be genuine prospects for funding to be recouped for many projects supported by the games fund. Compared to Australian films and TV shows, we believe that Australian video games are inherently better investments and have higher prospects for generating wealth from the global market. Government investments into games will result in products that have markets at home and abroad and will more likely result in the investments being repaid, with this returned funding able to be returned to the Budget or re-invested back into new projects. On the other hand, films and TV shows supported by Government funding are rarely profitable or commercially viable, with Screen Australia’s analysis of 94 films it had invested in finding that none had returned their production costs or turned a profit.40

The nature of refundable tax offsets means that for many games, the valuable products and future revenue streams that they create will lead to increased tax revenues that can pay back the offset costs. Analysis has shown that in the UK in 2016, AUS $144 million in tax relief for the video games development sector helped to generate AUS $288 million in tax revenues.41 Analysis of the Australian film and TV industry has shown that even in that traditional sector, every $1 of tax offset dispersed led to $1.05 in revenue through income, GST, corporate and other taxes.42

3. Financial incentives will provide a lightning rod for foreign investment

The popularity of games around the world is only growing, as is the demand for people to make them. Australia is one of the few advanced business environments left in the world that should, but doesn’t, have a major game development industry. Australia already has a talented, English-speaking workforce, enviable cities and towns for businesses and employees to be based in and a low Australian dollar (for now at least). The final key to success is competitive financial incentives that will provide a lightning rod for investment.

Screen Australia has stated that before the AIGF was axed, it had delivered against its objectives and had assisted businesses to expand and to retain intellectual property.43 Screen Australia also noted that the $3.7 million provided for game projects under the AIGF generated total production budgets of $14 million, a multiplier of around four.44 As refundable tax offsets are proportional to total production expenditure, they will not only demand private sector investment into games but incentivise larger budgets.

Financial modelling conducted by PricewaterhouseCoopers in 2011 for Screen Australia indicated that a tax offset for game development would lead to

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41 British Film Institute, p 89
43 Environment and Communications References Committee, para 3.18
44 Environment and Communications References Committee, para 3.20
additional investment of $146 million into the industry over five years, over two-thirds of which would come from foreign investment. The analysis also indicated that the medium-to-high budget segment of the game development industry would alone lift Australia’s GDP by $76 million and double jobs. As these figures were based on a far smaller global games industry at the time, these estimates almost certainly underestimate what could be achieved now by a sizeable margin.

Government support for game development is not a handout nor a replacement for private investment – it is a signal to emerging game developers at home and the enormous global game development industry that Australia is a place to do business. The right financial incentives will lead to significant and long-term financial investment pouring into Australia in the form of new studios opening up, new capital and work flowing into existing studios and joint ventures. To fully leverage the opportunities of foreign investment, it is vital that both the games fund and refundable tax offsets are available to independent Australian game developers as well as foreign-owned Australian studios, mirroring arrangements for industry support for film and TV production.

The nature of the game development industry also means that the foreign investment that will flow into Australia will stay. Unlike foreign film and TV shows supported by the Government, many of which do not create permanent studios or jobs, game developers build bricks and mortar studios that are here for the long haul. They hire game designers, software engineers, producers, artists and all the other professionals that are needed to make games. And when a game project is completed, they will simply start over on the next.

Finally, foreign investment does not just mean the financial capital to set up new studios. Foreign investment means ongoing relationships and partnerships. It will create new pipelines of work potentially comprising hundreds of games for years to come. It also means veteran developers and managers from studios around the world including seasoned Australians returning from abroad will come to teach our next generation of game developers. And as emerging Australian developers grow and start to expand their horizons, they will start game development studios of their own in Australia, creating a ‘fountain effect’ of growth.

45 Screen Australia, Playing for Keeps: Enhancing sustainability in Australia’s interactive entertainment industry, p 29
Global game publishers building development studios around the world

IGEA’s members include the Australian and New Zealand subsidiaries of the largest and most successful game developers and publishers in the world, including Bandai Namco, Bethesda Softworks, Activision Blizzard, Electronic Arts, Gameloft, Microsoft, Nintendo, Sony Interactive Entertainment, Take-Two Interactive and Ubisoft. These companies have studios around the world, including in the US, Canada, UK, Ireland, France, Germany, Spain, Sweden, Finland, Poland, Romania, Ukraine, Bulgaria, Serbia, United Arab Emirates, China, Singapore, Japan, South Korea and the Philippines. Currently only Electronic Arts has a development studio in Australia through Firemonkeys in Melbourne. However, it is no coincidence that Firemonkeys is the largest studio in Australia and is an indication of what can be replicated and multiplied if the support framework is in place to attract the global developers to set up studios here.

4. The benefits of investment and growth will more than justify support costs

The payoff of a relatively modest level of support for the game development industry is the building up of a thriving new sector of the Australian economy that generates lucrative digital exports, thousands of highly-skilled jobs and significant taxation revenue – all of which will more than pay back the Government’s investment. Analysis of the Australian film and TV industry showed that every $1 of tax offset dispersed led to $3.86 in Gross Value Added to the industry.46 Analysis of the game development industry in the UK told a similar story and showed that each £1 of tax relief leveraged an additional £4 in economic activity.47

Some game developers that IGEA has consulted with spoke about how financial support will enable them to expand and even multiply their businesses, while global publishers are eager to explore opening studios in Australia as soon as it becomes economical to do so. This potential payoff is not conjecture. It is based on the experience of countries like the UK and Canada that have seen their game development industries flourish with the support of tactical government investment. It is also based on the observable and real life effect that a refundable tax offset has made to turn Australia’s PDV industry into a thriving world leader.

A tax offset in particular will allow independent developers to retain intellectual property and negotiate favourable investment terms with private investors, while also making local developers performing “fee-for-service” highly attractive.48 A tax incentive will also reduce the cost to global game developers of locating game production activity in Australia, encouraging them to set up studios here that will either lead their own projects or contribute to major multi-studio “AAA” projects. It is worth repeating that the benefits of financial incentives for the games industry will stay in Australia, as homegrown studios expand and new studios arrive and establish roots around the country.

46 Olsberg SPI, p 37
47 British Film Institute, p 77
48 Screen Australia, Playing for Keeps: Enhancing sustainability in Australia’s interactive entertainment industry, p 27
All of this differs significantly from the impact of the location offset for “footloose” foreign films, for example, which unfortunately often takes the form of very localised one-off injections into the film industry that may not have a lasting effect. In contrast, game development studios set up in Australia will ingrain themselves into the economy and will bring with them international expertise that local developers will benefit from.

The nature of the industry also means that developers and studios will build close links with schools, colleges and universities while providing pathways for work and creating a virtuous circle of talent to feed the growing industry. IGEA is happy to enter discussions with the government about reciprocal arrangements that, for example, could tie financial incentives to commitments to provide work experience for students and interns. In Canada, links between the games industry and the education sector has helped the country to develop globally respected engineering and animation schools.

5. Savings are available to offset the cost of funding game development

Most, if not all, of the cost of investing in Australia’s game development sector can likely be found by streamlining the incentives that are already provided to fund film and TV content, including the producer, location and PDV offsets. Australia’s current framework of screen content incentives is outdated and one of the reasons why the Australian Government conducted the Australian and Children’s Screen Content Review in 2017. Unfortunately the outcomes of this review are unknown as at the date of this paper’s release.

For example, there are potential savings that may be found by reviewing and reforming existing incentives for film and TV, including:
Building a Thriving Interactive Games Development Industry in Australia

Game development enjoys broad political and stakeholder support

1. There is bi-partisan and crossbench support for games

A policy of investing in the game development industry has the unique characteristic of being innovative and future-looking while also being uncontroversial and enjoying wide political support. Most of the recommendations in this paper, including reinstating the games fund and providing a refundable tax offset for game development, were supported by the bi-partisan Senate Committee that delivered the Video Games Inquiry. This support was reiterated by the House of Representatives Standing Committee on Communications and the Arts inquiry into the Australian film and television industry, which was not even about games but still included a specific recommendation that the AIGF be reinstated.50


IGEA fully supports ongoing funding and support for the Australian film and TV sector. However, our argument is that since the support settings for the screen industry were initially established, the meaning of screen content has well and truly evolved to include video games, and games as a medium have at least the same cultural and economic significance as the traditional forms of screen content. It is time for games to be treated as seriously as other screen content and a healthy, thriving and hungry game development industry will only have a positive effect on the wider film and TV production sector.

• Re-calibrating the tax offset levels and/or imposing caps on tax rebates for individual film and TV projects to ensure industry support is more sustainable and helps to fund a wider and more diverse spread of content.

• Tightening the ‘Australian content’ eligibility test for the Producer Offset for both productions and co-productions (with partner countries) to ensure that it fulfils its purpose of supporting films and TV shows with genuine Australian cultural value.49

• Reviewing the eligibility of the PDV offset to ensure it is focusing on drawing work on foreign productions to Australia and is not just a general post-production subsidy.

The previous Labor Government supported the games industry by creating the AIGF, while we hope that this paper helps the current Government to finally understand the value of games. Investing in the game development industry is also a policy supported by the Australian Greens, which has called for $100 million in funding as part of its national platform as well as a 40 per cent refundable tax offset for game development.

Most state and territory governments, both Labor and Coalition-led, have supported game development, including New South Wales, Victoria, Queensland, Western Australia, South Australia, Tasmania and the ACT. They would all support financial incentives at the federal level and know that support at both levels will be key to jumpstarting a new wave of games.

2. The screen industry and the Australian public support games

In addition to the games industry, the wider screen industry also support investment in game development, recognising the deep links between interactive games and the film, TV and wider creative sectors. For example, in their joint submission to the Australian and Children’s Screen Content Review, all the major trade and professional associations involved in film and TV production recommended providing the games development sector with access to the 40 per cent producer offset.51 These associations included the Screen Producers Australia, the Media Entertainment and Arts Alliance, Women in Film and Television and each of the professional guilds for directors, writers, cinematographers, production designers, screen editors, sound engineers and screen composers.

Australians will take great pride in a supported and thriving home-grown game development industry, especially the two-thirds of Australians who play games. With the average age of Australian gamers being 34 years old and females making up 46 per cent of all gamers, Government support for Australian-made games will be recognised not only by kids but by the multiple generations of Australians who play games in cities, towns and regional areas all across our country.

Storm Boy: The Game

It was a classic Australian children’s book and then an award-winning movie with a new one on the way. Now, the iconic Australian tale Storm Boy has been adapted by Sydney-based Blowfish Studios into a beautiful interactive game set on a South Australian beach landscape where the player can step into the role of the titular protagonist and his relationship with Mr. Percival, his rescued orphan pelican pet and friend. The game follows key moments from the novel while expanding on the world the story is set in by allowing the player to take part in minigames like sand drawing, sailing, cockle hunting, playing fetch, sand surfing and pelican feeding. Like with Storm Boy, the medium of interactive games enable classic Australian stories to be reimagined for audiences young and old, while creating immersive ways to tell brand new ones.

https://www.blowfishstudios.com/game/storm-boy
A reminder to government of the value in supporting a thriving games development industry and recommendations for industry support

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