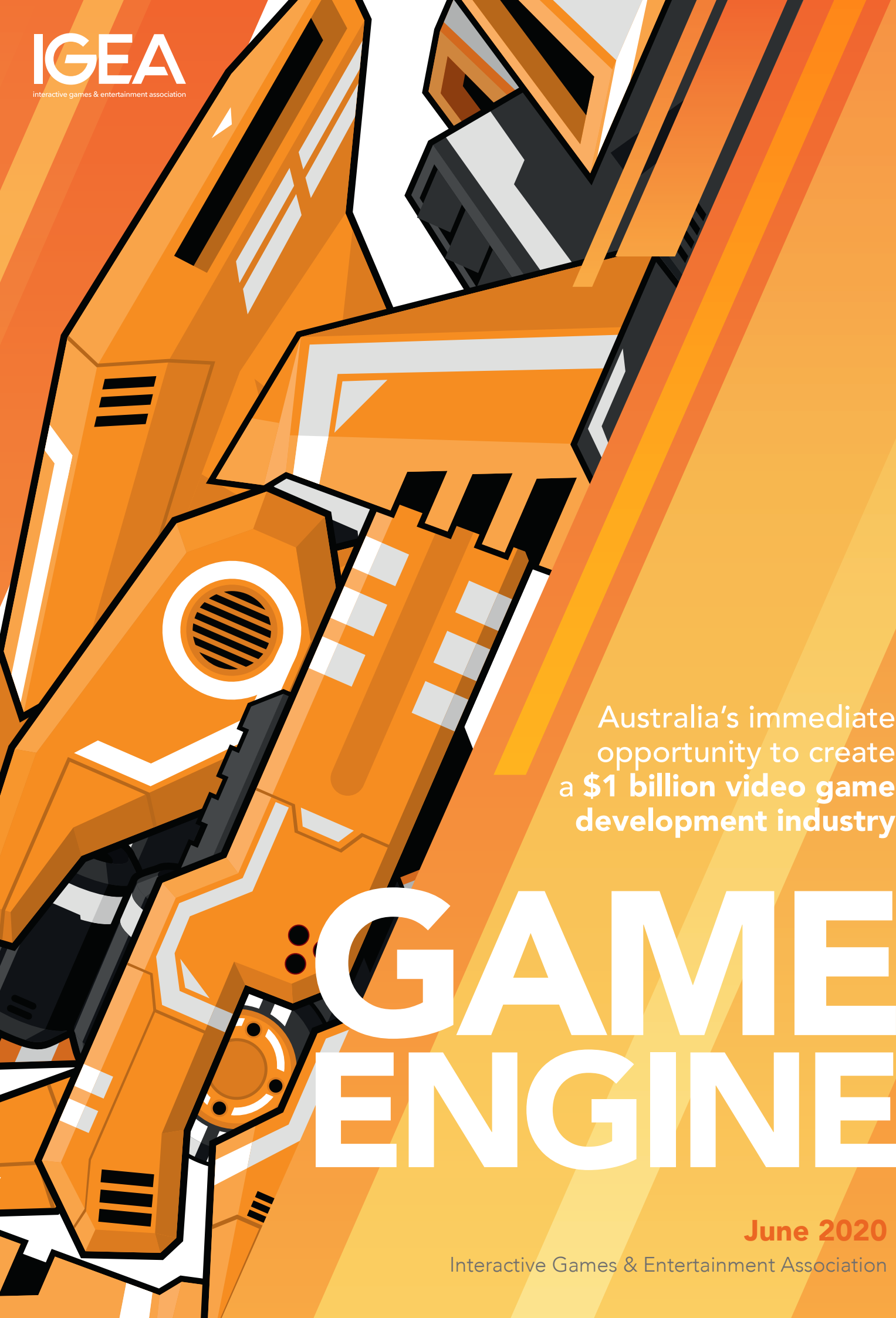
IGEA
interactive games & entertainment association



Australia's immediate opportunity to create a **$1 billion video game development industry**

GAME ENGINE

June 2020

Interactive Games & Entertainment Association

About IGEA

interactive games & entertainment association

IGEA is the peak industry association representing and advocating for the video games industry in Australia and New Zealand. Our vision is that of a thriving and sustainable local industry along with the recognition that video games are one of the most powerful entertainment mediums for enjoyment, connection, education, business, health, and creativity. For more information, visit igea.net.

IGEA also manages The Arcade in South Melbourne. The Arcade is Australia's first, not-for-profit, collaborative workspace created specifically for game developers and creative companies that use game design and technologies. For more information, visit thearcade.melbourne.

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Summary

Video games are all around us. From consoles that sit in our lounge rooms that allow the whole family to play, and computers that are used by children for online learning and socialisation, to mobile phones that keep us occupied while we ride the bus or train.

The businesses that make video games form a significant creative sector, in fact, one of the fastest growing and most innovative industries in the world.

Unfortunately, while games are a global $250 billion industry, Australia has one of the smallest game development sectors of any advanced economy.

Our sector earned just $144 million in 2018-19 – or 5 cents for every $100 generated by video games around the world.

The key reason for our industry's small scale at home is that unlike our international peers, Australia's funding programs and tax incentives for the screen industry have not extended to video games.

Fixing these policy gaps will have some immediate impacts:

Our existing studios will have the support they need to get started, to get projects running, to hire and to grow.

Australia will finally be able to compete globally for the billions of dollars invested each year in making video games. There is currently at least half a billion dollars of new investment, ready and waiting to be spent on making games in Australia.

There will be an explosion of unique Australian-made video games.

With these support mechanisms in place, we believe that our budding video games industry can within ten years grow into one that generates $1 billion annually, with most of that being export revenue, and create 10,000 new highly skilled, innovation-focused, full-time jobs.

Recommendations

We are calling for a new 30% tax offset for game development work, just like the PDV offset available to our fellow animation and special effects industry.

We are also calling for the restoration of the Australian Interactive Games Fund, which was cancelled just one year into its four-year term, so that game developers have the support they need to create games here in Australia.

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Is making video games a real industry?

Yes. It is the largest creative sector in the world and one of the fastest-growing industries worldwide. Video games are predicted to be worth almost $250 billion globally in 2020, or nearly ten times the size of the global music industry.

Tens of billions of dollars are invested in game development each year around the world. This money goes into making new games, creating new creative content, researching and developing new technologies, designing highly advanced platforms, and supporting all the communities of game players.

The reason for our industry's global scale and upward trajectory is simple: people love to play games. Two out of every three Australians play games. Globally, the best estimates are that almost a third of the world's population play games and about half of those people come from our own Asia-Pacific region. These are all people who do and will play games made in Australia.

While some people still think video games are just for young boys, nothing could be further from the truth. The reality is that the average age of the Australian game player is 34 and they are almost equally played by males and females. 42% of Australians aged over 65 play games - our fastest growing cohort - to keep their minds sharp, to stay active, and to spend time with their grandchildren.

Video games are no longer just for fun but are already being applied across diverse sectors in Australia, from education and training to health and defence. A thriving homegrown game development industry drives all this innovation.

Does Australia make video games?

We make beautiful, award-winning games that are played all around the world, but not nearly as many as we could and should be making.

Before the global financial crisis, Australia had an exciting development scene with both smaller 'indie' studios and larger 'AAA' (or blockbuster) studios. With the GFC, many of them moved or closed and never returned.

At the same time, many countries created strategies to bolster their own games industries and to attract global investment. These included Canada's video game tax credits and the UK's Video Game Tax Relief. These aggressive policies led to a loss of Australia's competitiveness as a great place to make games.

Despite these setbacks, our industry slowly reinvented itself, focusing on independent titles and games for mobile, finding success. Video games are among Australia's most successful creative exports over the past decade, and several Australian games have achieved significant cultural and critical acclaim.

The global industry has started to take notice of Australia again, with Electronic Arts, Gameloft, Wargaming and Activision Blizzard among the publishers that now have studios in Australia. However, scale is the key problem. Our talented game development industry is still 20 to 30 times smaller than the sectors in Canada and the UK, and we have such potential to achieve so much more.

Crossy Road by Hipster Whale has been downloaded over 200 million times around the world

Moving Out by SMG Studio was released in 2020 and helped people in social isolation to still play together

AFL Evolution 2 by Wicked Witch Software is a distinctly Australian game that can only be made here

Sledgehammer Games, which makes renowned Call of Duty games, established a Melbourne studio in 2019

Why should we care about making games?

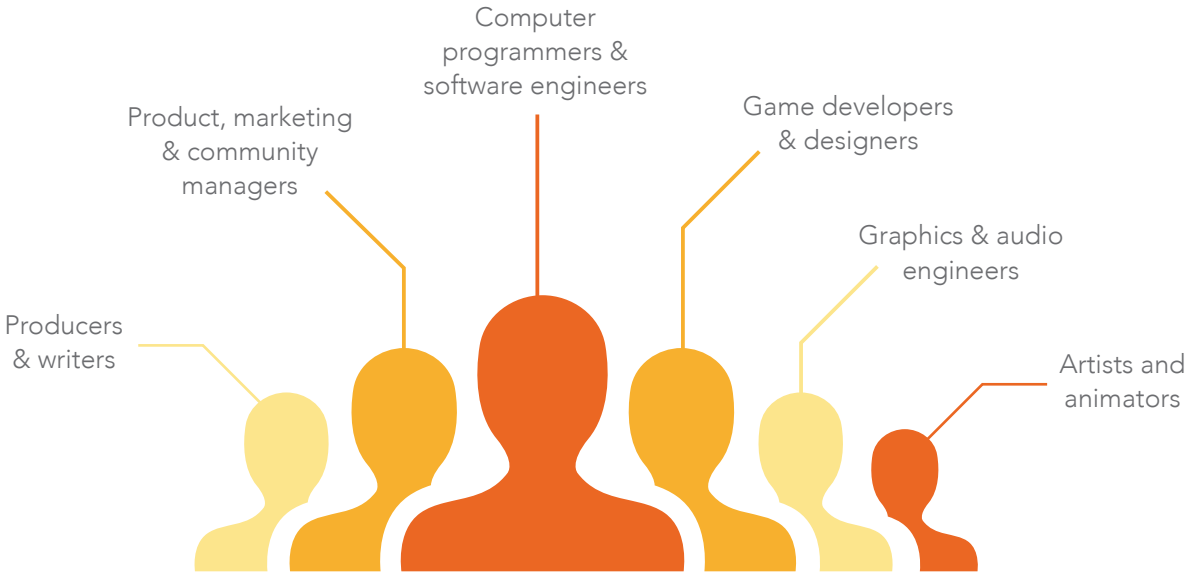
Australia's game developers are export-focused, making 83% of their income from overseas, particularly in Asia, Europe, and North America. To compare, ABS data tells us that just 8% of Australian businesses made any overseas income.

Video games are incredibly high value goods. Unlike most of Australia's exports, our industry doesn't make goods that are sold and used once. Our studios make games that are played again and again. Games today are ongoing services with diverse business models, generating revenues that last years after their release by bringing in new players and serving new content to keep existing ones.

As mostly digital goods, video games don't need to be shipped and have customers in every country, making our export market one of Australia's most diverse. While most non-essential businesses were heavily impacted by COVID-19, more than half of Australian game studios said that they were still confident for the future, buoyed by their ability to work remotely and the world's strong demand and need for games to help communities stay positive and connected.

What this means is that in a global trade environment that is looking increasingly fragile and volatile, few industries are as resilient for the long term as ours.

Australia also needs to build a workforce geared for the coming decades. This means developing digital, creative, and versatile skills. Games workers are programmers, engineers, designers, and technology specialists, and the skills they have are in demand not only in our sector but across the whole economy.



THE JOBS AND SKILLS CREATED BY VIDEO GAME DEVELOPMENT

How important can this industry become?

Australian game developers generated $144 million in revenue in 2018-19. Looking at how fast other countries' industries have grown, we believe that with the right policies in place, our industry can generate $1 billion a year in revenue within ten years. Over 90% of this revenue will come from overseas markets.

By growing our existing studios, building new ones, and investing in training and skills, we can also transform our industry from one that employs just 1,275 full-time workers today, to a workforce that employs 10,000.

Canada and the UK have already shown us the way. In 2019, Canada's game development industry employed almost 28,000 full-time workers and added nearly $5 billion (AUD) to its economy. The UK's industry employed almost 15,000 full-time workers and contributed nearly $3.5 billion (AUD) to its economy. These industries also support tens of thousands more jobs indirectly.

These examples provide a goal that we can aim for in the long-term, but we need to get started today. Creating a $1 billion games industry within ten years is also the declared goal of New Zealand, who have a faster-growing sector and are already rolling out funding programs to achieve it. We have no time to waste.

$1 billion a year in revenue

Over 90% of revenue coming from overseas markets

Mature digital export flows to Asia, North America, and Europe

10,000 full-time game development workers

Major game development precincts in Sydney, Melbourne, Brisbane, and Adelaide

Additional game development hubs in Perth, Canberra, and Hobart

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What's stopping our industry from growing?

Despite the talent and creativity of Australia's game development industry, and the great successes many of our studios have achieved, our industry has not been afforded the policy levers to transform into the global player we should be.

Of every $100 that video games earn around the world, only about 5 cents are generated by Australian game developers. Our industry earned less revenue in 2018-19 than New Zealand game developers, who have doubled their earnings over the past two years to generate $190 million (AUD). Australia is not taking advantage of the economic potential that our games industry can achieve, and a great export and investment opportunity is slipping by.

The absence of policy support for video games has led to a loss of global competitiveness. Unlike our international peers, Australia has not prioritised strategic policies for game development. The opportunity cost has been the loss of hundreds of millions of dollars of new investment and publishing deals as other regions become the focus of interest. Sadly, we have also lost some of our best talent and brightest ideas to the industries we are competing with overseas.

Doesn't the Government support arts and the screen sector?

There is no policy support for video games in Australia, even though a Senate Committee Inquiry into our industry in 2016 recommended that the Government create both tax incentives and direct funding for video games.

In contrast, the Government provides significant support to film and TV production, including both Australian and foreign projects.

- *It gives 'Producer' tax offsets of 20-40% and direct funding through Screen Australia to support Australian-made content for TV, online and cinemas.*
- *It provides a 'Location' tax offset and incentive worth up to a combined 30% for international productions to encourage them to film in Australia.*
- *It gives a 'PDV' tax offset of 30% to make Australian animation and special effects companies globally competitive and to attract investment.*

It's important to note that some states and territories do provide limited funding and incentives for game development, and this funding has been vital to the existence of some of Australia's most successful games over the years. However, it is not enough to make Australia globally competitive or to create the $1 billion a year industry that can help to transform our future economy.

Extending tax offsets to game development

We are calling on the Government to provide our sector with access to tax incentives by providing a 30% tax offset for video game development, just like the current PDV offset.

The PDV offset helps Australian screen enterprises to be competitive in a global landscape. A new video game tax offset would similarly help Australian game developers to make games cost-effectively and become a competitive exporter of development services, while also turning Australia into a globally attractive destination for investment. This tax offset should be available to all qualifying expenditure on game development in Australia.

Screen Australia, the Government agency supporting screen production, has previously mapped out what a game development offset could look like, including a proposal in its *Playing for Keeps* white paper for a 30% tax offset for projects over $500,000 (20% for projects between $200,000-$500,000).

We also know tax offsets work: analysis of games tax incentives used overseas shows that each $1 in tax offset spurred $5 in increased expenditure, increased the value of the economy by $4, and brought in $2 in new taxes.

With countries like Canada, the UK and France all with tax incentives to encourage game development, Australia has a competitive disadvantage. A tax offset will level the playing field and act as a lightning rod for investment. It is no exaggeration to say that there is at least half a billion dollars of investment that we know of ready and waiting to be injected into the Australian economy to build new studios and to grow our existing ones.

"Recommendation 2: The committee recommends the introduction of a refundable tax offset for Australian expenditure in the development of game titles."

Senate Environment and Communications References Committee, Final Report, Inquiry into the future of Australia's video game development industry, 2016

A tax offset will also be transformative to our existing game development businesses. It will help Australia's medium size studios who are on the cusp of global success to double down on their projects and workers while giving them the capital they need to obtain financing that might not otherwise be available. Achieving this will result in hundreds of millions of dollars of increased revenue from our highly export-focused studios and the creation of thousands of jobs.

Restoring the Australian Interactive Games Fund

We are also calling on the Government to fix the current ineligibility of video games from receiving arts funding by restoring the $20 million Australian Interactive Games Fund administered by Screen Australia.

The Australian Interactive Games Fund was introduced in 2013 but cancelled without reason after just a year. Its purpose was to provide funding of $20 million over four years to game developers, with some funding used to support specific projects and the rest going to help games enterprises directly.

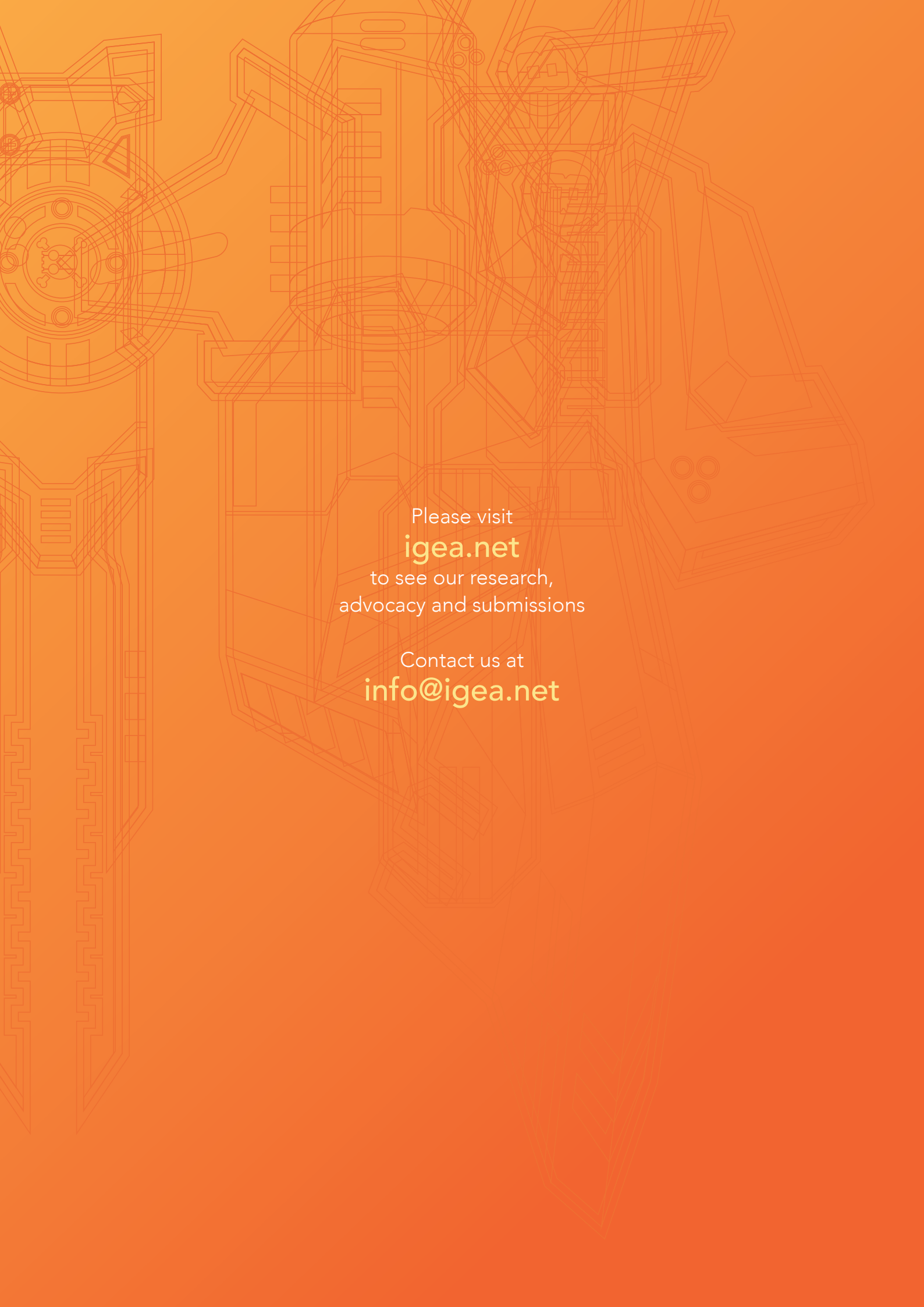
Screen funding is as vital to game developers as they are to screen producers and all the needs for the previous fund still exist today. Funding helps emerging talent to secure financing to get their first projects off the ground. It also helps them to grow their studios and hire the support that they need to succeed. Some Australian studios that are still making successful games today owe their start to the fund.

Like the previous fund, we support at least some of the funding being provided as recoupable investments that are repayable upon a game's success. While the previous fund didn't last long, it was effective while it was active. The $3.7 million that was provided to game projects helped to generate total production budgets of $14 million, and some recipients of that funding have told us how quickly they were able to repay the Government's investment.

"Recommendation 10: The Committee recommends that the Interactive Games Fund be reinstated."

House of Representatives Standing Committee on Communications and the Arts, Final Report, Inquiry into the Australian film and television industry, 2017

While screen funds typically take a while to lift the industry, success can come unexpectedly fast with games, with some of the most successful Australian games of the past decade being the first or second game made by young development teams. While countries like Canada, the UK, New Zealand, and economies across Europe all provide direct games funding - including Germany's new €50 million games fund - we remain one of the only advanced economies that do not.



Please visit
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advocacy and submissions

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