IGEA

interactive games & entertainment association

Submission to the Standing Committee on Communications and the Arts

Inquiry into Australia's creative and cultural industries and institutions

October 2020

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Storm Boy, Blowfish Studios

A video game based on the iconic and beloved Australian story about a boy and his pelican, from independent Sydney game development studio Blowfish Studios.

AO Tennis 2, Big Ant Studios

The second instalment of the official Australian Open video game series, made appropriately in the same city as its namesake by Melbourne-based Big Ant Studios.

Executive Summary

Who is IGEA?

IGEA is the industry association representing and advocating for the video games industry in Australia, including the developers, publishers and distributors of video games. We also manage The Arcade in South Melbourne, Australia's first, not-for-profit, collaborative workspace created for game developers and creative companies that use game design and technologies. IGEA is also known for organising the Game Connect Asia Pacific (GCAP) conference for Australian game developers, and the Australian Game Developer Awards (AGDAs) celebrating the best Australian games of the year.

Overview of submission

Video games are enjoyed by over a third of the world's population, including two-thirds of all Australians. The global industry that creates video games, which is both a creative and technology industry, is innovative and rapidly-growing. Game development provides and supports talent across almost all creative disciplines, from screen and visual arts to music, sound, writing and design. Game developers often have highly transferrable skills, not only in the arts but in the tech, design and commerce sectors.

Unfortunately, while the global video games industry is massive, the Australian game development sector is small, generating just $143 million in income in 2018-9 and employing just 1,275 workers. By comparison, both the UK and Canadian game development sectors are each well over ten times the size of our sector. Further, while many local video game developers were able to avoid or minimise the adverse effects of COVID, many developers - particularly new and emerging studios - have suffered.

Sadly, game development is the only part of the entire Australian arts sector that receives no federal arts support, despite $750+ million being provided to the creative and cultural sectors annually. As a result of this policy gap, Australia is one of the most expensive places to make games in the world, and among the least competitive for attracting investment. With the right policies in place, our industry can generate $1 billion a year in (almost all export) revenue and employ 10,000 fulltime workers within the decade.

Our recommendations for the Committee

- **Recommendation 1: That screen tax offsets be provided for game development**: We are asking that the Committee make a recommendation that the Government extend the Australian Screen Production Incentive to the production of video games, specifically by providing game developers with access to a 30% tax offset for video game development, similar to the current PDV offset for the Australian VFX and animation sectors.
- **Recommendation 2: That the Australian Interactive Games Fund be restored**: We are also asking that the Committee make a recommendation that the Government restore the $20 million Australian Interactive Games Fund that was introduced in 2013 but cancelled without reason in 2014. This Committee previously made the same recommendation in 2017 as a part of its inquiry into the film and television sector, a recommendation that the Government has yet to respond to or implement.

Australia's video game development industry

Who plays them, and who makes them?

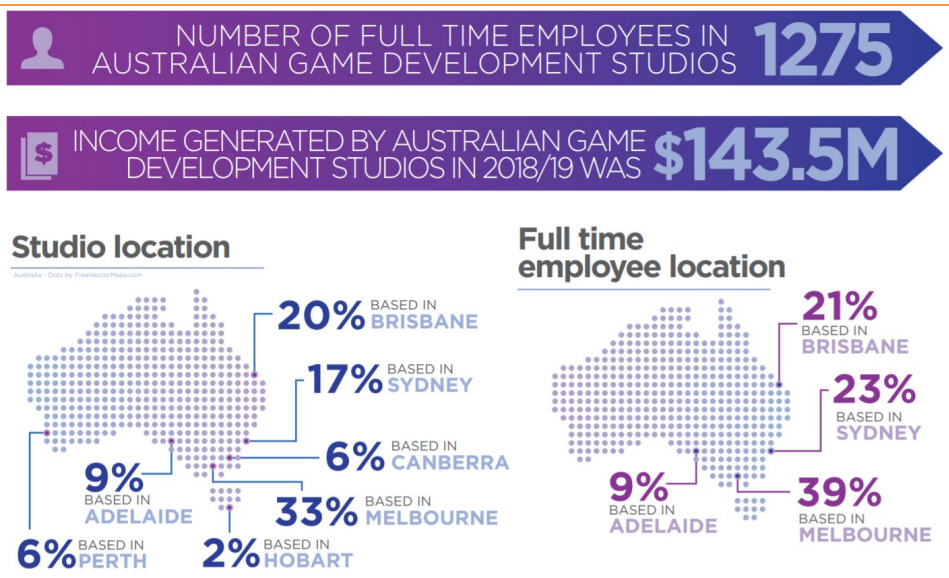
Video games are enjoyed by over a third of the world's population, including two-thirds of all Australians. With the world estimated to spend over $200 billion on video games this year, and with Australians alone having spent $3.6 billion on games in 2019, our sector generates approximately twice the combined economic activity of film and music. The cultural impact of video games cannot be underestimated, with games being one of the most influential and important cultural mediums in both Australia and the world.

There is, of course, an entire industry that makes video games. Uniquely and powerfully, video game development is both a creative and technology industry. The production of games encompasses all forms of creative arts, including visual and screen arts, design, writing and music literally. Video game development is the largest and most economically significant creative and cultural industry in the world. But if creativity is at the heart of expression in games, hardware and software development is how it is formed. Each year, tens of billions of dollars are spent around the world on researching, designing and creating video games, and the platforms and devices they are played on.

What is the scale of Australia's game development sector?

Larger than most think, but far less than what it ought to be. According to our most recent industry survey in 2018-9 (a new survey is currently being conducted), Australian game developers earned $144 million in revenue and employed 1,275 workers. Aside from being creative technology businesses, Australian game developers are first and foremost digital exporters, generating 83% of their revenues from overseas markets. This is a higher proportion than film, TV and most other creative sectors, which is not surprising as video games have the greatest global consumer market of any cultural medium.

However, our game development industry is minuscule compared to the global industry. Of every $100 earned by the global video games industry, just 5 cents of this was earned by Australian developers. Both the UK and Canada have game development industries that are well over ten times larger than ours by almost any metric. As discussed later in this paper, a federal government policy gap is the critical reason for our lack of scale.



Source: IGEA game development industry snapshot 2018-9

An arts sector that is digital, expansive and jobs-creating

Is video game development an arts sector?

Game development is not just an artistic activity, but it has a compelling place in the arts sector. Video games can tell unique stories, including compelling Australian stories, through digital artistry and interactivity. Game development relies on and develops talent in almost all creative disciplines, from screen and visual arts, to music and sound, and writing and design. The making of video games requires almost every kind of artistic input and arguably involves more artists and creative practitioners than any other medium. Game developers are often multi-disciplinary digital artists, while the making of games also leans on and provides work right across the broader arts sector. Uniquely for a creative industry, game developers often have highly transferrable skills, not only in the arts but across broader technology, design and commercial sectors.

Source: IGEA 'Game Engine' Advocacy Paper

How do video games support the broader arts sector?

Game development	*How it supports the broader arts sector*
Game design	All parts of a game need creative designers, with level, graphic and UX/UI designers coming from all disciplines
Game art	Visual, concept, environmental and character artists are just some of the digital artists that are needed for making games
Game development	By interest and necessity, game development lures creative Australians into learning technology and digital skills
Graphics engineering	Game engines are rapidly being used in film and TV (among other sectors), and its skilled users come from our sector
Writing in games	Games are increasingly narrative and dialogue-driven, providing work for screen, technical and creative writers
In-game music	Games provide work for Australian musicians and create revenue for musicians who license their work for in-game use
Sound engineering	Many games contain rich, high-quality soundscapes, and create and give work to skilled sound and audio engineers
Sales and marketing	Marketing in the creative arts is a specialist skill, and the marketing of games creates significant work in this field

COVID-19's impact on Australian game development

What effect has COVID-19 had on the Australian games industry?

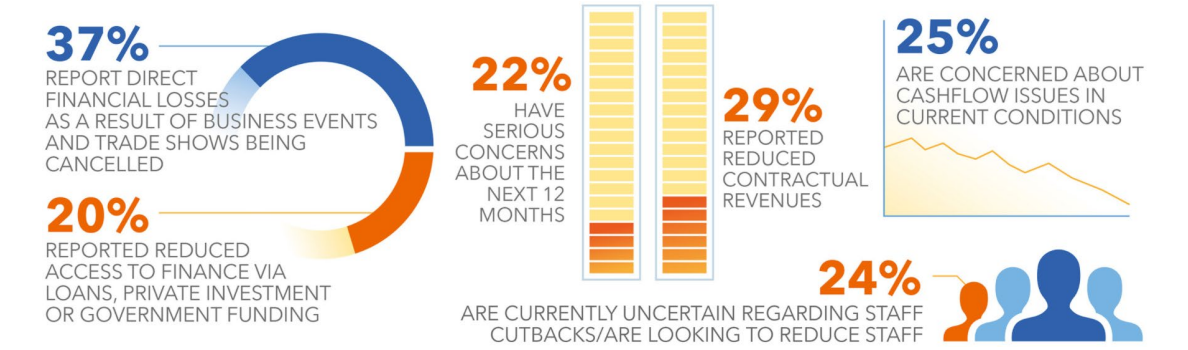
In April 2020, IGEA surveyed Australian game development businesses to gauge the effect of COVID (and various government responses) on our industry. Our survey findings determined that despite many practical challenges, the Australian video games industry was proving to be largely resilient to the impacts of COVID in contrast to other sectors, such as all the cultural sectors that were dependent on live events and tourism, as well as the film and TV sector that had to shut down virtually all productions.

As a digital and adaptive industry, many video game developers were able to minimise many of the flow-on effects from self and government-mandated isolation measures due to the global pandemic. Further, the popularity of video games surged in Australia and the world as people sought out games as a crucial way to stay positive, occupied and connected to their family and friends during isolation. As the majority of games are now distributed digitally, many Australian game developers were able to keep working despite physical lockdown measures to create, publish and sell games, with some even expanding their market bases. Unlikely virtually all non-essential sectors of our economy, many Australian game development studios were hiring – not firing – during COVID.

Does the games industry need federal support then?

Unfortunately, COVID has had a mixed and unbalanced impact on our industry. While many mature game developers and publishers with product currently in the market are benefitting from surging demand for their existing products, COVID has harmed others in our industry, including new, emerging and growth-focused studios.

Overall, the transition to remote working has hurt productivity, with 58% of respondents stating that operating was more difficult. Game developers that rely on securing overseas funding and publishing deals have been hit hard by travel bans and the cancellation of important industry events, with smaller to medium-sized studios reporting levels of uncertainty and worry over financial hardship. For example, almost a third of surveyed developers reported reduced revenues due to contract losses or delays. Accentuating these challenges, impacted game developers could not access any of the additional arts-specific federal COVID support that other creative sectors have received.



Source: IGEA survey on the impact of COVID-19 on the Australian games industry

Finally, federal policies exist not only for economic recovery, but to invest in creating vital new industries and export markets. While COVID has exposed the vulnerabilities of so many industries, the strength and resilience of Australian game development highlight a sector that demands attention. Our submission explores these opportunities.

The only arts sector without federal arts support

As the below table shows, game development is likely the only creative or cultural sector that receives no arts funding or support from the Australian Government.

Arts sector	*Does the Australian Government provide support?*
Video game development	**No.** The Australian Government provides no games funding or incentives, and video game development has been excluded from accessing any screen production support. The Government's COVID-19 Creative Economy Support Package provides no support for game developers.
Literature and writing	**Yes.** Funded primarily through the Lending Rights schemes. Additional support is also provided through the Prime Minister's Literary Awards, and funding for the Australia Reads and Australia Reads at Home campaigns.
Live and recorded music	**Yes.** Funding is provided to musicians through the Contemporary Music Touring Program administered by the Australia Council for the Arts. Additional funding is also provided through the Australian Music Industry Package, including the Live Music Australia Program, Women in Music Mentor program, the Indigenous Contemporary Music program, and funding for Sound Australia. COVID-19 related support is provided through the Restart Investment to Sustain and Expand (RISE) Fund, Show Starter Fund and the COVID-19 Arts Sustainability Fund.
Visual arts	**Yes.** Funding is provided through Artbank, Visions of Australia regional exhibition touring program, Resale Royalty Scheme, Indigenous Visual Arts Industry Support program and the Visual Arts and Craft Strategy. COVID-related support is given through the Restart Investment to Sustain and Expand (RISE) Fund, Show Starter Fund and the COVID-19 Arts Sustainability Fund.
Performing arts	**Yes.** Significant funding is provided to 28 major performing arts companies through the Australia Council for the Arts. COVID-related support is also provided through the Restart Investment to Sustain and Expand (RISE) Fund, Show Starter Fund and the COVID-19 Arts Sustainability Fund.
Television and film production	**Yes.** Hundreds of millions of dollars of funding and support annually via Screen Australia, ABC and SBS, Australian Children's Television Foundation and many other institutions, as well as extensive tax offsets through the Australian Screen Production Incentive, including the Producer, Location and PDV Offsets, and the Location Incentive. COVID-related support provided through the $50 million Temporary Interruption Fund.
Digital content / visual effects	**Yes.** Screen Australia's online content funding program for web shows, and the PDV tax offset for animation production and VFX.

The irrefutable case for investing in Australian-made games

Why should the Australian Government support games?

Australia is one of the only advanced economies in the world that offers no federal funding or production incentives for video game developers. Canada, Finland, France, Germany, Singapore, Spain and the UK are just some of the countries that provide federal screen funding and/or tax credits for video game production. As we have outlined on the previous page, video game development is the only part of the Australian creative and cultural sector that is not provided with, or able to access any federal arts support.

In policy terms, of the $750 million that the Government provides annually to the Arts sector, which we expect will rise to around $1 billion in 2020-21 once COVID-related support measures are included, not a dollar is available to help those in our sector. This lack of support is a highly disappointing outcome for game developers, many of whom would benefit as much from support as any other Australian creative artist. It also means Australia is one of the most difficult and expensive places to make video games, despite the talent and creativity we have on our shores. This is the reason why the Australian game development industry is less than a tenth of the size of the same industry in either Canada or the UK and earns less revenue than even New Zealand's games sector.

What could our industry achieve if there was federal support?

The lack of policy support for game production means that Australian developers often struggle to find a way to turn their ideas into creative outputs, and Australia is just not a competitive place for attracting the billions of dollars invested each year on making games globally. As a result of this policy gap, we have lost hundreds of millions (or billions) of dollars of new investment and publishing deals over the past decade. Some of our best talent and creative ideas have gone overseas too. Grant funding gives our emerging talent the best chance to succeed and stay in Australia, while a tax offset in particular will level the global playing field and act as a lightning rod for investment. Without hyperbole, 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. By measuring 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 (almost all export) revenue and employ 10,000 fulltime workers within ten years.

Source: IGEA 'Game Engine' Advocacy Paper

Calling for Australian Government support for games

Recommendation 1: That screen tax offsets be provided for game development

We are asking that the Committee make a recommendation in this Inquiry that the Government extend the Australian Screen Production Incentive to games: specifically by providing game developers with access to a 30% tax offset for video game development, similar to the current PDV offset for the Australian VFX and animation sectors. A tax offset would help the local industry to make games cost-effectively and become a leading exporter of development services, while also turning Australia into a globally attractive destination for investment. This tax offset should apply to all qualifying expenditure on game development in Australia, and be subject to a minimum expenditure requirement.

We know tax offsets work. Analysis of similar federal schemes in the UK and France shows that each $1 in games tax offset spurred $5 in expenditure, increased the value of the economy by $4, and brought in $2 in new taxes. A tax offset would transform our sector and the broader creative economy not only by bringing in new studios and jobs from overseas but by enabling existing studios to invest more heavily in their projects and give them the ability to obtain financing that, as creatives, might not otherwise be available to them. 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.

Finally, one of the Government's reasons against undertaking reform of the Australian Screen Production Incentive has been one of impracticality - specifically the need to amend Division 376 of the Income Tax Assessment Act 1997 (ITAA 1997). Given that the Government has recently announced plans to amend Division 376 to streamline the Producer Offset to 30% across film and TV, this impracticality no longer exists.

Recommendation 2: That the Australian Interactive Games Fund be restored

We are also asking that the Committee make a recommendation that the Government restore the $20 million Australian Interactive Games Fund that was introduced in 2013 but cancelled without reason in 2014. The fund provided both project funding as well as enterprise funding, which are as vital to our industry as they are to the film and TV screen producers that have benefited from them for years. Funding would help emerging talent to secure financing to initiate their first projects and to grow and hire even more talent.

There are Australian studios still making successful games today who owe their start to the fund, which was both effective and cost-efficient while it lasted. While federal creative and cultural funding mostly does not provide economic returns and funding for film and TV is rarely recouped, the situation is different with games. The $3.7 million provided to game projects under the original fund helped to generate total production budgets of $14 million, and much of that funding was repaid when those games found success. And success can come fast with games. Many of the most successful Australian games of the past decade – which have been among the most successful Australian creative exports of any kind – were just the first or second games made by young development teams.

Finally, we note that in 2017, this Committee, in the final report of its inquiry into the Australian film and television sector, already recommended that the Australian Interactive Games Fund be reinstated. As that recommendation went unanswered by the Government, we urge the Committee to provide a critically needed reminder.

The Government's own recommendations for supporting games

Various Government Parliamentarians, individually or as part of committees, as well as government agencies, have over many years called for the Government to provide funding and production incentives for game development.

Year	*Government supporter*	*Recommendation*
2020	**Joint Standing Committee on Trade and Investment Growth**, *Final Report, Inquiry into supporting Australia's exports and attracting investment*	Recommended that the Government introduce a refundable tax offset for video game development in Australia, in line with the offsets already available to film and TV production.
2020	**Australian Trade and Investment Commission (Austrade)**, *Submission to the 'Australian stories on our screens' review*	Recommended that the Government provide a tax offset for games by removing the exclusion of video games from accessing the PDV offset.
2020	**(LNP) Senator for Queensland James McGrath,** *Speech to the Senate on the video games industry*	Advocated for the introduction of a 30% tax offset for video game development to grow a new information-based export industry.
2017	**House of Representatives Standing Committee on Communications and the Arts**, *Final Report, Inquiry into the Australian film and television industry*	Recommended that the Government reinstate the Australian Interactive Games Fund.
2017	**Department of Foreign Affairs and Trade**, *2017 Foreign Policy White Paper*	Committed the Government to investing in exporting Australia's interactive content expertise to take advantage of the games sector.
2016	**Senate Environment and Communications References Committee**, *Final Report, Inquiry into the future of Australia's video game development industry*	Recommended that the Government introduce a refundable tax offset for Australian game development, and introduce a fund based on the former Australian Interactive Games Fund.
2011	**Screen Australia**, *Report, Playing for Keeps: Enhancing sustainability in Australia's interactive entertainment sector*	Supported continued funding for game development (funding for games existed at the time) and proposed both a game development tax offset and an additional online production fund (Screen Australia even commissioned PwC to undertake economic modelling of its proposed tax offset).

Any questions?

For more information on any issues raised in this submission, please contact IGEA's Director of Policy & Government Affairs, Ben Au, at ben@igea.net

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