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Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Email: economics.sen@aph.gov.au

Dear Committee Members

Response to the Inquiry into the Australian Manufacturing Industry

Introduction

The Interactive Games & Entertainment Association (IGEA) represents the Australian video games industry, including the developers, publishers, and distributors of video games, and the makers of video game systems, consoles, devices, and accessories. We are pleased to respond to the Senate Committee's timely Inquiry into the Australian Manufacturing Industry.

The purpose of our submission is simply to bring to the Committee's attention an industry that has traditionally not been considered to be a form of manufacturing, but we believe should be. In doing so, our submission cuts across several of the Inquiry's Terms of Reference, including:

- what manufacturing capacities Australia requires for economic growth, national resilience, rising living standards for all Australians and security in our region
- the role that the Australian manufacturing industry has played, is playing and will play in the future
- the drivers of growth in manufacturing in Australia and around the world
- the strengths of Australia's existing manufacturing industry and opportunities for its development and expansion
- the sectors in which Australian manufacturers enjoy a natural advantage, and how to capitalise on those advantages
- identifying new areas in which the Australian manufacturing industry can establish itself as a global leader, and
- the role that government can play in assisting our domestic manufacturing industry.

Video game development as a manufacturing industry

While most stakeholders to this Inquiry will be contributing submissions that relate to 'traditional' manufacturing sectors, we would like to take this opportunity to advocate for industries that manufacture digital goods, like the video games industry that we represent.

While video game development is not often thought of as a manufacturing industry, it ticks many of the same boxes that other manufacturing industries also tick. For example, like other forms of

manufacturing, game development involves the design and production of goods (video games) and the sale of those goods to a market (game players). Also like other forms of manufacturing, game development involves the input of labour (game developers), the use of equipment (game engines and other technologies), an expense of resources (labour and creativity), and a manufacturing process (the overall game development process from start to finish).

As very credibly a form of Australian manufacturing, video game development has many unique and desirable characteristics that we believe will be of interest to the Committee and Australian policy-makers more generally, particularly during the current COVID-disrupted world:

- As digitally-created software-based goods, limitless copies of a game can be manufactured at no cost (and only at a small additional cost for disc versions of the game).
- Digital versions of games, which comprise the bulk of sales in our sector, will never experience supply shortages, unsold inventories, or disruptions to manufacturing processes (such as those that occurred with many industries during COVID).
- Digitally-distributed games, being the most common way games are bought, incur no transport costs or transport-related emissions, are delivered instantaneously, and are very resilient to global trade disruptions (such as those experienced during COVID).
- Australian-made video games have a global market, with well over 90% of sales going offshore, as well as a highly diversified market, with Australian-made games one of the very few Australian-made products to have been exported to every country in the world.
- The global video games market that our developers target is insatiable, worth around \$250 billion last year (well over twice the size of the global film and music industries combined). It is also a consumer market that thrives during periods of disruption, with the global games market experiencing accelerated growth throughout COVID.
- Unlike most manufactured products, which are typically sold just once to an end-user or another business, video games can continue to generate revenue year after year as they are often (and increasingly) both a 'good' as well as a 'software-as-a-service'.
- Australia has two natural advantages over other countries in game development: the first being a strong global reputation for creating skilled game developers, as well as a beneficial time zone roughly halfway between Europe and North America that allows for continuous global game development under a 'follow-the-sun' production model.
- Video game development is both specialised and highly labour-intensive. This means that the sector can create thousands of jobs for Australians. Game jobs are also 'sticky' because they are driven by creativity and collaboration, meaning that once in Australia, those jobs tend to stay and cannot be easily outsourced.
- The skills created by a strong game development sector are highly relevant to other unrelated sectors, including many other manufacturing sectors. For example, video game engines and the physics engineers trained in them are increasingly finding applications across the Australian economy, such as in Australia's mining and ship-building sectors.
- A strong game development sector genuinely benefits Australia's national resilience and security. Video game technology has been developed and employed across Government,

from a recruitment tool for intelligence officers to simulation software for combat training, while many Australians with a game development background currently work in Defence.

The future of the Australian video game 'manufacturing' industry

The Australian video game development industry, despite earning \$185 million in revenue in 2019-20,¹ is minuscule compared to the rest of the world. Our share of the revenues generated by the global games industry is less than 0.1%, while countries like Canada and the UK have equivalent game development industries that are many times larger than ours in terms of both employment and economic output, even after adjusting for their larger populations. While billions of dollars of investment are pouring into games industries overseas, to date very little of this has come to Australia as we have traditionally not been seen as an attractive investment destination.

Thankfully, things are about to change - and massively so. In the 2021-22 Budget, as a part of the Digital Economy Strategy, the Morrison Government announced that Australia's first ever Digital Games Tax Offset (DGTO) would be introduced from 1 July 2022. This will finally extend to the Australian video game development sector the screen incentives that have for so long been made available to strengthen our adjacent film and TV production industries. As we highlighted in our response to the announcement, the DGTO will spur the creation of brand new Australian game development studios, give existing Australian studios the support they need to take on ambitious new projects and accelerate their growth, plus attract further blockbuster AAA studios to Australia, all of which will create game development jobs in every state.²

We also recognise that the implementation of a tax offset for game development enjoys wide support across all sides of Parliament and has for many years been an oft-repeated bipartisan recommendation of various Parliamentary Committees. For example, as of the date of this letter, both of the two most recent Inquiries undertaken by the Joint Standing Committee on Trade and Investment Growth have led to formal recommendations for a video games tax offset. We are deeply optimistic about our industry and look forward to the swift implementation of the DGTO.

If we have one request in this letter for the Committee to consider, it is for any recommendations that it eventually makes to also reflect on opportunities to boost digital manufacturing sectors like game development. Historically, federal policies focused on keeping and strengthening manufacturing industries, such as support measures, grants, red tape reduction, and hiring and investment incentives, have focused on traditional sectors that make physical 'things' like cars or textiles. By design or unintentionally, these policies have tended to exclude or be unsuitable for digital industries. We believe a broader and more strategic view of 'manufacturing' in policy-making will lead to stronger economic outcomes for Australia over the coming decades.

Should you wish to discuss our submission further, please contact me at ben@igea.net.

Regards

Ben Au
Director of Policy & Government Affairs

¹ [igea.net/2021/01/australian-game-development-industry-counts-185-million-in-revenue](https://www.igea.net/2021/01/australian-game-development-industry-counts-185-million-in-revenue)

² [igea.net/2021/05/igeas-response-to-the-australian-governments-landmark-announcement-of-video-game-development-funding](https://www.igea.net/2021/05/igeas-response-to-the-australian-governments-landmark-announcement-of-video-game-development-funding)