



interactive games & entertainment association

**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-focussed 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 positioned 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 significance 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

³ <https://www.georgia.org/industries/film-entertainment/digital-entertainment>

⁴ <https://www.thelocal.fr/20190704/join-the-game-france-makes-new-bid-to-woo-british-workers-after-brexit>

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 2018.⁵ 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 2018.⁶ 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 2018⁷ – 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.⁸ 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.

⁵ NeoGames Finland, The Finnish Games Industry Report 2018, 2019, p. 10-11

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.

Country, state or province (alphabetical)	Per cent of eligible production / labour costs refunded
British Columbia (Canada)	17.5 per cent
Colorado (US)	20 per cent
France	30 per cent
Georgia (US)	20 per cent
Germany	25–50 per cent
Louisiana (US)	15-20 per cent
Ontario (Canada)	35 per cent
Manitoba (Canada)	35-40 per cent
Nevada (US)	15-25 per cent
New Jersey (US)	30-35 per cent
New Mexico (US)	25 per cent
Nova Scotia (Canada)	25 – 50 per cent
Poland	19 per cent (proposed)
Prince Edward Island (Canada)	25 per cent

Quebec (Canada)	30 per cent
Singapore	40 per cent
Tennessee (US)	25 per cent
Texas (US)	22.5 per cent
United Kingdom	20 per cent

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

⁹ British Film Institute, Screen Business: How screen sector tax reliefs power economic growth across the UK, October 2018, <https://www.bfi.org.uk/sites/bfi.org.uk/files/downloads/screen-business-full-report-2018-10-08.pdf>, p. 90

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.