

Attachment A

Building a thriving game development industry in Australia

Policy Paper by IGEA



Building a thriving
**INTERACTIVE
GAMES
DEVELOPMENT
INDUSTRY**
in Australia

IGEA

interactive games & entertainment association

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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Summary

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.

Table of policy recommendations

<i>Policy recommendation</i>	<i>What it will achieve</i>
Reinstate the Australian Interactive Games Fund and provide support of \$40 million over four years	Seed funding to help game development businesses to expand, encourage new businesses and multiply projects, private investment, employment and expenditure
Provide a 30 per cent refundable tax offset for video game development	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
Provide strategic funding and support for cultural, educational and serious games	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
Provide additional funding and support for game developers, such as to: <ul style="list-style-type: none"> • <i>Provide assistance for shared working spaces</i> • <i>Establish a regional innovation hub</i> • <i>Review taxation of crowd-sourced funding</i> • <i>Review Export Market Development Grants</i> • <i>Review Research & Development tax incentives</i> 	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



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 2018,¹ 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 2016-7.² 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.³ 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 2015.⁴ 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.⁵

1 Tom Wijman, 'Mobile revenues account for more than 50% of the global games market as it reaches \$137.9 billion in 2018', Newzoo, 30 April 2018, <https://newzoo.com/insights/articles/global-games-market-reaches-137-9-billion-in-2018-mobile-games-take-half>

2 IGEA, Australian Video Game Development Industry Snapshot 2016-7, 17 January 2018, <https://igea.net/2018/01/australian-game-developers-march-generating-118-5m-spite-limited-recognition-support>

3 NZ Game Developers Association, NZ Games Development Industry, <https://nzgda.com/about-us/nz-gamedev>

4 ESA Canada, Essential facts about the Canadian video game industry, http://theesa.ca/wp-content/uploads/2017/10/ESAC2017_Booklet_13_Digital.pdf, p 3

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.

ESA Canada, Essential facts about the Canadian video game industry, http://theesa.ca/wp-content/uploads/2017/10/ESAC2017_Booklet_13_Digital.pdf

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



WHY AUSTRALIA NEEDS AN
INTERACTIVE GAMES INDUSTRY

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-daa388f33d0d&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.⁹ In short, our industry is ready to take on the world.

⁹ IGEA, Australian Video Game Development Industry Snapshot 2016-7



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,¹⁰ 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 2020.¹¹ 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.

¹⁰ Export Council of Australia, From resource boom to digital boom: capturing Australia's digital trade opportunity at home and abroad, <https://www.export.org.au/LiteratureRetrieve.aspx?ID=163948>, p 21

¹¹ Deborah Weinswig, 'Virtual and augmented reality become realistic revenue generators', Forbes, 26 October 2016, <https://www.forbes.com/sites/deborahweinswig/2016/10/26/virtual-and-augmented-reality-become-realistic-revenue-generators>

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.

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

¹³ Austrade, Digital Games Industry Capability Reports, <https://www.austrade.gov.au/ArticleDocuments/1358/Digital-Games-ICR.pdf.aspx>, p 12

¹⁴ Sarah Maguire, 'National screening program will test Aussie kids for hearing loss', The Lighthouse, 16 November 2018, <https://lighthouse.mq.edu.au/article/november/national-screening-program-will-test-aussie-kids-for-hearing-loss>

- *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.*



Children testing Sound Scouts

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.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.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.¹⁷

¹⁵ ABC, Education, <http://education.abc.net.au/home#!/games>

¹⁶ Anesa Hosein, 'Video games could be a short-term answer to science's gender problem', The Conversation, 22 October 2018, <https://theconversation.com/video-games-could-be-a-short-term-answer-to-sciences-gender-problem-105328>

¹⁷ Rae Johnston, 'Aboriginal and Torres Strait Islander Games Go Hi-Tech With the First Indigenous Game Jam', Gizmodo, 15 August 2018, <https://www.gizmodo.com.au/2018/08/aboriginal-and-torres-strait-islander-games-go-hi-tech-with-the-first-indigenous-game-jam>

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.¹⁸ The eSafety Commissioner has also developed The Lost Summer, an innovative game to promote online safety and combat cyberbullying,¹⁹ 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.²⁰

18 Victorian Government, Game-Changing Project to Combat Homophobia, <https://www.premier.vic.gov.au/game-changing-project-to-combat-homophobia>

19 Office of the eSafety Commissioner, The Lost Summer, <https://www.esafety.gov.au/education-resources/classroom-resources/lost-summer>

20 Metro Trains Melbourne, Dumb ways to die, <http://www.dumbwaystodie.com/200-million-downloads>

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.²¹ 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

21 American Psychological Association, 'Video games play may provide learning, health, social benefits, review finds', Media release, 25 November 2013, <https://www.apa.org/news/press/releases/2013/11/video-games.aspx>

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.²²

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.²³ 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.²⁴

22 Microsoft, Xbox adaptive controller, <https://www.xbox.com/en-US/xbox-one/accessibility>

23 IGEA, Digital Australia Report 2018, <http://www.igea.net/wp-content/uploads/2017/07/Digital-Australia-2018-DA18-Final-1.pdf>, p 17

24 Donal Sheil, 'The autistic teenager making video games to show players what Asperger's is really like', ABC News, 28 October 2018, <https://www.abc.net.au/news/2018-10-28/pax-autism-aspergers-video-games/10437354>

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.

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.

²⁵ IGEA, Digital Australia Report 2018, p 6

²⁶ IGEA, Australian Video Game Development Industry Snapshot 2016-7

²⁷ Screen Australia, Cinema Industry Trends, <https://www.screenaustralia.gov.au/fact-finders/cinema/industry-trends/box-office>



Florence game.

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.



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

incentives that has been proven to work. In the UK, AUS \$144 million of Video Games Tax Relief (VGTR) helped generated AUS \$720 million in game development expenditure in 2016.²⁸ The VGTR also provided AUD \$543 million in Gross Value Added and directly supported 4,460 full-time jobs.²⁹ 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.³⁰

²⁸ 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

²⁹ British Film Institute, p 77

³⁰ British Film Institute, p 89

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.

Olsberg SPI, Impact of Film and Television Incentives in Australia, 12 March 2018, <https://www.screenproducers.org.au/assets/Insights-images/Impact-of-Film-and-Television-Incentives-in-Australia-FINAL-2018-03-12.pdf>

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.

³¹ Screen Australia, 'ABC TV and Screen Australia Get Serious', Media release, 18 February 2009, <https://www.screenaustralia.gov.au/sa/media-centre/news/2009/02-18-abc-tv-serious-games-aidc>

³² 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, https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Environment_and_Communications/Video_game_industry/Report, recommendation 4

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.

³⁵ The full report can be accessed here: https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Environment_and_Communications/Video_game_industry/Report



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.³⁶ 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



Game Plus Collaborative working space, Adelaide

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

³⁸ The Greens, Supporting our videogames industry: Fostering creativity and new jobs, https://greens.org.au/sites/default/files/2018-06/20160628_Greens_Videogames_0.pdf, p 1

³⁹ Screen Australia, Playing for Keeps: Enhancing sustainability in Australia's interactive entertainment industry, <https://www.screenaustralia.gov.au/getmedia/24e18b4b-52ab-4c9f-8e4f-54a5fe89f53a/Report-playing-for-keeps.pdf>, p 27

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

⁴¹ British Film Institute, p 89

⁴² Olsberg SPI, Impact of Film and Television Incentives in Australia, 12 March 2018, <https://www.screenproducers.org.au/assets/Insights-images/Impact-of-Film-and-Television-Incentives-in-Australia-FINAL-2018-03-12.pdf>, p 38

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

⁴³ Environment and Communications References Committee, para 3.18

⁴⁴ Environment and Communications References Committee, para 3.20

⁴⁰ Sandy George & Bernadette Rheinberger, '94 films: A commercial analysis', Screen news, 28 February 2017, <https://www.screenaustralia.gov.au/sa/screen-news/2017/02-28-94-films-a-commercial-analysis>

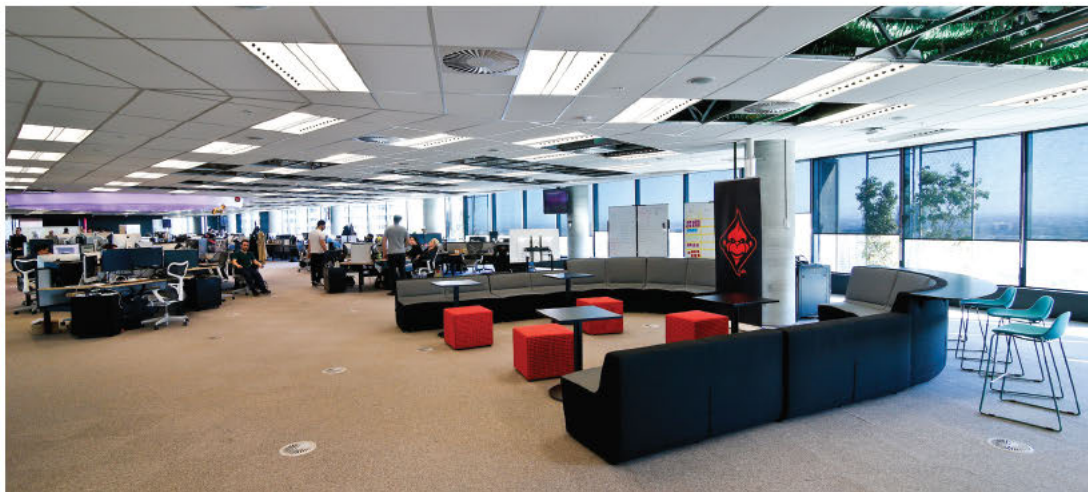
additional investment of \$146 million into the industry over five years, over two-thirds of which would come from foreign investment.⁴⁵ The analysis also indicated that the medium-to-high budget segment of the game development industry would alone lift Australia's GDP by \$76 million and double jobs. 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.

⁴⁵ Screen Australia, *Playing for Keeps: Enhancing sustainability in Australia's interactive entertainment industry*, p 29



Firemonkeys Office, Melbourne

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.

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.

Ubisoft Montréal – The world’s largest video game development studio

Ubisoft Montréal was opened by Ubisoft in 1997 and has grown to become the largest video game development studio in the world with more than 3500 employees. It has led the development of some of Ubisoft’s most significant games, including several Assassins Creed and Far Cry titles. In addition to its game development work, Ubisoft Montréal contributes back to the industry and community through a range of initiatives focussed on education, mentoring and partnerships with local businesses, schools and universities. With Australian Government support, the establishment of a studio in Australia with a comparable scale to Ubisoft Montréal is a plausible (if long-term) goal.

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:

- *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.*

- *Re-allocating some of the \$140 million foreign film fund established to 'top-up' the location offset towards game development.*

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.

⁴⁹ For a discussion of the producer and location offsets, see: Michael Bodey, 'In a flap over the great subsidy', The Australian, 22 May 2013, <https://www.theaustralian.com.au/arts/in-a-flap-over-the-great-subsidy/news-story/55d34fe5c8a580d6d5152da3235a2804>

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

⁵⁰ Standing Committee on Communications and the Arts, Report on the inquiry into the Australian film and television industry, Final report, December 2017, https://www.ap.gov.au/Parliamentary_Business/Committees/House/Communications/AustralianfilmandTV/Report

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.

⁵¹ Australian Screen Industry Group, Submission to the Australian and Children's Screen Content Review, <https://www.communications.gov.au/sites/g/files/het301/f/submissions/australian-screen-industry-group.pdf>, p 10

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>



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