Film Inquiry

Submission No. 36

Your Reference:
Our Reference: MIN 44397.03

The Honourable Christopher Pyne MP
Chair
House of Representatives Standing Committee
On Communications, Information Technology
And the Arts
Parliament House
CANBERRA ACT 2600

Dear Mr Pyne,

Re: Inquiry Into The Future Opportunities For Australia's Film Animation, Special Effects And Electronic Games Industries

I am writing in regard to the above Inquiry.

It is my understanding that a number of Queensland Government agencies, together with industry associations and individual companies, will be making submissions to your Inquiry. I however would like to confine my comments to the electronic games industry.

This industry is recognised by the Queensland Government as having significant potential for growth within the context of the Queensland and Australian economies. Consequently, the Queensland Government, through my Department of Innovation and Information Economy, has been active in encouraging the development of the games industry in this State. This is consistent with the Queensland Government's Smart State agenda. The games industry is a major employer of creative talent with 50% of employees contributing to art content and our support for this industry is consistent with the Government's "Creative Queensland" policy.

To date, my Department has supported the creation of the Queensland Games Industry Cluster and has provided $10,000 to assist the attendance of Queensland firms at the Electronic Entertainment Expo (E3) in Los Angeles in May 2003. . While the actual outcomes from the event are subject to non-disclosure agreements, the Queensland Government is satisfied that the support we provided has resulted in a significant return on investment.

The Games Industry Cluster, which held its first meeting in September 2002, has been very successful in providing a focal point for the consideration of issues that impact upon the development of the industry in this State. I regard the Cluster as a leading example of how inter-firm co-operation can generate positive outcomes for industry development. The Cluster has developed a strategic action plan highlighting marketing, technical infrastructure requirements, training and skills development and intellectual property protection as priorities for development. The Cluster has representation from the Games Developers Association of Australia (GDAA) and, through the Queensland members, the action plan has been forwarded to the GDAA national body.

I am pleased to note that much of the action plan has been adopted by the GDAA, which demonstrates the leadership and drive being shown by the Queensland games firms.

I would like to raise a number of key issues which I consider to be impediments to realising the opportunities this sector represents. In raising these issues, I have sought to highlight those areas where I believe the Commonwealth can make a positive contribution to the growth and development of this industry. However, before discussing these issues, I would first like to provide you with an overview of the Queensland games industry.

The Queensland Games Industry

Queensland is well placed to benefit from this rapidly expanding industry with some of Australia's largest games companies being located here. Queensland's industry is already close to the same size as Victoria's with an estimated 40 per cent of the Australian industry located in this State.

It is estimated there are 18 dedicated games companies in Queensland employing approximately 300 people. In addition to these companies, there are a number of companies which provide services to the sector, in particular animation and music.

Most of these companies are members of the Games Industry Cluster and their details can be found on the Cluster's website at http://www.qldgamedev.com/.

In summary, the Queensland games industry can be broken down into four levels:

1. Start-ups and pre-start-up firms – these firms are microbusinesses and while possessing technical skills are often lacking in business skills and/or capital for growth;
2. Small to medium enterprises (SME's) – these firms range in size from small teams of five people to small studios of 20 to 25 people. They generally have produced one or two games under contract and may have produced an electronic proof of concept (EPOC) to demonstrate to potential publishers. Queensland SME's show the greatest diversity in producing games for a range of formats and platforms including PS1, PC games and handheld games. In Queensland, this group includes firms such as Theyer GFX, Eyecon, Amaranth, Halfbrick, Fuzzy Eyes and Dimsdale and Kreozot;
3. Large indigenous firms – These firms employ over 100 staff and have a strong track record in producing games. In Queensland, this grouping is currently comprised of Krome Studios, Australia's largest indigenous games firm, and Auran, Queensland's oldest games firm. Krome is focussed on producing console

games for PS2 including its own title, "Ty – the Tasmanian Tiger". Auran has produced "Dark Reign", a console game, but is now focussing on its PC-based "Trainz" product and on-line games. It has also developed and is marketing Jet 3D toolkit; and

4. Large corporates – Queensland is host to a number of major multinational games companies. Electronic Arts, the world's largest games company, has its Asia-Pacific headquarters in Queensland. The US based, Pandemic Studios has a production studio in Brisbane and another US based company THQ has recently established a studio in Queensland. Additionally, Creative Assembly, a UK firm, which has a production studio in Brisbane, recently won the Best Strategy Game category at E3 with artwork done in the UK and programming and music undertaken in Queensland.

The games industry is primarily located in Brisbane and on the Gold Coast. However, two companies, Valhalla Games and Anderson Technologies are located in Bundaberg and Cairns, respectively. In addition to the games production houses, Queensland has Mannacom, an indigenous games publisher, based in Brisbane. The Brisbane City Council and the Gold Coast City Council are also active in developing the industry within their regions and are both members of the Games Industry Cluster.

Games developed in Queensland include:

Games released in 2002		**Games in Production**	
Title	**Company**	**Title**	**Company**
Ultimate Trainz Collection	Auran	Excalibur	Auran
Ty, The Tasmanian Tiger	Krome	Ty, The Tasmanian Tiger 2	Krome
Rocket Power Beach Bandits	Evolution	Project P2	Krome
Barbie Beach Party	Krome	Rugby 2004	Electronic Arts
Gore	Eyecon	Tito, the bouncing alien	Dimsdale and Kreozot

Queensland's education and training sector delivers a number of tertiary courses producing graduates with skills suitable to the games industry.

Queensland University of Technology, the University of Queensland and Griffith University all produce graduates with games and multimedia skills. Griffith University's Bachelor of Contemporary Music also includes content dealing with the composition of music for games.

In addition, the Queensland Government provided $2 million to support 80 games scholarships through the Queensland and Northern Territory Multimedia (QANTM) Education Centre. QANTM is currently in the process of developing an undergraduate program to focus on Games Programming for Interactive Entertainment and aims to have this program accredited through the Office of Higher Education by mid-2003.

This program is designed to prepare graduates to undertake operational, development and managerial roles within the games and entertainment industries. Students opting for major studies in games programming will undertake specialised courses including character development, scriptwriting, games design, games programming for consoles and mobile devices and agent systems. When accredited, this degree will be the only games specific degree in Australia and one of the few in the world. Eighty students are currently enrolled in foundation subjects for this 'first in Australia' degree course.

QANTM's production arm, QANTM Studio, has also produced online games for clients such as Falken Tyres, Suncorp, the University of Queensland, and Triverge.

QANTM's shareholders are Griffith University, Queensland University of Technology, the University of Queensland, Arts Queensland, TAFE Queensland, Northern Territory Government, University of Southern Queensland, James Cook University and my own Department of Innovation and Information Economy.

Issues

1. Taxation

The games industry is highly geared towards export. This fact was acknowledged in a December 2002 press release by the Federal Minister for Communications, Information Technology and the Arts, Senator the Honourable Richard Alston. In that press release he stated that the Australian games industry had a turnover of $110 million in 2002, $100 million of which can be attributed to exports.

This is certainly positive in economic terms, but it implies a level of susceptibility where competition is concerned. Many countries, such as Canada and Scotland provide assistance measures to help develop their games industry. Competing against these assisted international industries is difficult, particularly when considering that our domestic games industry is still nascent.

Additionally, the industry is highly dependent on foreign publishers to commission games, as well as market and distribute its products. In many cases, the leading games are tied to films, for example, *Lord of the Rings: The Two Towers*, and the rights to produce games from films are usually held by publishers.

Further, anecdotal evidence from games companies suggests the venture capital market for games is immature with venture capitalists having little knowledge of the games industry.

This combination of factors means many games companies struggle to obtain finance to bring their products to market. In many cases, the companies have had to fund large parts of the development costs of the projects from their own resources, even with advances from publishers. In this sense, the development of games is much like film production.

There is a tendency to think of games in terms of the technology. That is, the technical skills to produce games and the hardware used to play them are regarded as part of the ICT industry. This is correct, but it ignores the fact that games are sold as entertainment products. Thus, in many respects, through its markets and its close ties to the film industry, the games industry can be regarded as part of the entertainment industry.

In view of this, I strongly recommend to the Inquiry that the Commonwealth extend the film tax incentives available under Divisions 10BA and 10B of the Income Tax Assessment Act 1936 to include the games industry. This would provide a strong incentive for private investors, as well as games publishers, to invest in the local industry.

2. International Marketing

Depending on the data source, the US market represents between 50 and 60 per cent of the world games market. This market dominance by the United States means that any games company has to consider exports to the US as an integral part of its corporate strategy.

The Queensland Government, together with the Brisbane City Council was recently pleased to be able to provide support for an Australian Games booth at E3. The reasons behind this support were twofold.

Firstly, E3 is the world's largest games conference and is held in Los Angeles, annually. At the last E3 in May 2003, there were over 400 exhibitors and over 1,000 new games products were launched. Over 62,000 people from 80 countries attended the event. Consequently, the Queensland Government considered it essential that Queensland companies should be assisted to establish a presence at the event.

Two Queensland companies, Auran and Krome, were at the Australian booth. Currently the outcomes for the two companies are commercial-in-confidence. However, they both held successful meetings with potential publishers which are expected to lead to significant contracts. Based on the initial results reported by Auran and Krome, I am convinced we will see a significant return on investment from this event.

The second reason the Queensland Government chose to become involved was that this was a national initiative with the Victorian, South Australian and ACT State Governments and the Commonwealth all being involved. In the very early stages of our involvement with this industry we realised that with a small number of companies in Australia dependent on foreign publishers, a national approach was essential to ensure international projects and investment were directed to Australia. We are confident this national approach will ensure Australian and Queensland companies have the abilities to produce innovative and quality products for the world market.

I am also aware of other conferences, such as the Games Developer's Conference (GDC) in San Francisco, the Entertainment & Leisure Software Publishers Association (ELSPA) Conference in London and ECTS and the Game Developers Conference Europe held, simultaneously, in London during "Games Week".

Furthermore, it is becoming apparent that the Asian market is experiencing substantial expansion, particularly in the area of on-line games. Two companies, Auran and

Valhalla Games, have directly targeted this market. Auran has already had success in Taiwan and is in final negotiations in the Korean market. Valhalla Games has had interest from Taiwan. The Asian market represents a significant opportunity for Australia. Countries such as Korea, Taiwan and Japan are highly advanced in terms of their use of technology and connectivity and other Asian countries, notably China, are rapidly adopting technology and installing telecommunications infrastructure.

Opportunities exist to sell products directly into these markets as recognised by Auran and Valhalla Games, but it is also apparent that Australia's proximity to these expanding markets is attractive to established production houses who want to locate studios here to provide a stepping stone into the Asian markets.

Both Australia and Asia have lower production costs for games than Europe and North America. This provides opportunities to establish production loops and partnerships with studios in Asia to provide cost competitive games products for these markets.

Given the international nature of this industry and the export focus, I recommend to the Inquiry, that the Commonwealth develop and provide resources for a comprehensive market development and international branding strategy for the Australian games industry. This strategy should focus on supporting Australian companies' attendance at key events, such as those listed above. This strategy could be modelled along similar lines to those introduced in Scotland, England, France, Hong Kong and Canada. Consideration should also be given to developing effective market entry strategies for the Asian market.

3. Broadband Access

The Queensland Games Industry Cluster has identified access, pricing, reliability and capacity of broadband infrastructure as a key issue for the industry.

The games industry, like the film industry, is a heavy user of broadband. There is a continual need to provide large files to overseas publishers during development stages. Moreover, firms like Creative Assembly with development teams in two countries make significant use of the Internet to exchange information. Thus, the cost of telecommunications is a major input cost in games development.

The industry works to very tight deadlines as games releases are often timed to coincide with film releases or the Christmas season. In most cases, the competitive advantage of Queensland and Australian companies lies in their ability to operate in a 24/7-production environment taking advantage of time differences between countries to significantly shorten the time to market for new products.

In this context, it is critical that connections are also reliable. Disruptions to connections which may only take a few hours of local time to fix can blow out to many hours or even days when time differences are taken into account.

As games become more sophisticated and the projects more complex, there is a need for the capacity of broadband, not just within Australia but also between countries, to scale to efficiently manage large volumes of data traffic.

In this context, my Department, together with the Queensland Department of State Development, is giving consideration to a proposal from the Film Industry Broadband Resources Enterprise (FIBRE), a Commonwealth supported entity, to improve broadband pricing and access for the creative industries, including games, in this State. There are a number of Queensland companies using the services of FIBRE, although none of them are games companies. They report they are satisfied with the service, but it seems that FIBRE is not well known.

I recommend to the Inquiry that the Commonwealth, using its powers with regard to telecommunications, continue to support and expand funding for initiatives such as FIBRE, which deliver improved broadband services to the games industry.

4. Skills and Training

In terms of skills and training, there are three areas to be considered:

- Business skills within the games industry;
- Provision of skilled graduates from the education and training sector; and
- Opportunities to attract expatriates back to Australia as a means of increasing the skills and knowledge base in the local industry.

The demonstrable success of Queensland and Australia's games industry is in no small part due to the innovation and skill of our artists, games designers and programmers. However, it is also apparent our most successful companies are managed by people with a strong business background.

Unfortunately, as a consequence of the youth of this industry, many of our smaller companies, while technically and creatively very competent, lack the important business skills and experience to ensure long term commercial success.

My Department is endeavouring to address this gap through the direct provision of business skills training and workshops, facilitating access to business skilling programs offered by other Queensland Government agencies and the Commonwealth and by encouraging mentoring and a free exchange of information and experience within the Cluster itself. Although my Department's involvement with the games industry is relatively recent and the Cluster is less than a year old, this approach appears to be yielding results.

I am also aware the Victorian Government has been strongly pursuing the development of its industry, as have the South Australian, Australian Capital Territory and Western Australian Governments. All the approaches are different and I believe there is an opportunity to share experiences across the jurisdictions to encourage best practice and to develop the games industry on a national basis.

In addition to the business skills requirements for the industry there is also a need to address technical skills. In February, this year, the Queensland games cluster hosted a Skills Round Table of Queensland-based training providers. This Round Table, which was facilitated by my Department and QANTM, found that while graduates possess a high degree of technical skills, these skills are not necessarily those in demand by the industry. As a result, there is a transition period as new staff gain the skills required in the workplace. This is a critical issue when production teams have to be assembled to develop and deliver a game to coincide with a film release or the Christmas season. Moreover, this is a rapidly developing industry and the skills requirements of firms are also evolving as new technologies are introduced.

As a result of this Round Table, the participants resolved to develop a dialogue which would enable training providers to make their offerings more responsive to industry needs. I believe there is potential to develop a similar Round Table, at the national level, for the benefit of the industry, as a whole.

Finally, this is an expanding industry and the Queensland experience has been that companies are forced to look overseas for suitable talent to meet their needs. Many of these skills have been gained through experience by involvement in large games development projects overseas. This said, it is apparent from inquiries at the Australian booth at E3 that there are Australians with suitable skills living overseas who could be recruited back to Australia, or could provide a source of knowledge and intelligence on industry and market developments not readily available in Australia.

I recommend to the Inquiry that the Commonwealth takes a lead in the marketing of Australia's games capability overseas and provides resources to:

- Facilitate information sharing across jurisdictions;
- Support the collective development of programs to enhance the business skills of Australian games companies;
- Facilitate a National Round Table for training providers and the games industry with the objective of increasing dialogue between the parties and increasing the responsiveness of the training system to the needs of the games industry; and
- As part of the international marketing efforts, recommended above, identify and target Australian expatriates with experience in the games industry with knowledge and information about the Australian games industry as a means of increasing the skills and knowledge base in the local industry.

If you have any queries in regard to the points raised in this submission, please do not hesitate to contact Mr Bill Walker, Principal Project Officer, Information Industries Bureau, Department of Innovation and Information Economy on (07) 3405 5106 or e-mail bill.walker@iib.qld.gov.au.

I commend your Committee on embarking on this and look forward to your report.

Yours sincerely

PAUL LUCAS MP
Minister for Innovation
and Information Economy