COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS

Reference: Future opportunities for Australia's film, animation, special effects and electronic games industries

WEDNESDAY, 20 AUGUST 2003

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HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS

Wednesday, 20 August 2003

Members: Mr Pyne *(Chair)*, Mr Hatton *(Deputy Chair)*, Mr Baldwin, Mr Ciobo, Ms Grierson, Mr Johnson, Mr Pearce, Mr Sercombe, Mr Tanner and Mr Ticehurst

Members in attendance: Mr Baldwin, Mr Ciobo, Mr Hatton, Mr Pyne, Mr Sercombe and Mr Ticehurst

Terms of reference for the inquiry:

To inquire into and report on:

(a) the current size and scale of Australia's film, animation, special effects and electronic games industries;

(b) the economic, social and cultural benefits of these industries;

(c) future opportunities for further growth of these industries, including through the application of advanced digital technologies, online interactivity and broadband;

(d) the current and likely future infrastructure needs of these industries, including access to bandwidth;

(e) the skills required to facilitate future growth in these industries and the capacity of the education and training system to meet these demands;

(f) the effectiveness of the existing linkages between these industries and the wider cultural and information technology sectors;

(g) how Australia's capabilities in these industries, including in education and training, can be best leveraged to maximise export and investment opportunities; and

(h) whether any changes should be made to existing government support programs to ensure they are aligned with the future opportunities and trends in these industries.

WITNESSES

Committee met at 10.27 a.m.

LANCMAN, Mr Adam Ronald, President, Game Developers Association of Australia

RICHARDSON, Ms Evelyn, Executive Director, Game Developers Association of Australia

CHAIR—I declare open this public hearing of the House of Representatives Standing Committee on Communications, Information Technology and the Arts inquiry into the future opportunities for Australian film animation, special effects and electronic games industries. The inquiry arises from a request by the Minister for Communications, Information Technology and the Arts, Richard Alston. A public invitation was issued by the committee for written submissions and more than 90 submissions have been received so far. This is the third public hearing for the inquiry. Already, the submissions and public hearings have presented consistent themes and include suggestions for improving policy in this area. The purpose of this inquiry is to examine measures that the Commonwealth government should consider so as to take world-class industries to the next stage of their development.

I have great pleasure now in welcoming representatives of the Game Developers Association of Australia. While the committee does not require you to give evidence under oath, I do need to advise you that these hearings are formal proceedings of the parliament. I have to remind you that the giving of false or misleading evidence is a serious matter and may be regarded as a contempt of the parliament. I also remind you that the committee prefers to take all its evidence in public but you may request that your evidence be taken in camera, if you wish to, and we will consider that request.

I will introduce my parliamentary colleagues Bob Sercombe, the member for Maribyrnong in Victoria, and Bob Baldwin, the member for Paterson in the Hunter-Newcastle region. Bob particularly wanted to meet with the Game Developers Association, so thank you very much for making the trip here from Melbourne today. Would you like to make an opening statement.

Mr Lancman—I have been the President of the Game Developers Association of Australia since its inception. I am also the CEO of Atari Melbourne House, which is one of the largest developers in Australia, based in Melbourne. My background has been 22 years making games for the international market. The company started as Beam Software in 1980 and in 1999 we were acquired by a multinational publisher. Today, Atari Melbourne House is the only publisher based in Australia with a development and publishing presence. There are other international publishers who have sales offices in Australia, but they do not have any development or production capability.

The core mandate of the association is to help the industry grow here in Australia and to take the industry to another level. We see that there is an opportunity in the marketplace—when I say the marketplace, it is an international marketplace—for Australian developers to take a greater share of the growth in the industry. We are not saying that we want to attack the whole industry and take a greater market share of the whole international market at this stage, but we see there is ongoing growth internationally where the market has been growing 20 to 30 per cent a year for the last five years and the rate is not slowing down. With that type of growth rate, it is not a market share battle; it is actually just getting into the market and being able to participate in that growth. That is the opportunity for our industry today.

We have a number of developers that are already working on an international level. They are working with the major publishers overseas; they have had products released internationally. The challenges that we are faced with today are that the budgets for these international games have already got to a level where a normal developer is unable to fund the development himself. We are talking about budgets in excess of $5 million. There are projects in Australia at the moment costing over $10 million. These types of budgets are outside the normal scope of these smaller companies. To be competitive, you need to be able to produce games that require these types of budgets. Publishers are the key source of funding for these types of projects and they are the distribution chain that we have. The challenge for Australian developers is to be able to attract the publishers to Australia, to attract investment in projects here in Australia, whether it is from local investors or from publishers, and to build up a talent pool that will support the growth that we are looking for.

Ms Richardson—I am the Executive Director of the Game Developers Association of Australia. I joined the association just before Christmas last year and am the first full-time employee that the association has had. So in the past three years, everything they have achieved has been through the voluntary time of its members.

We have three priorities as an industry at the current time in terms of our membership which we have outlined in the submission. They include attracting investment and capital raising, which is a major issue for our local developers because there are very few titles that have been developed here that we own in Australia—*Ty the Tasmanian tiger* that Krome, our largest studio, developed is probably one of the few that we can point to. While we have critical mass and a reputation internationally for developing a high-quality product, most of that is service based so that we are chasing deals with publishers.

The issue in moving forward is to continue to be able to compete for those very large deals that Adam was talking about earlier that are now the $US5 million-plus kind of game—fewer of them but much larger projects requiring much larger project teams of at least 30 people, and probably over the next two years a minimum of 50 people per project full time for two years. Another part of that is putting the industry in a position where it can develop its own IP. The more concepts and prototypes that companies can develop and take to a publisher and look to do a distribution deal, and the more self-financed they are within Australia, then the more leverage our companies will have when they are negotiating these deals, particularly regarding the royalties and the flow-on profits coming back.

The second area is profile raising at the local level. We have spent some time talking with federal and state governments about the games industry, where it fits into the broader entertainment sector and how it is changing. We took 30 companies to E3, the Electronic Entertainment Expo, in May, which is the largest show of its kind globally. It was the first time that there was a national presence in that Australia went nationally. We had the support of seven governments for that show. It is probably one of the few shows that has had that kind of support cross-government as well.

The other key priority for our developers is the Game Developers Conference in San Jose in March which over 10,000 developers from around the world attend. We are very keen next year to profile Australia, probably through a private invitation-only function. Whereas LA tends to be

a big noise show and you get people to the floor, San Jose GDC is a much more focused kind of event.

The third area we are focused on is skills and training. We currently have some skills gaps, as we are growing. Over the next two years we will need to work particularly closely with state governments, not only to address some of the gaps in those areas but also to make sure that we are rolling out programs in business development, project management, traineeships and those sorts of things that will support the kind of growth that we are looking for over the next three to five years.

We appreciate the opportunity of talking with you this morning. One of the things that is particularly relevant in terms of this inquiry is that the games industry is not an industry unto itself. Increasingly over time it has synergies across the ancillary or service support sector—animation, post-production, special effects and those sorts of industries which have traditionally been in film. We are seeing a lot of cross-over, a lot of growing skills transfer, between those industries.

If we continue to look to develop the sorts of projects that Adam was talking about, then we are going to see increasing outsourcing and partnerships between game developers and animation studios. And we are already seeing that—Krome has outsourced work to Animal Logic in Sydney. The point to be made there is that the opportunities are still, I guess you would say, at the higher end. Because the quality requirements are so high in terms of product, our developers tend to be looking at much larger, more established types of animation and special effects sorts of companies. Again, it is at that end of the continuum rather than your smaller boutique kind of operation.

CHAIR—Before we go to questions, I ask the committee to move a motion to appoint a subcommittee comprising Mr Ticehurst, Mr Sercombe, Mr Ciobo and Mr Baldwin. In the event that one of you has to go, we will then still have a quorum because the quorum will be two.

Mr SERCOMBE—I so move.

CHAIR—There being no objection, it is so ordered.

Mr SERCOMBE—I actually need to leave by 11, Chair.

Mr BALDWIN—I have an 11 o'clock appointment too.

CHAIR—I have to leave at 10.45 because I have to do House duty, unfortunately, so we need to appoint an acting chair.

Mr SERCOMBE—I propose that Mr Ticehurst be the Acting Chair in your absence, Chair.

CHAIR—If everyone is happy with that, it is so resolved. We will now proceed with questions.

Mr BALDWIN—Can you go through the process of events from somebody who comes up with a concept—how it all maps out until they finally get it into the marketplace.

Mr Lancman—To preface the answer to the question, while there are similarities between game development and film, there are significant differences. This business process is very, very different. If you are a developer with an idea, if you have a piece of paper and you go to a publisher, they will look at it and say, 'Nice idea, come to me when you have something to show me.' If you go to the publisher with a finished game, then they will evaluate the game. They will sit down and work out a distribution deal with you, give you a guarantee and advances, and they will release the game and sales will occur.

What normally happens is somewhere in between, and that is where the prototype becomes very important. A developer will generally need to present to a publisher—and when I say 'publisher', again this is one of the differences with the industry. The publisher controls the distribution chain to the retailer; the publisher is responsible for manufacturing, marketing and distribution of products into the retail market; so the publisher is a key strategic partner of the developer. The developer will go to the publisher with a prototype of an idea they have. They generally will demonstrate some sort of technology or some key game feature. The publisher will look at that and evaluate that prototype and, more often than not, if he likes it, he will say, 'I like the technology but I don't like the concept. But I have a licence over here which is based on the *Matrix* movie'—that is just an example—'where your technology should be able to make a really interesting game based on this licence.' So then there is a deal struck with the developer where the publisher will agree on a development budget for the game. There will be milestones included in the development schedule where there will be cash flow payments made on the delivery of milestones. At the end of that process, the developer has completed the project; he has had his work paid for; and the money generally is advances against royalties. So the publisher will lease the game and royalties will flow. If there are any further sales after the advance is recouped, then the developer will receive additional revenue.

Mr BALDWIN—The other thing that you have identified in your submission is the skills shortage. What is the Game Developers Association doing for in-house training development so that people are trained to your exact requirements regarding what you need in your levels of animation or computer literacy?

Mr Lancman—Generally, when we hire from university—we generally hire graduates, by the way; very rarely will we hire somebody who has just shown a raw talent for something—when the graduates come to us, they have a valuable core knowledge of either programming or 3D graphics but their knowledge is not enough for game development, because with game development we are dealing with limited memory systems. I will try not to get technical. But as distinct from a PC where you can just add more memory if you need it, with a game machine like a PS2, an Xbox or a GameCube, there is a finite amount of memory that you have to work with. The way you produce your games has to respect the limited memory you have, so you have to approach graphics development and program development in a very different way.

Mr BALDWIN—If you are taking the product as it comes out from the university, what involvement are you having at university level in getting people educated and skilled up prior to coming out of the university?

Mr Lancman—There are ongoing conversations with all the universities by all our members—in Victoria, in New South Wales, in Queensland and in South Australia—where we have relationships with the universities. The universities are very open to having our input and in

trying to understand how they can better serve our requirements. So we are starting to see some movement in that area where individual units as part of broader courses are being introduced that deal with some of our issues. There are also private training organisations like the Academy of Interactive Entertainment and Qantm who are specialising in training for game development.

Mr BALDWIN—So with respect to the cycle of somebody coming out of a university, what sort of time frame does it take until they are actually at a level where they are a productive unit within an organisation?

Mr Lancman—I usually say six to 12 months.

Mr BALDWIN—What is the problem in keeping these people? Quite a few of the people who have given evidence have talked about the footloose attitude, predominantly because it is contract driven while you have a contract to develop a game. As an association, what are you doing to keep the skills base here in Australia?

Ms Richardson—Currently we have four focus areas in that skills and training area. The first one is talking with state governments about traineeship, internship programs. We are looking to develop those over the next 12 months so that we have a clear career path for graduates, particularly for graduates coming out of the identified courses such as AIE and Qantm in Queensland so that there is a pathway for them. Most of our companies are saying, especially the larger ones, that they could take six to eight people at any one time if there was a funnel straight through and they got some additional support.

The second area is business skills and project management in terms of how those companies are managing projects internally and how they are also managing their growth as they are taking on additional staff. We have looked at whether we should establish some mentoring programs. We have run an education skills and training roundtable in Queensland with all of the Queensland based institutions, talking with them about what they are doing. Essentially, in my short time in the role, I have established that dialogue between the association and those institutions. We plan to host another roundtable in Victoria later in the year doing the same thing. Some fairly obvious things came up in terms of that.

Mr BALDWIN—There are two parts to the question. That was the first part. The second part is this: when Xbox comes on as a new platform, for example, and there is a developers kit available, does your industry get involved in skilling people up to be able to understand and to be productive in new platforms?

Ms Richardson—Yes. The association did a deal with Sony Europe. In fact, Sony Australia is the only jurisdiction that they have done this deal with to provide PlayStation 2 devkits to local developers. We ran the first phase of that last year. It was supported by the Victorian government. The Queensland government have just announced that they will be doing the same thing, and we will be putting a proposal to them.

Mr BALDWIN—The cost of a development kit is about $12,000?

Ms Richardson—About 10,000 euros.

Mr BALDWIN—Okay, so it is about $20,000.

Mr Lancman—It is a significant burden on a smaller company to invest in that type of technology so, as an association, we were able to broker a deal with Sony where they changed their rules to allow us to manage a library of kits.

Mr BALDWIN—Does that mean it becomes like a multi-user licence?

Mr Lancman—Normally, Sony will only licence their kits—and it is a licence on acquisition actually—to developers who have submitted a concept; it has been approved by Sony as suitable for their machine and they produced evidence that they have the ability to produce software at the level that is supported by Sony. Those conditions were waived for the purpose of the association being able to give a leg-up to developers here in Australia.

Ms Richardson—We are currently finalising an agreement with Microsoft to do the same thing with the Xboxes.

Mr BALDWIN—You said that the Victorian government are providing a subsidy for development kits.

Mr Lancman—Yes. Queensland will be doing—

Mr BALDWIN—And Queensland will be doing it. How do we then answer the question from a young start-up in the truck driving business who would expect the government then to subsidise their truck?

Mr Lancman—We are talking about an industry that is in an export market. It is an existing export market and there is a huge potential for growth. As I said earlier, with respect to the global dollars being spent on games, it is growing 20 or 30 per cent a year.

Mr BALDWIN—I don't have trouble with what you are saying to me, but it is a comment that comes back to me every time any government uses taxpayers' funds to subsidise anything. They say, 'What about this industry? They receive nothing.'

Mr Lancman—What we are trying to do here, and going back to your previous question, is to keep the skills here. We end up training people and then they go to America because there is more opportunity for them in the States than there is in Australia because we cannot guarantee an ongoing flow of projects in Australia. The challenge is that we are competing against local developers in the US and in Europe—that is where our publishers are—and they will first look to their local developers before they look to Australian developers. That is part of the challenge of being in Australia working in this international industry.

Obviously, every industry in Australia has the same problem. So we have to come up with solutions for publishers to set aside their concerns about working with Australian developers who are so far away from their own base through the talent that we have, through the creativity and through other benefits like maybe some tax incentives they can have or some other benefits from getting involved with Australian developers.

One of the things we are looking at is attracting publishers to invest in more projects in Australia. Part of their issues about how expensive it is to manage projects in Australia will be minimised because they could send somebody over from America, for instance, and they could be looking at three or four projects in Australia rather than just the one. There is a real opportunity cost for these publishers to have to dedicate a valuable resource, a scarce resource like a producer, to only one project.

Expanding the number of projects in Australia has a number of benefits: firstly, it means there are more opportunities for people in the industry here to continue working here in Australia because they don't have to go to America to get the next project; they don't have to go to America to get the high-profile title that is not here in Australia. The *Matrix* movie was made in Australia; the *Matrix* game was made in California. We want to see a situation where, when another *Matrix* is made in Australia, we make the *Matrix* game here as well.

Mr BALDWIN—Why do you think the *Matrix* game went to America and not Australia?

Mr Lancman—Lack of knowledge of what the potential here in Australia is and what the capabilities are.

Mr BALDWIN—You spoke about E3 and the developers conference. Are you accessing things like export market development grants to go over there and pursue these markets?

Ms Richardson—Yes.

Mr BALDWIN—My last question is this: given that in games in particular, as against post-production film, the actual capacity and memory requirements would fit on a normal operating PC, I assume, what sort of activities are you undertaking as an association to promote the opportunities for people to be out in regional centres rather than being all city based?

Mr Lancman—I don't think we are actively encouraging people to be in the city or in regional areas. You are absolutely correct that you can develop a game anywhere—if you are in Ballarat, you can make a game as easily as you can make it in Melbourne. But with the resources that you need if you want to be competing at an international level, where you are talking about a team of 50 or more people working on one project and where you are spending $10 million or more, it is difficult for somebody to set up that sort of organisation in a regional area just because the amount of talent that it can draw upon is limited.

If you go to the other end of the market, which is hand-held games, mobile phones, wireless and web based games, certainly you can have individuals working from home who can transmit their products to a distribution centre or a publisher. That is quite possible. As an association, we basically have to look at two types of strategies for our members. For the smaller members who do not have the resources to be operating at that higher level, we have to make sure that we can help them get into the expanding wireless market and hand-held market.

Mr BALDWIN—Are there any developers writing specific games for the hand-held market in Australia, the Game Boy?

Mr Lancman—Yes. There are a number of them and they have been very successful at it. There are new companies that want to get into that industry, into that market segment, but they are finding it difficult to get that first project, to get that first contract to develop a title. The wireless market is easier to get into. The Nokias and Sony Ericssons of the world hand out the development system because it is all software based, but there is no commercial model. You make a game and they will say, 'Thank you very much,' and maybe you will get some money. But more likely you won't—not for a while anyway.

Ms Richardson—The other comment I would make in response is that, from an association point of view, we have probably done more on the skills/educational/institutional side with regional areas than we have with game companies themselves. We have talked with the University of Ballarat, for example, in terms of the streams of their students coming out into the industry and recently with groups on the Gold Coast in terms of the kinds of programs they have and the flow-on as a career pathway in terms of where they are going to go.

Mr CIOBO—You made some comments about the United States providing greater certainty and perhaps a career path, for lack of a better term, for graduates and those sorts of people coming through—

Mr Lancman—Not for graduates.

Mr CIOBO—Not for graduates, so just for the experienced?

Ms Richardson—Three to five years.

Mr CIOBO—Why is that? Is it because the US is a more mature, bigger marketplace and therefore just sustains greater throughput of product or is it that there is a dedicated range of initiatives and policy settings that the US government has put in place to determine it? I would have thought it is probably more the former than the latter.

Mr Lancman—If you define the marketplace as the world, because that is how we see it as an association, and you look at the revenue of our members, probably 98 per cent of revenue is export. We don't make games for the Australian market. If you are spending $5 million on making a game, you are never going to recoup that in sales in Australia. It is just too small.

Mr CIOBO—Yes.

Mr Lancman—So the focus is on making a game that appeals to an international audience. The silly thing that happens is that you make the game; it is shipped off to America; they manufacture it there; and they send it back to Australia to sell in the stores here. So you do get the game appearing in Australian stores, but the primary market that we are aiming for is the international market. We are not doing cultural product; we are not doing colloquial product. There are some exceptions like the Australian Rules football game but they are very limited. As a general rule, it is an international market.

You are right in that with the US market—and I'm sure you have heard this phrase before—the Americans look at the world market as starting on the east coast and finishing on the west coast. So their focus is on what they can do internally in America. They don't really care about

the rest of the world. It is incremental income for them as far as they are concerned. One of the barriers to entry for any developer—whether they are based in Australia, in Canada or in Europe—is they have to work with American publishers. They would much rather work with American developers because they just feel more comfortable with them.

There is a lot of business happening in America: you have the publishers there; you have Hollywood there that is generating IP. The investment community there understands the potential of games as entertainment. They are much more knowledgeable about the fact that games have become a legitimate form of entertainment. No longer is it a matter of little, nerdy 12-year-olds sitting in their bedrooms playing games.

There are demographics available on the PlayStation 2, for instance, that show that 70 per cent of PlayStation 2 players—people actually playing the game, not those who have bought the machines but those who are playing games actively—are over 18. Seventy per cent of the game players are actually in the 18 to 35 age group. So we are not talking about young boys playing games any more. We are talking about men and women—I should also say that 40 per cent of that demographic is women. So it is no longer in the realm of males; it is no longer in the realm of teenagers; it is much broader than that now. The business environment that exists in America has all that information and has all that happening around it, and the opportunities for growth are there.

Mr CIOBO—But it doesn't sound like that has been a function of government policy settings.

Mr Lancman—No. Very little in America is a function of government policy; it is all—

Ms Richardson—Market driven.

Mr Lancman—It is all market driven. But what we know is that there are not enough developers in America to supply their needs. So they look outside the States because they have to. They would rather not but they have to. So the question is: how do we attract those publishers to Australia rather than to Canada? It is just north of the border, so it is close. They speak in a very similar way; they play the same sort of sports; their cultures are similar; and the Canadian government is very active in making it attractive for investors to work with Canadian developers. We are collecting information on that. We do not have the hard facts yet but we understand there are investment subsidies paid to investors who work with Canadian developers.

Similarly, you have a situation in another area like Korea. Korea has been very active in supporting the growth of their industry. One of the major threats for us here in Australia is that there are these burgeoning markets and talent pools in Asia—countries like Korea, China, Taiwan—

Ms Richardson—Eastern Europe.

Mr Lancman—Eastern Europe as well—where very smart, well-educated developers are competing. They are either in a very low cost base or they are getting significant support from their local governments. As I said, we are competing in an international arena. So when we are bidding for a project with a US publisher or a UK publisher, we are bidding against the Californian developer or the developer based in Manchester or the one in Hungary—

Ms Richardson—Or Quebec who offer a 50 per cent tax credit on labour costs for a project developed there, which means that a publisher may take the decision, because the costs are going to be lower to produce the game, to move the game there than do it in Brisbane, Melbourne or South Australia.

Mr CIOBO—This is in terms of production of the game?

Ms Richardson—Yes.

Mr CIOBO—Writing the script and that sort of thing?

Ms Richardson—Yes. I know Atari, for example, have placed a couple there based on—

Mr Lancman—Yes. The comment you just made sounded very much like a film production comment—not as a criticism but just—

Mr CIOBO—Sorry, when I said 'script' I should have said 'code'. I said 'script' but I meant to say the 'code'.

Mr Lancman—Because in film parlance script development and then production are very different from what we do when we talk about product development.

Mr CIOBO—I meant 'code'.

Mr Lancman—We can trip up on the language very easily.

Mr CIOBO—Just from what I am hearing, it would seem to me in terms of attracting production the last thing—I cannot speak on behalf of the committee—from my perspective that I would like to pursue is to get into a Dutch auction on these types of issues with taxpayer funds, because it just leads to an unsustainable industry. But the key is if there are competitive advantages that we can provide, then we should seek to exploit those, obviously. So if Canada wants to go down certain paths, well, so be it. But what is important is to find out whether there are any actual disincentives that exist through regulation or that type of thing in the industry at the moment. Can you give me some input on that? Are there currently disincentives that exist that prevent the industry from growing? Or is it just a case of some of those other aspects that you are talking about, such as a lack of geographical proximity and those types of aspects?

Mr Lancman—The major disincentive is lack of access to capital. That is a significant disincentive. If we cannot get a publisher over to Australia, then we have to be able to finance the development in other ways, and access to that sort of capital is just not available here. The financial community doesn't want to know about games. It is too risky. They don't understand it. If they look at the market here in Australia, just in its size, it is not interesting; it is not big enough. They don't want to look outside Australia and look at it as part of a major international industry. They would rather invest in bricks and mortar. You have heard this before.

Mr CIOBO—Yes.

ACTING CHAIR (Mr Ticehurst)—Yes.

Mr Lancman—With respect to your comment about sustainable industry, I would like to re-emphasise that the reason the industry is making this push to government now is not because we need help to exist—we do exist; we have a number of companies in Australia; and we have achieved what we have through our own resources, through our own blood, sweat and tears and through our own financing. What we are seeing though is that we are not able to keep pace with the growth of the market internationally because we don't have access to the funding that we need.

Again, whether that is through attracting more investment from publishers or getting the money locally, we are losing ground. We can be here for another 10 years and we might grow incrementally over that time but we will be left behind. So there is an opportunity to take a larger stake in what is happening at the international level. That is why we need the assistance. We are not looking for handouts; we are looking for infrastructure support.

We differentiate ourselves from multimedia. We don't want to be put in the same basket as multimedia. The main reason for that is that multimedia is mainly a domestic business whereas we are an export business. Multimedia projects are much smaller productions. Many of them are culturally based, so they only exist because they are getting support from state governments for those purposes. There are very few multimedia companies that are actually viable without some level of support. I am not trying to denigrate what is happening with multimedia; it is just a different industry. What we are talking about is trying to get to the next level with an existing structure and working out ways that we can make that structure expand to allow for the growth for which the potential exists.

Mr HATTON—I am sorry I am late; I have been speaking in the Main Committee. I am also not so dry, in terms of the approach to this, as some of my colleagues may be. There has been an efflorescence of activity, as you pointed out, in terms of competition to us emerging. We have had a key advantage in that we have been relatively low cost but very high skilled and culturally very close to the people that you are producing for.

But you have indicated that in central Europe and elsewhere we are now getting a very strong emergence of competition—and in particular in Korea given that they have broadbanded the whole place. There is such a massive increase in that as a market that that would attract the Americans. You didn't, however, mention the Indians with 300 million people in their middle class, wall-to-wall full of programmers. They have got Bollywood as well. Given the synergies between film and games in terms of the skill sets demanded, although they are different, what are they up to and have they become players in this?

Mr Lancman—It is interesting. I have been watching India for a while, and it really comes down to design sensibilities. They are very good technically and they are obviously heavily involved in commercial applications; they are working with Microsoft, Oracle and all the major IT companies. That is where a lot of their skills are being sucked up.

However, when it comes to games, they haven't shown any real penchant for being able to produce games that are interesting to anybody outside India. The Koreans have an aspect of that problem but they are going to learn. They are going to learn very quickly because they have a very active games industry already in Korea—not so in India. In Korea, they have developers

making games all the time and they have been able to exist on just supplying their local market. They all want to break into the US and Europe; they don't know how.

When you look at their games, their games are technically competent and may be one or two generations behind what we are doing in the West, but their design is still flawed. So there is a cultural difference between what is appealing to people in Korea and China and what is appealing to people in Western markets. But that will change. Nobody is saying that Korea is not going to be a market that will make a big impact. The Korean government has said they want to be the fifth largest developer of games by 2005.

Mr HATTON—So if they have said it, they will do it. People say they work to their plans very rigorously.

Mr Lancman—That is right.

Mr HATTON—They also have a double cultural history, I suppose, in terms of the influence of Japan and the United States, and the closeness to those. Are they feeding back into the Japanese market at all?

Mr Lancman—It is interesting to see the byplay between Japan and Korea because there is a very real animosity there—

Mr HATTON—For good reason.

Mr Lancman—For good reason but also economically there is a lot of reason why they should be cooperating more. Interestingly, it was only last year for the first time that Sony and Nintendo were allowed to actually distribute their consoles in Korea. Prior to that, it was illegal. It was Japanese technology; it was not allowed to be sold. So there has been that shift in policy in Korea.

Mr HATTON—It may also be that they went through the GoldStar period and have now moved on to LG—they have gone to a much higher level of production and therefore are in a stronger position to compete.

Mr Lancman—The Sony PlayStation 2, the Nintendo GameCube and Game Boy Advance are manufactured in Japan and imported into Korea. So it is not—

Mr HATTON—They haven't gone into that area yet.

Mr Lancman—So they haven't gone into that area. They have never allowed these Japanese games machines to be imported because they saw it as Japanese culture. They did not want to promote Japanese culture in Korea.

Mr HATTON—You were talking a little bit about the mobile phone situation. We went to Micro Forte and also the institute just the other day. They were indicating that that area is really burgeoning. We expect it will almost be at 2½ and then 3G and more, but you said there was no commercial model for us.

Mr Lancman—That is today.

Mr HATTON—We have the information in the existing industry that maybe there is not much of a commercial model anyway, if you only get paid royalties for one out of three successful projects—

Mr Lancman—In the major—

Mr HATTON—In the major industry, that is a significant problem as well.

Mr Lancman—However, this is part of the risk/reward equation. If you work with the publisher, the publisher will finance the development of the project. So, from a developer's point of view, his costs are covered. It is the publisher that is taking all the risk.

Mr HATTON—Yes.

Mr Lancman—So if the game doesn't work, the developer doesn't have to pay back the money.

Mr HATTON—No, this is a question about where the game does work and it is very successful and all those things have a cost. But what is in the contract about the royalties? Have you come across the situation where the publishers, who are in a very strong position, don't come through with it; they don't actually live up to what is in there contractually? Have you come across that much at all?

Mr Lancman—No, it is very unusual that that would happen—where publishers are trying to rort the developer. I have worked with many, many publishers. Most contracts have an auditing provision, so you can send auditors in if you have a concern that maybe there has been some misreporting. But what is more of an issue is that you have a developer who put his passion into developing this game and the publisher, for whatever reason—and there are many reasons why this would happen—doesn't actually get behind the product. He releases it but without any emphasis, without any focus.

Ms Richardson—Or pulls the pin somewhere along the way for no apparent reason.

Mr Lancman—Then you have a very disgruntled developer who says, 'I didn't do this just for the advances,' and generally, if you have been around for a while, you know that you build a margin into your advances so you are making a profit of some sort. But it is true that you don't make the game on the basis that you are just going to turn over these projects and make your increment on your development costs. You are looking for that major success, the big hit that will sell millions of units and you will see millions of dollars flow back to you.

Mr HATTON—So you take into account the experience that the publishers can be as whimsical as the ancient Greek gods were and you couldn't necessarily trust what they were going to do.

Mr Lancman—That is right. Getting back to the comparison to the mobile phones and wireless, I am not aware that there is a ready market to actually sell the game to a publisher for

any dollar amount—forget about whether there is a royalty stream, just whether you can even cover your costs of development. I have had Sony Ericsson come to me as Atari, as a publisher, saying, 'We'd love you to put some of your games on our machine.' I said, 'Fine. What's in it for Atari?' They said, 'Well, you'd have exposure. The people would see your game.'

Mr HATTON—It is a bit like the Internet and free publishing.

Mr Lancman—So it is a marketing exercise for me. If you want to look at it that way, yes. It really limits what is available today, but I really stress that is a problem today. In the next two to five years there will be commercial models that will be put in place because once you establish the networks, they then have to be fed with content regularly. We are in the establishment phase today.

Mr HATTON—I want to finish on this, the most important thing—how you turn the Game Developers Association of Australia into the game developers industry association of Australia. I think that is the key in terms of why we are looking at you and it is the key regarding what happens from here. Either, as you indicated, you can roll along or the scale, intensity, breadth and depth of these activities lead to the creation of a really strong industry like we have in film. And the comparability is there.

What will it take? I am not averse to government intervention to provide these kinds of support. We have done it with the film industry. If we hadn't, we wouldn't have the depth and strength we have. To have a good dollar, good resources and highly skilled people has not been enough in the past to establish, out in the ends of the empire, a road into the dominant markets. If you had the same sort of treatment as we have been able to provide in film, if the industry has the scale, breadth and depth that film has, is that possible in terms of the game developers industry?

Mr Lancman—I certainly believe that it is.

Ms Richardson—We think it is.

Mr Lancman—I am not sure that you were here when everyone was talking about the opportunity to work with service providers where we outsource to special effects houses, to post-production houses and to animation studios. We are already doing that to a level. These are skills that exist in the film industry. We also know that, within the film industry, there is unutilised capacity. Lots of these talented people are idle. They are working in restaurants as waiters and driving taxis rather than doing what they have been trained to do.

Mr HATTON—They have periods of hiatus between projects.

Mr Lancman—Yes. So if we have more projects in Australia, then we will be tapping into these skill bases. The other thing to consider as well is that today we are working on the PS2, Xbox and GameCube and the PC, the PS3 and the Xbox 2 and the GameCube 2 have already been announced. Xbox 2 will be available in 2005. The PS3 will be available in 2006. The scale of the development is going to go up another level.

Today I have a team of 57 people working on one game for the PS2 in Melbourne. When we start working on PS3, either I will need a staff of up to 80 to 100 people to do one project or I will take that core of 57 people and supplement it with additional resources from animation studios or post-production houses that have the right level of expertise and experience in making games. There are some companies already getting involved in game development and are starting to learn about the differences between animation for film or TV and animation for games, for instance. It is an iterative process. They have to start somewhere and the more work they get, the better they get at what they are doing, and it becomes easier to work with them.

The nature of the games industry and the development side of that industry is such that it is always reinventing itself. We are a long way from establishing the VHS standard or the DVD standard—we are a long way from that. The technology is changing every three to five years and each time that changes, there is another step up and there is another demand for a fresh raft of projects, new talent and new skills.

Mr HATTON—And speed, power and memory in the central engines.

Mr Lancman—Yes.

Ms Richardson—Your question was about government policy and government focus in this area. One of the things we have said in our submission is for government, at the federal and state level, to take a broader view of games in that broader entertainment sector context. We have had 20 years of support for film and television, which has been a good thing. There have been specific arguments for that.

We would not necessarily position the cultural content argument as our key argument; we would argue the export development one; but we would argue for policy neutrality in the sense that, if you are giving support, games is one of the few industries in terms of content development that has not had a lot of government support. As Adam said earlier, it is not that the industry is looking for handouts; it is looking for assistance to grow to the next level so that it can grow that export potential and grow skills and grow jobs at the local level.

In five years we could develop into a small niche player. From the GDAA's perspective, if there is a window of opportunity over the next 18 months to two years to position ourselves much more strongly, there are three things we need to do. The first is to create access to capital so that we can compete internationally and be as aggressive as not only some of those emerging but also established players, and so that we can invest in our own product we can take to a publisher that gives us greater leveraging when we are doing that deal.

The second area is the profile raising area. We want to continue to be at E3 and at GDC and continue to be marketing our guys so that they are in the publishers' face all the time. You have spoken to some of the larger ones and have been told that they spend a lot of their time up in the US predominantly doing that.

The third area is skills and training. It is one thing to grow an industry; it is another to feed that as you grow. We are very cognisant of that. We have been working quite closely with state governments. The industry currently fills its gap through a hybrid of importing. Because of the maturity of the industry, it is difficult to get people with three to five years-plus experience

globally but also particularly at the local level. We will continue to import in the short term over the next two years as we grow our flow of graduates coming out. That is where, at the other end, we want more internships and traineeships to have that six to 12 months time frame that it takes to increase those people's skills sufficiently so that they can really add value to a project. Those are the three core areas that we see as being important for us.

Mr Lancman—On the skills area, most of the major developers you would have talked to understand that you cannot just decide to take a dozen graduates, throw them into the organisation and expect to be able to do anything with them.

Mr HATTON—Because you need five or six months of practical—

Mr Lancman—If you bring a dozen newbies into your organisation, it will take more than five or six months to get them up to speed, unless you have the talented experienced people available—available in terms of their bandwidth—to be able to mentor them. Usually what happens when a developer is ready to grow to another phase or to put another team in is that he finds experienced people first and then you need one experienced person for every three to four graduates to be able to balance their enthusiasm with some experience—if I can put it that way. Importing talent is a quick way of finding experienced people other than hiring from other developers in Australia who have those experienced people.

Mr HATTON—So it is like the Renaissance art workshops—Leonardo, Michelangelo and the rest with the apprenticeship system that they had there?

Mr Lancman—Yes, exactly.

ACTING CHAIR—Thank you for appearing before the committee today. If there is any further information the committee needs, the secretariat will contact you. It has been most interesting. It is certainly an exciting industry.

Resolved (on motion by **Mr Hatton**):

That this committee authorises publication of the proof transcript of the evidence given before it at public hearing this day.

Committee adjourned at 11.27 a.m.