

Film Inquiry  
Submission No. 54



**GAME DEVELOPERS'  
ASSOCIATION OF  
AUSTRALIA**

## **HOUSE OF REPRESENTATIVES**

**STANDING COMMITTEE ON COMMUNICATIONS,  
INFORMATION TECHNOLOGY AND THE ARTS**

**INQUIRY INTO THE FUTURE OPPORTUNITIES  
FOR AUSTRALIA'S FILM, ANIMATION,  
SPECIAL EFFECTS AND ELECTRONIC GAMES  
INDUSTRIES**

**Submission Prepared by the GDAA**

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## Table of Contents

<b>OVERVIEW</b> .....	3
<b>1. Background to the GDAA</b> .....	4
<b>2. Industry Context</b> .....	5
2.1 <i>Global</i> .....	5
2.2 <i>Key Global Developments and Drivers of Change</i> .....	6
2.3 <i>Australia</i> .....	7
2.4 <i>The Game Industry Value Chain</i> .....	8
<b>3. Economic, Cultural and Social Benefits</b> .....	9
<b>4. Opportunities for Growth</b> .....	10
<b>5. Barriers to Growth</b> .....	10
<b>6. Infrastructure Needs</b> .....	11
<b>7. Skill Requirements</b> .....	12
7.1 <i>Skills Gap</i> .....	12
7.2 <i>Business and Project Management Skills</i> .....	13
<b>8. Linkages Between Sectors</b> .....	13
<b>9. Leveraging Future Growth to Maximise Exports</b> .....	14
<i>How Federal Government Can Assist the Game Industry</i> .....	15
9.1 <i>Investment</i> .....	15
9.2 <i>Raising Profile</i> .....	18
9.2.1 <i>Global Profile Raising</i> .....	18
9.2.2 <i>Local Industry Database</i> .....	18
9.3 <i>Skills and Training</i> .....	19
<b>10. Contact</b> .....	20
<b>Attachments</b> .....	21

## OVERVIEW

The House of Representatives Standing Committee on Communications, Information Technology and the Arts is undertaking an inquiry into future opportunities for the Australian film, animation, special effects and electronic game industries.

This submission focuses specifically on the Australian electronic game industry. The Game Developers' Association of Australia (GDAA) is the peak body and voice for local game developers. It is also the authority on all game related issues. Background information on the GDAA, including recent achievements, is provided in section 1.

The electronic game industry is a significant contributor to the Australian economy. It is also part of a larger global entertainment industry (now bigger than film) and a major export industry. Our industry's export earnings are already impressive compared with other software sectors and the potential for delivering exponential growth in the next 3-5 years is huge.

The game industry has experienced strong growth but requires Government assistance to encourage both offshore and domestic investment. The industry also requires support to ensure it continues to produce and have access to highly skilled talent.

The Australian game industry is at a cross-roads. Globally, the industry is rapidly rationalising with fewer publishers, fewer projects and much larger budgets requiring significant capability. For our local industry, the major impact of these global changes is smaller companies will increasingly find it difficult to compete for deals in the market place while established companies will require support to grow to the next level in order to compete effectively.

Given these trends, the critical issue is whether we leverage our current capability and reputation to become a global player in this space or whether we maintain the status quo and fade into niche player status. There is now a window of opportunity to aggressively grow the industry and increase Australia's share of the global pie: more investment, more export dollars, more jobs!

In summary, it should be noted that:

- i) The Australian game industry could be a significant player in the global industry reflecting its local creative talent and early adoption of new technology
- ii) Export earnings are already a 'net profit' ie export earnings exceed the entire cost of the industry
- iii) Future growth will not only encourage the creative industry but also software, animation and special effects' industries which impact other export replacement industries
- iv) There is a very strong possibility of growing the industry in regional areas: in game development there is no tyranny of distance
- v) The game industry is 'clean' and a significant employer of our best and brightest and it has a clear role in promoting Australia as a 'smart country'

- vi) The key challenge for the Australian game industry is whether it becomes an intellectual property earning and leveraging industry or whether it remains a fee for service industry selling its talent for cost plus a margin to international publishers. They then make the real profit. The difference between the two is Capital.

The submission provides an overview of the local game industry and addresses the inquiry's Terms of Reference. Specifically, it identifies major drivers of change in the global market place and their impact on local business activity. Our current strengths and opportunities for future growth are outlined. Key barriers to growth are also summarised. The submission concludes with a clear statement on how the Federal Government can assist the industry in leveraging future growth for the benefit of both the local industry and all Australians.

## **1. BACKGROUND TO THE GDAA**

The GDAA was established in December 1999 and comprises Corporate Members from game development companies and educational institutions, Associate Corporate Members (in service sectors that support the industry), individuals and students.

Current membership includes companies from all over Australia and the United States (including the Australian Capital Territory, New South Wales, Queensland, South Australia, Victoria and Tasmania). GDAA membership comprises the majority of Australian game developers. A current list of Members is at Attachment 1.

**The main purpose of the GDAA is to increase the profile of the Australian electronic game industry both domestically and internationally in order to:**

- Promote the growth of the game industry within Australia
- Represent the interests of GDAA members
- Attract capital and publishers from offshore and increase local investment
- Retain and attract talent that exists in our local industry
- Promote a sense of community within the industry.

**Recent achievements include:**

- Coordination and management of Australian presence at E3 in 2003, the largest ever Australian presence at E3 with cross-Government support from Austrade, Business ACT, Brisbane City Council, Invest Australia, Queensland Government, Government of South Australia and the Victorian Government (visit [www.gdaa.com.au/e3australia](http://www.gdaa.com.au/e3australia)). A copy of the marketing booklet profiling the Australian game industry is provided at Attachment 2
- Provision of Sony PlayStation 2 Dev Kits to local Victorian developers, supported by Sony Computer Entertainment Europe Ltd and the Victorian Government; second round underway
- Establishment of national headquarters in Victoria

- Support for annual Australian Game Developers' Conference which attracts over 600 delegates from Australia and the Asia-Pacific region
- Initiated industry/Government roundtable to work on strategic priorities, notably raising profile and establishing major presence at E3 in 2003
- Convened Investment Roundtable to identify strategic actions for investment activity.

## **2. INDUSTRY CONTEXT**

### **2.1 Global**

Globally, the interactive entertainment industry (film, television, games, advertising, training and design) is worth some \$US20 billion (AIE Ltd) and growing at 30 percent per annum. With rapid growth in the Asian market, some \$US100 billion is expected over the next decade.

In 2000, the interactive software industry exceeded the movie box office turnover in the US with retail sales exceeding \$US6 billion (Interactive Digital Software Association Annual Report, 2002).

#### **Forecasts**

PriceWaterhouseCoopers (PWC), in its recently released annual 'Entertainment and Media Outlook Report' has predicted that spending on entertainment and media around the globe will surpass \$US1 trillion in 2003, rising by 3.7 percent from its 2002 level.

The PWC report forecasts double digit CAGR increases for electronic games between 2003 and 2007 and singles out the game industry as the fastest growing entertainment/media segment outpacing internet advertising and access spending. It predicts this growth will be driven by growth in online video gaming stimulated by increased broadband and a surge in the wireless market driven by the availability of new game capable phones. Next generation game console hardware will drive industry expansion to \$US35.8 billion in 2007, growing at 11 percent compound annual rate.<sup>1</sup>

Other market projections indicate that in 2003, global retail revenues of the electronic game industry will exceed \$US31 billion with \$US20 billion coming from software sales or rentals; nearly 70 percent of this will be attributable to the console sector. The console sector is expected to continue providing high revenues but faces increasing competition from new economy sectors such as online, mobile and interactive television (Informa Media Group, UK 2002).

<sup>1</sup> Gamasutra Industry News [06.11.03], [www.gamasutra.com](http://www.gamasutra.com), accessed 20/06/03.

The global market is forecast to peak again in 2008 with revenues of \$US40 billion, with online, mobile and interactive television accounting for one third (Informa Media Group, UK 2002).

Projected sales in North America for video game consoles, software and accessories are expected to be \$US10 billion by end 2002, representing an increase of 25 percent from 2001 (Interactive Digital Software Association: [www.idsa.com](http://www.idsa.com)). Global console hardware sales are forecast to reach \$US44 billion in 2002, with half of that going to Sony PlayStation 2 (PS2). Lifetime sales of the PS2 are forecast to reach 100 million compared with 23.2 million for XBox and 64.6 million for GameCube. Sales for Nintendo Gameboy and PC are starting to fall (Informa Media Group, UK 2002).

In relation to emerging competitors, the following has been forecast by Informa Media Group in the UK (2002):

- *Internet*: Globally, there will be 7.3 million internet game players by end 2002, generating revenues of \$US328 million. By 2010, there will be 56.7 million players worldwide creating revenues of \$US4.7 billion
- *Mobile/Wireless*: Estimates are that the wireless game market will be worth \$US4.3 billion by 2003 (Ovum Research), rising from a billion dollar market in 2004. By 2010, the 743 million wireless players will generate revenues of \$US9 billion
- *Interactive Television*: Global game revenues forecast to climb from \$US73 million in 2001 to \$US7 billion in 2010. The majority of this growth is expected post 2006 assuming broadband networks are more ubiquitous.

### **Global Market Summary**

- The Personal Computer (PC) games software market is broken into two major regions: the US (35%) and Europe (37%), which collectively comprise 72 percent of worldwide market followed by the UK (10%), Rest of World (15%) and Japan (3%)
- The largest market for game consoles is the US (36%) followed by Japan (27%) and Europe (20%)
- The US has the largest number of game developers by volume (44%) followed by Japan (33.3%), UK (15.3%), Rest of world (10%), Germany (2.1%), France (1.7%) and Canada (1.5%) (All figures sourced from Department of Trade and Industry, UK, 2002).

### **2.2 Key Global Developments and Drivers of Change**

The electronic game industry is undergoing a number of key changes which will impact right across the value chain and influence how the Australian industry moves forward. These drivers are:

- Number of publishers declining as companies rationalise, close or merge. We would expect to see in the next 3-5 years the emergence of a small number of very large players that will dominate the global market
- Market increasingly becoming 'hits driven' in much the same way as the film industry. It should be noted that most game sales for a title occur in the first three months of release, thus reducing the publisher's timeframe for recouping investment
- Scale of projects is much larger with huge budgets and less titles as publishers compete for retail space and sales. As an example, the average starting budget for a console based project in Australia is around \$A3-6 million and increasingly the deals are in the \$A8-10 million range. On a global scale, games such as *The Getaway* and *The Matrix: Reloaded* cost in excess of \$US15 million to develop and at least an equal amount to market
- Advancements in console technology with increased storage capacity of optical media allow for development of increasingly complex game-play
- At the same time, the consumer is becoming more demanding expecting high production values and more lavish, cinema quality interactive games
- Consoles are also beginning to obtain mass market levels of penetration and intense levels of competition between manufacturers
- Growth in new platforms. While the console and PC dominate the market, other platforms such as iTV, mobile and the internet are emerging. While these are not expected to compete directly with the more sophisticated and established PC and console markets, they are expected to offer new opportunities for different types of games
- Opportunities for some companies to develop budget games as publishers seek to diversify product range at this level while retaining high cost projects
- Changes in technology so Australian developers need to compete creatively at the same time as they need to keep up with ever evolving technology.

### 2.3 Australia

Australians spend over \$A2 million per day on interactive computer games, about the same as they spend on movies (Inform, 2002). While it has one of the highest per capita consumption of entertainment (software and hardware) in the world, it's a small market by sales volume (AIMIA Report, 2001).

The electronic entertainment industry in 2002 reported combined software and hardware sales of \$A825 million. Of this, \$A420 million was game software sales; \$A406 million: games and \$A12.5 million: edutainment (Inform, 2002). Annual

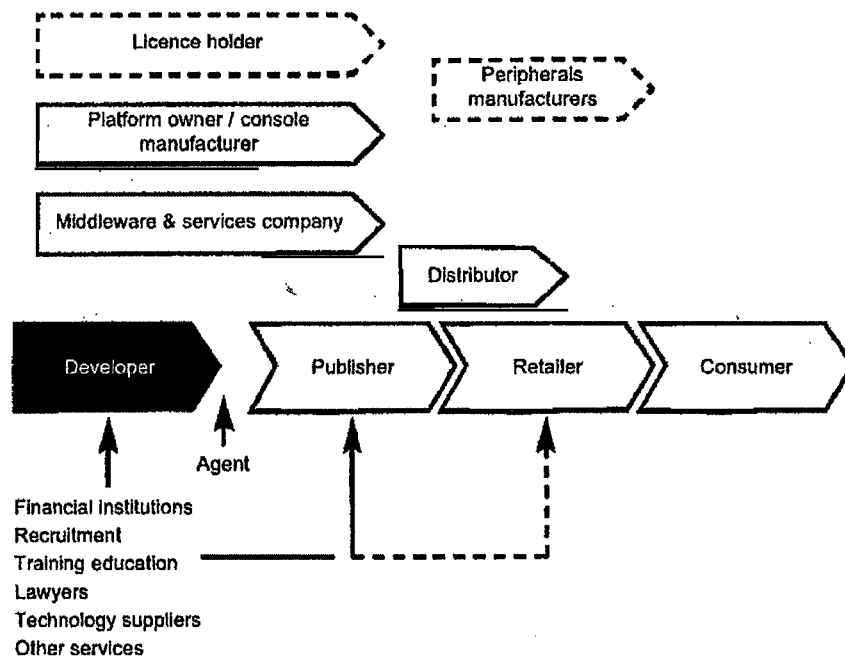
export revenue is worth \$A100 million per annum<sup>2</sup> and expected to increase to \$A500 million in 2005 and \$A1 billion in 2010 (GDAA, 2002).

The local electronic game development industry comprises over 40 companies spread throughout Australia, with major clusters in Victoria and Queensland. Around 650 people are employed with growth expected to reach 2000 within five years. Australian companies have developed over 200 internationally successful games and currently enjoy a reputation for being creative, delivering on time with relatively low production costs. For a more detailed profile of the industry, refer Attachment 2.

## 2.4 The Game Industry Value Chain

The electronic game industry is similar in structure to other creative and software industries such as film, music, computer software and publishing. In many ways, it is a hybrid model comprising elements of both the entertainment and software industries. The industry value chain is shown in Figure 1 below:

Figure 1: Electronic Game Industry Value Chain



Source: Spectrum Analysis, September 2002<sup>3</sup>

**Developer:** Create and develop games. Process has evolved from small scale operation (1-3 people) to a highly complex, intensive 18 month-2 year process requiring much larger teams. On average in Australia, a full time project team is 15 people plus for two years and our larger companies have some teams of 30 plus and these are expected to grow as project size and complexity increases. These teams include designers, programmers, producers, project managers, artists, musicians,

<sup>2</sup> This is \$100 million export of development services which translates to \$750 million of retail value of products. The industry is not a commodity business, it is service based.

<sup>3</sup> Department of Trade and Industry, UK, *From Exuberant Youth to Sustainable Maturity: Competitive Analysis of the UK Games Software Sector*, Report prepared by Spectrum Strategy Consultants, September 2002



scriptwriters and actors. The industry is also supported by a large number of ancillary service support companies such as animation, special effects, sound etc

**Publisher:** Commission game titles either from independent studios or through their own in-house facility. The publisher may also invest in original IP based on a prototype presented by a developer. Currently, for an Australian developer to produce an original prototype which is of a high enough quality for a publisher to consider requires an investment of anywhere between \$A500 000 – 1 million

**Distributor:** Intermediaries between publishers and retailers. Most publishers have both functions.

**Retailer:** Retail stores are the most common channel for game sales. There is some discussion of online retail and delivery of games but physical delivery of product is expected to be most common form of delivery for the foreseeable future

**Consumer:** Game purchaser and player. Becoming increasingly more discerning with respect to high quality product and interactive experience

**User Platform:** Games are now played on a variety of platforms: PC, console, mobile phones, internet and iTV. However, the primary markets are console and PC games

**Console Manufacturer:** Produce console hardware; heavily subsidise the cost of console but charge a licence fee for each unit of software sold. Generally, console hardware is a loss leader and the manufacturers invest heavily on average every 5 years to promote new console platforms eg Sony PS2, Microsoft X-Box. Manufacturers control access to the console closely through licensing developers and access to development tools, approval of titles at concept and manufacturing stage and control of the manufacturing process

**Middleware and service companies:** Provide software product and tools for game development.

### 3. ECONOMIC, CULTURAL AND SOCIAL BENEFITS

The electronic game industry is a significant contributor to the Australian economy. It is also part of a larger global entertainment industry (now bigger than film) and a major export industry. The game industry is also a significant part of the 'new economy' and our skills are internationally a measure of success in that new economy.

The economic benefits and contribution to the local economy were outlined earlier. In terms of cultural and social benefits, it should be recognised that Australians are huge consumers of entertainment media, including electronic games. With a reputation as early adopters, the domestic market provides a significant test-bed opportunity for international game vendors. The issue for game developers though is that the domestic market will never support a viable development industry; the cost of production cannot be recouped locally.

We have a local industry that is producing world class titles for an international market. There is scope to develop a lot more product locally thus providing real career opportunities for young people plus significantly increase local product development for export.

The export earnings of the industry, at \$A100 million per annum and growing exponentially, are significant particularly compared with other software and entertainment sectors. Industry projections indicate that export dollars, number of jobs and investment flow into Australia will continue to grow as the global market expands. It would be expected that in 3-5 years the local industry would grow with an export value increase from \$A100 million to \$500 million in 2005 and \$A1 billion in 2010; doubling of jobs locally to 2000 full time staff within five years; industry profits of 15-20 percent; mix of services at 95 per cent and own IP sales of 5 percent. With Government support this growth could be much greater. This particularly relates to owning our own IP which will be minimal unless we invest heavily now.

#### 4. OPPORTUNITIES FOR GROWTH

The following summarises the GDAA's analysis of the local industry's current strengths and where our key opportunities for future growth are:

STRENGTHS	OPPORTUNITIES
<ul style="list-style-type: none"> <li>• Australia is viewed as 'fresh' with great creative talent</li> <li>• Low production costs</li> <li>• Current value of dollar/favourable exchange rate lowers labour costs</li> <li>• Industry comprises almost entirely new companies growing fast</li> <li>• Skills base (range of skills available, multicultural, multilingual)</li> <li>• Growing demand in Asian region, particularly Korea, favours Australian developers who are seen as able to produce for those markets; compatibility of time-zone</li> <li>• Our track record in producing successful games, some of which have won export awards; brand awareness offshore</li> <li>• Some large players have broadband infrastructure in place enabling efficiencies in data transfer offshore</li> <li>• Time differences between US and Australia allows game development 24 hours per day</li> <li>• English speaking with cultural links to principal markets</li> </ul>	<ul style="list-style-type: none"> <li>• Window of opportunity to grab larger slice of rapidly growing global market</li> <li>• Australian companies have a track record which can be leveraged</li> <li>• Potential growth of export market for locally produced games</li> <li>• Growth in global demand for game product, including emerging Asian market</li> <li>• Some niche market opportunities eg conversion work eg from PS2 to GameCube</li> <li>• Some opportunity for wireless game development for smaller companies as entry costs are lower</li> <li>• Technological innovation as already demonstrated through companies such as Micro Forte, Ratbag and Auran</li> <li>• Leverage relationships with industry sectors with related interests eg film, animation etc</li> <li>• Strong networks and commitment to grow local industry amongst local game development community</li> <li>• Established alliances/relationships with key educational institutions</li> </ul>

#### 5. BARRIERS TO GROWTH

However, there are some significant impediments to future growth. The following summarises the industry's weaknesses and key threats:

WEAKNESSES	THREATS
<ul style="list-style-type: none"> <li>• Lack of understanding of our industry amongst investment community</li> <li>• Dominance of overseas based publishers and distributors who comprise industry's key market</li> <li>• Lack of alternate funding mechanisms</li> <li>• Small domestic market</li> <li>• Higher wage costs compared with Asia-Pacific counterparts</li> <li>• Cost of show-casing local product at international trade fairs and missions</li> <li>• Need for business development assistance for emerging companies</li> <li>• Cost of, and access to, bandwidth</li> <li>• Limited links to other locally based industries with related interests (eg film)</li> <li>• Start-ups often unable to protect their IP adequately</li> <li>• Skills issues: skills gap in many areas, cost of training graduates adequately; training lags behind industry; internal project management processes inadequate; access to R&amp;D</li> </ul>	<ul style="list-style-type: none"> <li>• Industry consolidation which poses a major threat to smaller companies as the number of deals is reduced, with larger budgets requiring critical mass within local companies</li> <li>• Extensive Government support and funding programs for our competitors</li> <li>• Lower relative exchange rate to \$US could lead to structural inefficiencies in local companies</li> <li>• Game clusters in other countries eg Scotland, Canada, Korea</li> <li>• Emerging threat from low cost Eastern European developers</li> <li>• Lack of industry scale and its impact on retaining skilled talent; brain-drain overseas</li> <li>• Contractors are working for rates equivalent to salaries, leaving them vulnerable in downturn periods</li> <li>• High cost of protecting IP means some start-ups are unable to protect their product</li> </ul>

## 6. INFRASTRUCTURE NEEDS

The industry's primary focus at the current time is attracting investment through increased deal flow from offshore, raising awareness amongst local investors, particularly in relation to capital-raising and addressing our skills and training issues. With regard to infrastructure requirements, there is interest in securing more effective pricing arrangements for reliable broadband services which is outlined below.

### **Broadband Access and Pricing Arrangements**

The GDAA has not examined in any detail demand aggregation models. FIBRE (Film Industry Broadband Resources Enterprise) has invited game companies to consider leveraging the deal they negotiated with UECOM on behalf of the film industry. The Queensland game cluster has identified access to and pricing of broadband as a key strategic issue. To date, FIBRE has met with the Queensland cluster with a view to pursuing this further. It has also indicated interest in meeting with companies in other states which will be arranged.

Both the Victorian and Queensland Governments have indicated support for examining broadband access issues for the game industry with a view to finding ways to enable bulk discount. From an industry perspective, any initiative that reduces the cost of entry and delivers a reliable, fast service is highly desirable.

Increasingly, local companies are sending large data files to the US during the development phase (18 months to 2 years). This demand will grow as companies secure larger scale projects. The key issue is i) cost, any reduction makes us more competitive, and ii) reliability as companies cannot afford downtime.

## **7. SKILL REQUIREMENTS**

Australia has produced talent in key areas relevant to game development such as technology and art and design. However, there is a real concern amongst developers about the increasing lack of skills across the range of roles: designers, programmers, producers etc to support industry growth. The industry has a skills gap plus an urgent need to bolster the skills of graduates. The other critical issue is lack of business and project management skills amongst star-ups and new entrants to the industry.

At the same time, there is also confusion in educational institutions regarding relevant skills for the game industry. The last two years have seen a huge increase in the number of training institutions offering courses with the words 'electronic games' in the title. This reflects the growing awareness of the size and rapid growth of the industry and a rise in demand from students but does not necessarily encompass any real knowledge of the skills or entry level training required by industry. It is also the case that students, career counsellors and parents are often not well enough informed to make appropriate decisions.

Many graduates are, therefore, being poorly prepared for employment through inadequate length of training, inappropriate curricula and lack of expertise in course delivery. Many courses, for example, pay little attention to the generic skills of communication, teamwork and time management consistently identified as important by developers.

This needs to be seen in a context where developers are under increasing pressure from publishers to raise the bar for entry level employment and where the range of skills involved in game production is constantly evolving and changing. In an industry that is changing, that requires such a range of skill sets and that is led by production based problem solving and R&D, it is vital that educators providing employment pathways are closely connected to industry. A national accreditation system could facilitate integrative involvement between training and reputable industry participants with production knowledge and experience. This is discussed further in section 9.3.

The industry is now doing more to work with the education sector to ensure we develop and maintain our talented people and the GDAA hosted an Education/Industry Roundtable in Queensland earlier this year in order to open the dialogue.

### **7.1 Skills Gap**

Currently developers meet their skill requirements through a hybrid of local talent and imported talent from offshore. As the size and scale of projects grows, so will the demand for people. By way of example, three years ago a project team on average comprised 10 people, 5 programmers and 5 designers, ie 1:1 ratio. Today, that ratio is 2 artists to every programmer and in three years time, we expect that ratio to be 3:1 at the same time as average team sizes grow from 10-15 to 50 plus. In Australia we already have, in some studios, teams of 30 plus staff working on one project.

The other critical factor is experience. Companies require experienced staff with 3-5 years experience. This market is currently limited locally but will grow as the industry grows and studios will in the future have a greater capacity to employ more graduates if they are growing their business overall. In the short term, it will still be necessary to import skills to meet current requirements. However, in the longer term we need to ensure we have a pipeline of talent graduating plus retain the talent we have. In order to attract talent, in particular ex-pats, it is critical that the industry continues to grow critical mass commensurate with global demands.

It also needs to be noted that there is a real opportunity to more fully leverage our ancillary service sectors. For example, as games become more complex there is an increasing demand for art resources including animation, post and rendered output. The growing skills transfer between games and the film industry needs to be more actively encouraged.

## **7.2 Business and Project Management Skills**

Existing companies need to review current project/production management systems and practices to ensure that when we are successful in securing more business, we have the capability to deliver high quality product. This is particularly relevant for companies that are growing rapidly.

Start-up companies require assistance in business development skills: contract negotiation, capital raising, IP arrangements, and other related business practices. While many State governments provide business development assistance, this is generally not targeted to game related companies which have specific requirements. There is an urgent need for targeted business skills programs, including mentoring, for these smaller companies.

## **8. LINKAGES BETWEEN SECTORS**

There are significant linkages between the game industry and service sectors which support local development. In particular, the industry has links with the film (post), animation and special effects' sectors. These linkages continue to grow and we are seeing much more movement between the sectors than ever before (for example, staff moving between animation and game studios). In terms of skills transfer, we would expect this to continue and are actively looking to assist this development. Given the skills' requirements going forward, this will be imperative particularly on the art resources side.

The GDAA has co-hosted a number of events promoting these linkages, in conjunction with Multimedia Victoria, the Melbourne City Council, the Information Industries Bureau, Brisbane City Council and others.

It has also established a Government/Industry Roundtable which meets periodically to work on strategic priorities. It is anticipated that both skills and training and growing the service sectors will form part of that agenda.

There is also an increased focus in the Film Commissions on multi-platform product and the synergies between entertainment sectors eg X/Media/Lab (New South Wales

Film and Television Office), Cross-Roads (South Australian Film Commission), Digital Media Fund (Film Victoria) support for game concept/prototype development and so on.

In the US, the relationship between the various entertainment sectors, particularly film and games, is much stronger and the industry is driven by 'franchise' product ie film, game, merchandising, music CD, books, comics etc all packaged together. In Australia, there is currently limited 'franchise' property potential plus there is a need for the sectors to better understand the respective business models and synergies between them. The GDAA is investing considerable time in establishing these relationships and educating other sectors on how the game industry works as part of the process.

Our view is that as the entertainment sector grows globally, our local industries will need to be able to both develop original IP with franchise opportunity and deliver high end game product on a fee for service basis as part of global franchise properties. Recent examples of these types of properties include *The Matrix: Reloaded* and *The Lord of the Rings*. In a future scenario, we see no reason why Australia can't produce The Matrix film, game, website etc. We have the skills, talent and technical capability.

It is also our view that over time as the entertainment industry continues to converge, traditional funding models and structures will need to change to reflect global trends. What we know as Film Commissions today will become Entertainment bodies in the future. While the shape and form of these will evolve as we go forward, there is no question that the future of the entertainment sector locally depends on this major paradigm shift at all levels: Government, industry, the education and training sector, and the broader community, already a large, hungry consumer of entertainment product and increasingly demanding more dynamic and diverse interactive experiences.

## **9. LEVERAGING FUTURE GROWTH TO MAXIMISE EXPORTS**

The GDAA believes that there is a real opportunity to aggressively grow the local electronic game industry. This growth would benefit our local developers plus have direct flow-on effects to ancillary service sectors such as film, animation and special effects and the economy more broadly.

However, in order to leverage this growth the industry requires some assistance. The industry is at a crossroads and it is imperative that we take action now if we want to be in the game in two years time.

Many of our competitors already receive significant Government support and incentives. For example, there are a number of funding models overseas that support investment in game development eg Fund4Games (UK), Interactive Finance (Belgium/France), and Capital Entertainment Group (US). In Canada, significant tax incentives are provided to local developers in terms of tax credits for up to 50 percent of labour costs for game development. These funding models and tax incentives give our competitors a major advantage and a totally unlevel playing field on which our Australian developers have to compete.

The following summarises key ways in which the Federal Government can assist in this growth. The GDAA seeks to work with Government to facilitate rapid growth at a time when global market developments suggest time is short and the opportunity cost enormous if we fail to act quickly.

Right now, the industry has three strategic priorities:

- **Attract Investment**
- **Raise Profile (locally and offshore)**
- **Attract and Maintain Skills Base**

## **How Federal Government Can Assist the Game Industry**

### **9.1 Investment**

All other content industries receive a level of Government assistance for investment, cultural support, marketing and training. The game development industry does not.

The current lack of profile and understanding of the game industry locally presents major barriers for companies, particularly those involved in capital-raising. At the same time, the global industry is rationalising with the number of overall projects declining while budgets increase significantly. The impact of this is smaller companies are finding it hard to compete while our more established companies require support to grow to the next level in order to continue competing effectively.

We are also entering a transition phase as publishers prepare for the introduction of the Sony PlayStation 3. In this environment, over the next 18 months to two years, it will be difficult to secure new IP deals without major investment. The key issue for the Australian industry will be its ability to grow and compete as a global player versus becoming a minor niche player.

The GDAA is currently preparing a Business Case for an Industry Investment Strategy. The Business case will make the case for macro market failure and scope investment/funding requirements and possible models for Government consideration. However, based on our preliminary analysis, the GDAA's recommendations for facilitating investment in the game industry are outlined below.

The Federal Government should:

### **ASSIST INVESTMENT IN THE LOCAL GAME INDUSTRY**

- i) Establish an Equity Investment Vehicle for game development ie FFC model:**  
Examine extending/establishing a similar model to that available to the film industry where local developers can access investment and retain partial ownership of IP in Australia. This funding vehicle may have two components:

- i) concept and prototype development, and
- ii) development funding for game product developed by local developers

**ii) Extend Div 10BA to apply to electronic games**

- Definition of 'Australian film' to be amended to include a computer program as defined in the Copyright Act so long as it permits the reproduction of a dramatic work etc as required for an eligible film
- In all other respects the requirements of Div 10BA to apply except that the definition of exhibition will need to comprehend the use of software reproduction hardware such as PCs and game consoles (Sony Playstation, X-Box, GameCube, Nintendo etc)
- The regulations and guidelines will need to deal with the finer points of definition of what constitutes a complete game as they do for short films, TV etc

**Rationale**

- There is no practical distinction today between film and software. Many films such as *Titanic*, *Star Wars*, *The Matrix* etc are substantially made 'inside' a computer and films are edited, sound mixed, special effected and projected by means of computer software. There has been substantial convergence between the two media
- The creative endeavour behind film and electronic games is similar and if one is worthy of encouragement by Government subsidy there is no logical reason why the other is not also
- Like film, electronic games are intensive employers of skilled personnel who are tax- payers. Most of a game development budget is wages
- Games are geographically non-specific ie they can be made in regional and rural Australia-and often are
- Games constitute a major export earner which is environmentally clean, up-skills the work force and equips Australians for a wider range of software development roles
- Games as an industry now dwarf the film industry and are ubiquitous, culturally non-specific in most cases and create for Australia an image of software 'savvy' and technical sophistication. Just as film has projected Australian skills to the world, so can electronic games.

- iii) 10B:** currently applies to games. The key issue for potential investors is the write-down period of two years when investors/industry require the



deduction in year one to make it worthwhile. Typically, games take two years to develop. Given that the shelf life of a game is about six months from release, the tax deduction goes on after the income has been received and the tax has been paid ie the incentive is minimal. For an investor, the deduction should apply at the time of investment provided the game is completed in the ensuing two years, as for 10BA.

#### **ASSIST MARKETING AND PROMOTION**

**iv) Establish an AusGames office in the US:**

Create a position in LA co-located with AusFilm to attract game projects to Australia. The person appointed would need to come from industry, be well connected and an effective deal chaser. The person could be employed by Austrade and located in the US; fixed-term contract for 3 years. Preliminary discussions with AusFilm indicate this is feasible

#### **ASSIST CREATIVE CONTENT DEVELOPMENT**

**v) Extend the Digital Content Mechanism currently managed by the Australian Film Commission with a specific allocation for games.** Government currently supports growth of digital content through the Australian Film Commission and via State support eg Film Victoria and South Australian Film Commission. There is a real opportunity to extend these facilities to the game industry.

- There is an opportunity to have a specific game category and budget allocation for game content development with the focus on prototype and early stage project funding (eg new projects/start-ups)
- It should be noted that a minimum investment for a prototype game which can be put in front of a publisher/investor is of the order \$A500 – 1 million
- This funding mechanism would support established game studios that have the capability to produce locally developed and owned titles (for eg, Krome Studios which produced 'Ty the Tasmanian Tiger' for Electronic Arts; all IP developed and owned by Krome) and emerging companies with concepts with real market potential

#### **ASSIST TECHNOLOGY DEVELOPMENT**

**vi) R&D Start Grant:** Games should be an identified category. Members of the GDAА conduct innovative software development as part of the new media industry and this should be recognised. Applications from game developers to the Program should be considered in this light

**vii) R&D deductions** generally should be extended to the whole game software development process.

## **9.2 Raising Profile**

### **9.2.1 Global Profile Raising**

At the GDAA Government/Industry Roundtable hosted in December 2002, it was agreed that there was a strong need for a co-ordinated presence at two major conferences held in the US every year:

*The Game Developers' Conference (GDC)* held in San Jose every March. This is *the* conference for game developers. Statistically, more deals are done at GDC, even though publishers have a larger presence at E3. Game companies typically get more time with publishers at GDC and access to them is easier as all events are hosted on site.

*Electronic Entertainment Expo (E3)* held in LA every May. This is the largest trade show and expo for the game industry and attracts all the major players. This year, over 30 Australian companies participated in the *Technology Australia: Games Downunder* pavilion in South Hall, the main exhibitors' space. This was made possible through cross-Government support facilitated by the GDAA. It is critical that Australia continues to build its presence at these shows.

The Federal Government should commit for three years to:

#### **ASSIST PROFILE RAISING AND INDUSTRY DEVELOPMENT**

- i) Support an Australian presence at the Annual Game Developers' Conference held in San Jose, United States every March. Specifically, it should sponsor a private invitation-only networking event, targeting 120 key industry players and deal makers plus media, in order to promote the Australian game industry's strengths
- ii) Increase the amount of Federal support provided for the Australian industry to increase its presence at E3 in 2004 onwards.

#### **Roadshow/Industry Event**

- iii) The Federal Government should support bringing US based publishers and key industry players to Australia to visit local studios. This could be done with the assistance of Invest Australia and Austrade
- iv) This might also involve Government sponsoring a major Roadshow or Australian event for publishers and investors to raise profile and showcase capability. This could be part of the annual Australian Game Developers' Conference or staged as a separate event.

### **9.2.2 Local Industry Development**

The following initiatives would contribute significantly to supporting local industry growth:

## **Establish Industry Database**

- i) Support establishment and maintenance of an Industry Database that provides information on:
- major game publishers and contact details (locally and globally)
  - major distributors and contact details (locally and globally)
  - key industry recruiters (locally and globally)
  - local game development and service sector companies in the game industry.

This database could be established and managed by the GDAA and would be available to the local game development industry (including service companies), Government, and educational institutions. This database would be particularly useful for new entrants to the industry looking for contacts, established companies wanting to keep up with changes across the value chain and access current recruitment support, and Government and educational institutions wanting to track industry profile.

## **Market Intelligence**

- ii) Provide funding support to the GDAA so it can collect and provide to industry, Government and educational institutions market research and data on market trends/figures, evolving business models, sales figures and data on publishers, and other relevant market information.

## **9.3 Skills and Training**

Federal Government should support the following initiatives:

### **ASSIST SKILLS AND TRAINING INITIATIVES**

- i) **Establish a national accreditation system** for game development education and training that embraces training embodied in Training Packages but also endorses Higher Education qualifications. This accreditation could be delivered by a National Skills Council similar to the UK model. The Council would comprise industry leaders with advisors from both VET and higher education. An effective Council could also focus on incubator activity as a key component of growing the industry as well as creating avenues for both trained and experienced personnel
- ii) **Support preparation of Game Industry Career Pathways Information Kit and Guidelines** that could be provided on GDAA website and as kits for schools. This would include vocational pathways for girls
- iii) **Support establishment of 'Internship Program'** in local companies
- iv) **Support targeted business development skill seminars for start-ups and growing companies** (eg contract negotiation, employment issues, effective

project management etc). These would include targeted seminars/workshops for game companies with industry specialists providing assistance

- v) **Support establishment of a Mentoring Scheme** for start-up and small companies. This would include experienced industry senior management and external experts in identified areas such as legal, finance and marketing. The Skills Council could support this activity also.

**The Australian electronic game industry has the opportunity to seize a much larger slice of the global pie, securing its role in the global market place and ensuring future industry growth that will benefit Australia economically and culturally.**

## 10. CONTACT

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