

Supporting Australian Interactive Games Developers

The electronic interactive game industry, now worth AUD\$37b globally, is rapidly gaining recognition around the world as a key part of the global entertainment industry, overtaking the film industry. Australians are avid consumers of electronic games, spending over \$2 million a day on them in 2006.

However, most people do not realise that Australia has a highly regarded and growing games development industry. The 40 companies that make up our almost entirely export-focussed industry earned some \$110m in export dollars in 2006 and employ 2,000 people across the country. Including retail, publishing and distribution, some 8,500 Australians work in the games industry.

The industry's internal growth projections estimate that employment could more than double by 2012 if effectively supported. The industry has the capability to grow to the point where it can develop and own intellectual property, rather than remaining based on fees for service provision, the earnings potential is tremendous.

The same creative talent and early adoption of special effects technologies that saw the Australian film industry boom globally, with films such as *The Matrix* and *Happy Feet* made here, could see Australian game developers become significant players in the global industry. This would benefit our terms of trade, and help point Australia in a new economic direction.

The interactive games development industry is an excellent example of an innovative, smart industry that Australia should be encouraging, while moving away from the old economic paradigm of "dig it up, cut it down and ship it overseas."

The Problem

The global games development industry is, like many other industries, becoming concentrated in fewer and larger developers. Alongside this trend, expected project budgets and technological capability are increasing significantly. This places a great deal of pressure on smaller and newer Australian players in the global market. Even the established Australian players will need support to compete effectively.

Australian games developers are not operating on a level playing field, either domestically or internationally. In the Australian domestic entertainment industry, a range of tax rebates apply to film, TV and even the special effects developers. In the 2007 Budget, Treasurer Costello announced an increase in such support, with up to 40% tax rebates for production costs of films made in Australia.

More importantly, similar rebates are offered to games developers overseas. Currently, some form of tax rebates or credits for electronic games development apply in France, Canada (Federally and in various provinces including Quebec, Ontario and Manitoba), Singapore, Hong Kong, Malaysia, Taiwan and various US States including Idaho, Georgia, New Mexico and Minnesota. Other forms of direct incentives are in place in the UK, South Korea, China and the USA.

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There are numerous examples of lost opportunities, with Australian companies losing lucrative and high profile deals because competitors in Canada or elsewhere were able to offer generous tax rebates as part of a deal. For example, the *Happy Feet* video games were made in Canada, and not Australia, even though the film was made here. This represents a significant opportunity lost, and could have seen a true, local collaboration between film and game makers. Applying the tax rebates to the games development industry would correct the market failure, allowing Australian developers to compete on a level playing field with their international competitors.

Lack of recognition and understanding of the industry is standing in the way of its expansion.

The solution

Applying to games developers a 40% production tax offset, such as is offered to the film industry, for expenditure in Australia would go a long way to helping the Australian games development industry become internationally competitive.

Although the operational details of the new rebates for film have not been finalised, these rebates operate by allowing investors to claim tax rebates for every dollar spent in Australia on particular aspects of their investment. For example, in Canada, rebate schemes across different Provinces allow investors to claim rebates for spending on research and development, labour, equipment, work that leads to the development of intellectual property, and various other investments.

The estimated cost of extending the tax rebate to the games industry depends on the uptake by the global industry. It is estimated by the Game Developers Association of Australia to cost in the order of \$5 million a year initially, which, it is hoped, would stimulate some \$20 million of investment and much more in export earnings. A higher rate of uptake, with greater costs to the government, would lead to commensurately greater investment and earnings.

The boost to the industry's viability, through both the injection of funds and the recognition of its important role, would lead to a significant increase in employment. The increased interaction with overseas talent that this policy would bring would also help plug the remaining skills gap in the Australian industry, making it more internationally competitive.

Given the increasing convergence in communications technologies and in the content provision of the entertainment industry, it is difficult to understand why Australian games developers should be left behind when other parts of the entertainment industry enjoy significant government support.