

25 September 2015

# Screen Producers Australia's submission addressing the future of Australia's video game development industry

Screen Producers Australia was formed by the screen industry to represent large and small enterprises across a diverse production slate of feature film, television, interactive and games content.

As the peak industry and trade body, we consult with a membership of more than 350 production businesses in the preparation of our submissions. This consultation is augmented by ongoing discussions with our elected Council and appointed Policy Working Group representatives. Our members employ hundreds of producers, thousands of related practitioners and drive more than \$1.7 billion worth of annual production activity from the independent sector.

On behalf of these businesses we are focused on delivering a healthy commercial environment through ongoing engagement with elements of the labour force, including directors, writers, actors and crew, as well as with broadcasters, distributors and government in all its various forms. This coordinated dialogue ensures that our industry is successful, employment levels are strong and the community's expectations of access to high quality Australian content have been met.

**Screen Producers Australia welcomes this opportunity to make this submission addressing the future of Australia's video game development industry. Our recommendations are:**

- 1. Expansion of tax incentives**
- 2. Improved export grants for small businesses**

## Contact details

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**Screen Producers Australia represents businesses characterised by their professionalism, entrepreneurial spirit and quality of output. They operate in a global media landscape that is equally characterised by its dynamism, in which technological changes are giving rise to changes in production, distribution, consumption and business models.**

In 2012, at the Screen Producers Australia's annual conference, former Arts Minister Simon Crean announced a package of \$20 million over three years for the Australian digital games industry. This support was to deliver \$5 million per annum in the first and second years, followed by \$10 million for the final year.<sup>1</sup> However, following budget cuts to Screen Australia in 2014 the program was discontinued.<sup>2</sup> This marks a missed opportunity to fully demonstrate the sector's potential.

As the Federal Government now reviews the future of Australia's video game development industry it is critical to note the extent to which games have become a dominant cultural art form over the last 30 years, both in commercial and cultural terms. To ensure that Australia can benefit from this, games developers need to be positioned in such a way to make the most of global opportunities.

With the right balance of support, these businesses will grow domestically, creating jobs that build employment pathways and retain highly transferrable skills. This, together with increasing inward investment, will ensure that this sector continues to make a significant contribution to Australia.

## **1. Expansion of tax incentives**

Screen Producers Australia would like to specifically highlight the importance of market-based mechanisms like the Producer Offset.<sup>3</sup> The Producer Offset has worked for film and television producers<sup>4</sup>, strengthening business certainty, and if broadened to include games, multiplatform and interactive production, it's benefits will be multiplied across a broader range of companies in the screen industry.

Calls to enhance tax incentives for games developers date back a number of years, including extensive economic modelling by Screen Australia in 2011.<sup>5</sup> Screen Australia's report highlighted falling foreign investment and talent retention as two key challenges in the games sector.

Screen Australia further a number of options in response: a new tax offset for stand-alone interactive entertainment titles; the expansion of the existing Producer Offset to allow for expenditure on interactive

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<sup>1</sup> Screen Australia, '\$20 million for new games fund', November 2012

([http://www.screenaustralia.gov.au/news\\_and\\_events/bulletins/SAEbulletin\\_2012/SAEbulletin\\_121115.aspx](http://www.screenaustralia.gov.au/news_and_events/bulletins/SAEbulletin_2012/SAEbulletin_121115.aspx))

<sup>2</sup> Screen Australia, 'Games program discontinued', May 2014

([https://www.screenaustralia.gov.au/news\\_and\\_events/2014/ia\\_140514\\_games.aspx](https://www.screenaustralia.gov.au/news_and_events/2014/ia_140514_games.aspx))

<sup>3</sup> Screen Australia, 'How much is the Producer Offset worth', September 2015 ([http://www.screenaustralia.gov.au/producer\\_offset/default.aspx](http://www.screenaustralia.gov.au/producer_offset/default.aspx))

<sup>4</sup> Screen Australia, 'Getting down to business: the Producer Offset five years on', November 2012

([http://www.screenaustralia.gov.au/getmedia/78f93367-41ab-495d-b456-184e5c3b9043/Rpt\\_GettingDownToBusiness.pdf](http://www.screenaustralia.gov.au/getmedia/78f93367-41ab-495d-b456-184e5c3b9043/Rpt_GettingDownToBusiness.pdf))

<sup>5</sup> Playing for keeps: enhancing sustainability in Australia's interactive entertainment industry, November 2011

([http://www.screenaustralia.gov.au/getmedia/b53764a8-3c5c-42d5-8f05-a2586f33acda/GamesReport\\_PlayingforKeeps.pdf](http://www.screenaustralia.gov.au/getmedia/b53764a8-3c5c-42d5-8f05-a2586f33acda/GamesReport_PlayingforKeeps.pdf))

components of drama and documentary screen content; and, an online production fund providing direct investment in premium original content, including games, for online delivery.

The \$20 million package in 2012 was used to establish the production fund, providing valuable assistance to a number of businesses through enterprise and project support. However, it did not address falling foreign investment in the way an internationally competitive tax incentive can.

The PwC modelling indicated that over a five-year period there would be an additional investment in the interactive entertainment industry of \$146 million, of which \$100 million would come from foreign sources. This would result in an additional contribution of \$76 million to Australia's Gross Domestic Product.<sup>6</sup>

The criteria of the tax incentives would need to be carefully considered to ensure there are appropriate eligibility tests and thresholds of qualifying expenditure that are suitable for games developers.

Furthermore, consideration may also need to be given to the intersection of the Research and Development Tax Credit.

Notwithstanding these administrative considerations, Screen Producers Australia believes that enhanced tax incentives will provide a clear path to grow the scale of projects, improve business confidence and increase employment in Australia's game development sector.

## **2. Improved export grants for small business**

Business confidence has never been more reliant on the global marketplace with distribution barriers continuing to breakdown.<sup>7</sup> Enabling more small businesses to benefit from export grants is part of a multifaceted approach to attract inward investment alongside tax incentives.

The Export Market Development Grant (EMDG) scheme greatly assists the screen industry to penetrate markets and achieve sales. This increases employment and most importantly, facilitates innovation through matching Australian exporters knowledge and expertise against the world's best practice.

Screen Producers Australia outlined a number of recommendations in a submission to the 2015 review of the EMDG scheme.<sup>8</sup> The value of business clustering and certainty of payment need to be reiterated in the context of this current review.

Only approved bodies, such as Screen Producers Australia, can claim the EMDG in respect to promotion on behalf of a collective. Consideration should be given to recognising business clusters as a type of applicant. A broadening of the current approved joint venture provisions to allow claims by an approved business cluster would be highly beneficial to the sharing of knowledge amongst cluster members, with a consequent improvement in their innovation and export market development.

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<sup>6</sup> Playing for keeps: enhancing sustainability in Australia's interactive entertainment industry, November 2011 ([http://www.screenaustralia.gov.au/getmedia/b53764a8-3c5c-42d5-8f05-a2586f33acda/GamesReport\\_PlayingforKeeps.pdf](http://www.screenaustralia.gov.au/getmedia/b53764a8-3c5c-42d5-8f05-a2586f33acda/GamesReport_PlayingforKeeps.pdf))

<sup>7</sup> Screen Producers Australia, 'Roadshow Presentation', April 2014 (<http://screenproducersaustralia.org.au/assets/Uploads/2014-Roadshow-Pres-PUBLIC2.pdf>)

<sup>8</sup> Screen Producers Australia, 'Submission to the review of the Export Market Development Grants Scheme', March 2015 (<http://screenproducersaustralia.org.au/assets/Uploads/SPA-emd-g-FINAL100315.pdf>)

This would be particularly beneficial for games developers as there is a high proportion of small entities unable to meet the required threshold. Alternatively, the ability for small entities to claim their expenses through an approved body should be permitted. We note there has been extensive research into the role of clustering in assisting industries to identify opportunities for growth.<sup>9</sup>

Furthermore, one of the major problems with the EMDG scheme is that when the Australian exporter incurs an export promotion expense, there is no certainty as to the level of rebate they will obtain. This is because there is a two-tranche payment system.

Currently, applicants who receive the maximum rebate receive a payment of up to \$60,000 initially, but then have to wait to following June to know whether they will receive a second payment. Therefore, a business may undertake export promotion in August 2015 and the second tranche rebate will not be received until June 2017. Furthermore, the other key difficulty is that the first tranche guaranteed payment is not announced until the July following the financial year in which the expense was incurred.

The problem with a retrospective announcement of the first tranche is that in essence, no applicant knows whether a particular expense will receive a rebate at the time it incurs the expense. As the first tranche has varied from \$27,500 in 2009/10 to the current \$60,000, this uncertainty can negatively impact decisions to commit additional funds to export promotion.

Consideration should be given to adjusting this flaw in the EMDG scheme as it weakens the aim of encouraging applicants to increase the level of their export promotion. Previously, the EMDG scheme paid the full grant entitlement upon determination of the application. This should be reinstated if the scheme is to reach its full potential.

**In summary, Screen Producers Australia believes an export focused screen industry that can tap into international markets with the financing certainty of competitive tax incentives and the promotional assistance of the EMDG scheme, is crucial for games developers to reach their creative and commercial potential.**

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<sup>9</sup> Ian Marsh and Brendan Shaw, 'Australia wine industry: collaboration and learning as causes of competitive success, May 2000 (<http://www.nswbusinesschamber.com.au/NSWBC/media/Misc/Ask%20Us%20How/Australias-Wine-Industry.pdf>)