

17 January 2022

Budget Policy Division
Department of the Treasury
Langton Crescent
Parkes ACT 2600

Pre-Budget Submission (2021-2022)

The Interactive Games & Entertainment Association (IGEA) is the peak industry association representing and advocating for the video games industry in Australia, including the developers, publishers, and distributors of video games. We also manage The Arcade in South Melbourne, Australia's first, not-for-profit, collaborative workspace created for game developers and creative companies that use game design and technologies. IGEA is also known for organising the Game Connect Asia Pacific (GCAP) conference for Australian game developers, and the Australian Game Developer Awards (AGDAs) celebrating the best Australian games of the year.

The industry we represent continues to experience record growth globally. The result of the COVID pandemic inspired millions of people to engage or re-engage with playing video games. Research company Newzoo estimates that in 2020 the market generated \$244.4 billion, up 23.1% year on year, the highest growth since it began tracking revenues in 2012.¹ While comprehensive numbers for 2021 are not yet readily available, first reports indicate that the record trend of 2020 continued into last year. Analytics company App Annie reports that worldwide consumer spending on mobile games alone reached close to \$160 billion in 2021.² This figure represents an increase of 15% year-over-year compared to 2020. Globally, the market will continue to grow with a CAGR (2019 to 2024) of +8.7% to reach US\$218.7 billion in 2024, passing the coveted US\$200-billion threshold in 2023.³ In Australia, between FY2016 and FY2021, revenue has almost doubled for the local industry. The last three years have seen year on year growth of over 20%.⁴

Key points

- Video games are the world's fastest growing creative industry, the global market has expanded 20% since COVID alone and is worth \$250+ billion annually.
- We welcome the government's forward-looking move of committing to a Digital Games Tax Offset (DGTO) as it will attract billions in investment and growth over the coming decade to create an industry that by 2030 that can employ 10,000 full-time workers and earn \$1 billion a year.
- However, the funding ecosystem is still missing a crucial component: We advocate for a competitive funding program for game development by supporting independent studios that do *not* meet minimum expenditure thresholds. It would involve funding of \$5 million a year for four years and would be administered by Screen Australia.
- Direct funding will be highly effective in attracting investment, creating skilled full-time future-proof jobs, and generating export-generating projects that will aid Australia's post-COVID recovery.

¹ <https://whitepapers.gamesindustry.biz/gibiz-whitepaper-2021-console-market>

² <https://www.gamesindustry.biz/articles/2022-01-11-app-annie-mobile-games-consumer-spending-in-2021-was-usd116b>

³ <https://whitepapers.gamesindustry.biz/gibiz-whitepaper-2021-console-market>

⁴ <https://igea.net/wp-content/uploads/2021/12/IGEA-AGD-Survey-Report-2021-22-Final.pdf>

With a view to these highly positive developments, we would like to congratulate the government on its landmark decision to commit to a federal tax offset for the Australian video games industry. This forward-looking move has created the conditions for the local sector to emerge as a serious global player. We expect the Digital Games Tax Offset announced in 2021 to fully unlock the potential of a significant part of the Australian sector and accelerate growth beyond global rates to an AUD\$1 billion industry over the course of the next ten years. The initiative has already enhanced investor confidence: within the short timeframe between its announcement and this submission, Australian studios have attracted publicly disclosed investments of up to AU\$320m and signed contracts with a range of prestigious global publishers.⁵

However, above all, investors value certainty. This highlights the need for a well-designed, transparent scheme, and we encourage the government to release exposure draft legislation as soon as possible for consultation. Any insights into the final form of the program will further enhance investor confidence and help to further promote Australia as one of the best destinations in the world for video game development.

Most importantly, however, a crucial part of the funding ecosystem is still missing. To complete it, we recommend the introduction of a competitive funding program for game development by supporting independent studios that may not meet minimum expenditure thresholds. Currently, smaller developers, constituting the majority of Australian studios in terms of sheer numbers, lack access to direct assistance for games production.

Like budding film and TV producers, game developers have difficulties obtaining financing through traditional capital markets (like banks), creating products, and reaching audiences. Direct funding will address this and ensure the success of smaller studios, helping them transition into medium to larger studios.

Australia's most successful game of 2021 is a great example: *Unpacking* won the Game of the Year at the Australian Game Developer Awards (AGDAs), was featured in numerous best games of 2021 lists, and was recognised as Game of the Year by Eurogamer.⁶ Since its release in November, it has sold more than 100,000 copies, the vast majority of which is export income.⁷ However, with a budget of less than AU\$500,000, it would not have been eligible for tax rebates under the current scheme.

Accordingly, we advocate for a direct funding program that would involve funding of \$5 million a year for four years and would be administered by Screen Australia. While not insignificant, this level of funding would only represent a small proportion of the total federal funding given annually to the rest of the screen sector. Each dollar of support invested in the world's fastest-growing creative industry will aid the creation and retention of original IP, provide a source of financing to facilitate the development of innovative titles, and assist developers in increasing the ambition and quality of their games. As such, this funding will be highly effective in attracting investment, creating skilled full-time jobs, and generating export-generating projects that will help to stem COVID's profound and lasting impact on Australia's economy.

To complement this approach, funding would support wider business strategies such as the marketing and release of games, travel to industry events, porting titles to different platforms, commercialising middleware, expanding staff, internships, training or enhancing business skills.

Such grassroots incentives create a virtuous cycle of talent accumulation that will increase the effectiveness of tax offsets and retain highly mobile talent in a borderless industry. We are confident that each dollar of

⁵ <https://www.animocabrands.com/acquires-indie-game-developer-blowfish-studios>
<https://www.businessnewsaustralia.com/articles/nft-technology-company-immutable-locks-in-82m-series-b.html>
<https://www.gamesindustry.biz/articles/2021-11-08-mod-io-raises-usd26m-in-series-a-funding>
<https://www.keywordsstudios.com/keywords-strengthens-service-offerings-and-australian-presence-in-latest-acquisitions/>
<https://www.dealstreetasia.com/stories/icandy-animoca-lemon-sky-270808/>
<https://www.gamesindustry.biz/articles/2021-11-02-roblox-devs-splash-raises-usd20m-in-series-a>
<https://www.gamesindustry.biz/articles/2022-01-06-team-17-acquires-hell-let-loose-ip-and-indie-publisher-the-label>
⁶ <https://www.eurogamer.net/articles/2021-12-30-eurogamers-game-of-the-year-is>
⁷ <https://www.nintendolife.com/news/2021/12/indie-hit-unpacking-sold-over-100k-units-in-just-10-days>

funding would at least be paid back in full via increased tax receipts, and almost certainly much more. In fact, previous programs of similar nature speak to the success of this approach: Studios ended up paying back more than ten times the value of the support they received from the fund through increased income taxes they were able to generate via successful titles (which only came about because of the funding support).

We encourage the government to complete the funding cycle to establish a solid future-proof foundation for the Australian games industry – and help create the next *Unpacking* in the process.

With regards,

A handwritten signature in black ink, appearing to read 'Ron Curry', with a long, sweeping flourish extending to the right.

Ron Curry
CEO