Film Inquiry

Submission No. 37

AUSTRADE
AUSTRALIAN TRADE COMMISSION

SUBMISSION TO

THE HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS

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

June 2003

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EXECUTIVE SUMMARY

As the Australian Government's export facilitation agency, Austrade has a strong interest in promoting opportunities and facilitating Australian businesses wishing to enter international markets in the industries specified in the inquiry terms of reference.

The Australian film industry has grown rapidly in recent years with a total value now approaching $1 billion per annum. Most of the increase has occurred through co-productions or by foreign productions in Australia. Federal Government assistance is crucial to continued growth.

There is significant economic benefit to Australia of attracting filming and post production of US generated film. Australia has a number of key competitive advantages as a preferred location for offshore productions. However, there are suggestions in the film industry that unless tax offset provisions for films are extended to television productions the Australian industry will shrink dramatically. Other industry concerns include the shortage of broadband in Australia.

Austrade sees a number of challenges and opportunities in relation to film industry exports including: awareness raising about Australian capabilities; identifying opportunities and providing this information to the relevant sector; promotion programs; tax incentives; training; engaging industry bodies and continuing the role of AusFilm, the AFC, and continued development of specialist production facilities.

The electronic games market is large and still growing rapidly. It is one of the few areas of the ICT industry currently experiencing a boom. The industry has become mainstream in its market appeal and its sales have now exceeded total movie box office receipts in the US for two years in succession. Since 1996, the Australian electronic games industry has expanded from 6 companies to more than 50. Export sales of Australian developed games were worth an estimated A$100 million in 2002.

Given the dominance of multinational hardware companies producing proprietary systems, Australia's capabilities are almost exclusively in the sofware side of the industry. Australian software developers typically supply games to the large multinational publishers based primarily in the US, Europe and Japan, with some having Australian subsidiaries. Funding is one of the biggest hurdles that Australian developers face, given the high cost of hardware and labour that are required to produce today's technically advanced games.

Future growth in the industry is predicted to come in the wireless/handheld and online areas. Convergence with film and television is also occurring in the areas of content, with games based on films and films based on games. The techniques originally developed for computer games becoming an integral technique for many films. Given the Australian film industry's relatively advanced state of development, convergence presents opportunities to the game sector.

Australia's electronic games industry has a number of competitive advantages including: comparatively low development costs; a high skill level; succesful linkages with publishers; availability of quality post production and support services;

and government support. Impediments to development include funding issues and availability and pricing of broadband access.

Austrade has extensive contact with businesses in the industries covered in the terms of reference. This submission provides some relevant company profiles for the Committee with a view to informing the Committee about some of the opportunities, rewards and challenges faced by Australian exporters in these industries.

The submission also highlights Austrade administered programs and initiatives which are available to assist businesses in the industries under consideration. These include the Export Market Development Grants (EMDG) scheme, the New Exporter Development Program (NEDP), the TradeStart network and Austrade's extensive overseas network.

Austrade is also involved in initiatives with other agencies which are assisting the industries referred to. These include funding and support a Film Commissioner based in Los Angeles in conjunction with AusFilm and co-chairing the Information and Communications Technology Events Committee.

Austrade also has a whole of government role as the lead agency in implementing the Government's strategy to double the number of exporters by 2006. This strategy is particularly relevant to the industries covered in the terms of reference, as it deliberately targets small to meduim sized businesses, particularly in the ICT sector, encouraging them to enter international markets.

INTRODUCTION

The House of Representatives Standing Committee on Communications, Information Technology and the Arts has been asked by the Minister for Communications, Information Technology and the Arts, Senator the Hon Richard Alston, to conduct an inquiry into the future opportunities for Australia's film, animation, special effects and electronic games industries.

Terms of reference

The Committee invites submissions that address any or all the following terms of reference:

(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) 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.

FILM ANIMATION AND SPECIAL EFFECTS INDUSTRIES

General statement of government position from Australia Council for the Arts

"Australia's current arts and cultural policies aim to encourage the creation, production and distribution of Australian cultural outputs and can be grouped into the following 'tools':

- Funding programs and financial incentives;
- Local content requirements and other regulatory support mechanisms;
- Tax measures;
- Foreign investment and ownership regulation;

- Measures to protect intellectual property."

Industry statistics

Sector	No of Employing Businesses	Turnover AU$ mill	Employment	Exports A$ mill	Wages A$ mill
Film & Video	1945	1632.0	15,835	73.0	419.0

1. These businesses employ about 9,500 people, 60 per cent full time.
2. Approximately 55 per cent of the total value of their production activity is the making of productions specifically for television.
3. Making feature films accounts for 20 per cent of their activity and another 20 per cent is the production of commercials and advertisements.

Industry trends

The industry has been growing rapidly in recent years: the increase recorded in the three years 1997 to 2000 was 58 per cent, and in the previous three years to 1997 the number of production businesses increased by 70 per cent (possibly due to the arrival of pay TV in 1995).

For 2000-2001, the total value of film production was A$861 million, of which 71 per cent (A$608 million) was spent in Australia. There were 67 Australian productions equating to a value of A$319 million, eight co-productions valued at A$192 million and 21 foreign productions valued at A$350 million. While the total value of productions increased strongly, most of this increase occurred with co-productions or by foreign productions in Australia.

IBIS estimates that this industry will grow at an annual average rate of 10% from 1999-00 to 2004-05, mainly due to the continued assistance provided by the Federal Government (http://www.ibisworld.com.au/).

As the trend of vertically integrating the production and distribution aspects of the industry develops, the structure of the Australian industry will become similar to the overseas model, where market power is concentrated in a small number of production companies which have a wide network of distribution links.

A reduction in movie making costs is occurring due to the use of digital technology which it is projected will eventually halve film production costs.

Export activity sales and trends and potentials

There is significant economic benefit to Australia of attracting filming and post production of US generated film – Australian businesses receive flow-ons from association with US film making in Australia – post production, set makes, electricians, accommodation, catering, transport etc.

Australia is continuing to see growth as a location for foreign filmmakers – USA, India, Thailand, Vietnam. However, this growth is heavily affected by tax issues, incentives and the strength of the Australian dollar against US dollar. The same issues apply to Australia as a post production site.

There appears to be a trend of reduction in Australia exporting finished film to international markets in favour of being a location and post production site for US films.

Key Competitive Advantages

The continuing trend has been for Australia to become the preferred location for offshore productions. New facilities opening in NSW offer more hope that this trend may continue. In part, this development has occurred because Australia has had:

- A cost-competitive environment costing, on average, 30 per cent lower than productions in the USA;
- Good locations for various film genres - including 'ethnic' neighbourhoods, city-scapes, rugged outback, 'European' villages, industrial plants, vineyards and coastlines;
- A sophisticated film infrastructure, with the largest purpose-built studio complex (Fox Studios Australia) and the most comprehensive film lab in the southern hemisphere. Major production houses provide complete post-production packages including editorial staff, PAL/NTSC video formatting, sound/mixing stages, equipment/facilities, freight, logistical services and financial monitoring. The capacity in this area is expanding with the new facilities opening in NSW;
- World class post-production, visual effects and sound facilities;
- 'Reverse' seasons and time zones, which complement the northern hemisphere's 'shooting' schedule;
- A strong record on technological innovation, particularly in transforming traditional industry supply chains – for example, post-production is now non-linear, digital and computer-based, with new technologies for business-to-business 'exchanges' and the potential for digital distribution via satellite;
- Forming of value-adding consortia to bid and win export work in the post-production sector;
- Crews with professional, world best practice standards. All major film events, including the Cannes International Film Festival and the American Academy Awards, have recognised Australia's creative and technical talent, and many award-winning international television commercials are filmed and post-produced in Australia;
- Support from the Federal Government through agencies like the Department of Communications, Information Technology and the Arts, the Australian Film Commission, the Australian Film Finance Corporation, Austrade and state film offices. The Australian Tax Office also administers film-specific taxation incentives; and
- Numerous official international co-production partners.

Export markets

The biggest market is USA with US produced films being made in Australia – filmed on location here and post produced here. There have been some dealings with other film markets such as Japan, and a new push into the UK. India is considered problematic by the Australian industry. Interest has also been shown (through Austrade) from Vietnam for locations and production technologies.

Export sales and market trends

For 2000-01, the total value of film production was A$861 million, of which 71 per cent (A$608 million) was spent in Australia. There were 67 Australian productions equating to a value of A$319 million, eight co-productions valued at A$192 million and 21 foreign productions valued at A$350 million. While the total value of productions increased strongly, most of this increase occurred with co-productions or by foreign productions in Australia.

Current government policy/assistance

In the Australian audiovisual industry, the Commonwealth government has established a number of measures of support, including:

- Direct subsidy through the Australian Film Commission (AFC), the Film Finance Corporation (FFC), Film Australia Limited (FAL) and the Australian Children's Television Foundation;
- Indirect support through taxation concessions for investment in feature films, television mini-series and documentaries ;
- Australian content rules under the Broadcasting Services Act for both free-to-air commercial television and pay television;
- Regulation of temporary entry of non-Australian residents into the Australian entertainment industry;
- International co-production arrangements;
- Rules governing foreign ownership of media;
- Cross-media ownership rules;
- Funding for national broadcasters: Australian Broadcasting Corporation (ABC) and Special Broadcasting Service (SBS);
- Direct support for training through the Australian Film, Television and Radio School; and
- Support for preservation of Australia's audiovisual culture through the National Film and Sound Archive.

These support measures for the audiovisual sector are similar to those in operation in many other countries.

Specialist developments

There are a number of new initiatives now developing including a project called "X|Media|Lab" the aim of which is to develop an integrated approach to film, animation and special effects. It is based on work relating to new film technologies coming from the US that has been very successful.

The project tries to have people working in this broad area develop productive and cooperative working methodologies, focussing on "streaming" and new technologies. (ref http://www.xmedialab.com.au/xmedialab.html). This is an example of how industries/sectors could be working together - ICT in conjunction with film, animation, video etc.

There is still a divide between "content" and "technology" that needs to be overcome. Content often comes from "creators" – ie artists, film makers, etc and "technology" is often in the hands of technical specialists, and often the two do not get together. The X/media/lab project is one that is seeking to break down these barriers. There are some opportunities for artists and technical people to work together but there could be more. Cost advantages will not continue to win Australia the business – we need to be at the leading edge with content and creativity. Integration between technology specialists, universities, workshops/laboratories and creative artists is essential.

Challenges and Opportunities

Some challenges facing the industry include:

- Concern as to whether tertiary colleges will continue offering courses that lead to developments in film, animation, special effects and electronic games? – "expert centres of learning".
- The need for an ongoing industry "Think Tank" to recognise trends and future areas for development and support. Industry forums could be used to alert Austrade about present and coming issues which Austrade could take into account in arranging export promotion and facilitation for the industry.
- Some in the industry have proposed that the tax offset provisions for large budget feature films should be extended to include TV films. The suggested impact, if this extension does not occur, is that Australia may lose many television film productions to other countries. Ausfilm suggests that the industry would be 10% of current size in 10 years if this change does not occur.
- Recent evidence suggests that the flow on from international films is not benefiting the local community, and that commercial TV networks have stopped film production in line with the demise of the Commercial TV Finance Fund. (Source: IBIS 2003, www.ibisworld.com.au).
- The shortage of broadband access is a limiting factor to development opportunities, especially international exchange. Lack of broadband would impede companies sending finished work back and forwards over the internet.

From an Austrade/export perspective, challenges and opportunities include:

- Awareness raising in the international market about Australian capabilities.
- How Austrade staff can be trained to continue to recognise and capture opportunities for these sectors and pass them on in a timely and comprehensive way.
- How might the strategy to double the number of exporters effect these sectors, especially given projections of convergence of the film industry into a small number of major players. The combination of a growing sector but fewer players provides a challenge in the context of efforts to double the number of exporters. There is a need to identify where new exporters will come from, whether new markets for the film industry should be explored, and within this challenge a question as to what Austrade's role should and can be in these circumstances.
- Promotion programs of Australia as the best location, and best place for post production.
- A greater role for industry bodies in relation to export readiness development for businesses would help Austrade to work with more export ready businesses, and have the most impact from available resources.
- Continuing the specialist film export role of AusFilm which Austrade views as crucial to success in this sector. Ausfilm has been very successful in its focus on the US markets and is now moving to incorporate other markets – expansion of this scheme with Austrade to other markets could be beneficial.
- Continuing the international awareness raising and maintenance role of the Australian Film Corporation (AFC) through the film "roadshow" project funded by the Australian International Cultural Commission (AICC) and in addition making enhanced links between this promotion – that is between recognising opportunities for film export – and the AusFilm export role.
- Continued development of specialist production facilities (eg water stages for under water filming) – these add to the attraction of Australia for film production and post-production.

ELECTRONIC GAMES INDUSTRY

The global electronic games market is large and is still growing rapidly "the market grew by 10% last year [2001], and is expected to grow by 15-25% a year until 2006" (The Economist, June 22, 2002)– a characteristic which sets the sector apart from many other areas of the ICT industry.

Far from being the sole domain of adolescent males, the industry is now mainstream: "According to a survey carried out by the Interactive Digital Software Association, 60% of Americans play games, either on consoles, handheld devices or PCs. Of those gamers, 61% are adults; 43% are women; and the average age is 28. Figures from Europe and Japan tell a similar story." (The Economist, June 22, 2002)

This is also reflected in production costs and sales turnover. Video games can cost several millions of dollars to produce and the most successful games can generate revenues to rival Hollywood movies.

In 2002, US sales of games hardware, software and accessories totalled $US 10.3 billion (NPD Funworld – cited in Philadelphia Inquirer, 30 Jan 2003) - exceeding total movie box office receipts of $US 9.3 billion (Exhibitor Relations - cited in Philadelphia Inquirer, 30 Jan 2003). This is now the second year in a row electronic game sales have surpassed box office receipts.

"Australians spent a total of A$825 million in 2002 on games and games equipment, an increase of 39 per cent on 2001. Recent research found that Australians now spend about A$2.3 million a day on interactive computer games – about the same as is spent on cinema." (Invest Australia 2003)

The industry is important to Australia, particularly the games software development sector. "From a base of six companies in 1996, the industry has expanded to more than 50 companies, with a thriving mix of local developers and multinational corporations." The export sales of Australian developed games were worth an estimated A$100 million in 2002 (Invest Australia 2003).

Success in this industry also complements Australia's film and associated industries – a trend which will continue to grow as the two mediums further converge.

Scope

The scope of this industry covers producers of hardware and software for playing electronic games. Hardware types include PCs, consoles (PlayStation2, Xbox, GameCube), handheld devices (Game Boy - colour and advanced, mobile phones and PDAs) and peripherals for these platforms. Software is disseminated mostly via CD/DVD-ROM, but online and wireless delivery channels are increasing in importance.

Given the dominance of multinational hardware companies producing proprietary systems (ie the big PC manufacturers, Microsoft, Sony, Nintendo, and Nokia); Australia's capabilities are almost exclusively in the software side of the industry.

Current Industry Situation

Industry Structure

The electronic game value chain consists of :

- Publishers (who originate and fund most projects);
- Developers (who build them);
- Pre- and post-production houses (which provide additional creative services);
- Consultants;
- Distributors; and
- Retailers

(Source: Multimedia Victoria, 2003)

Publishers are all large multinationals, primarily based in the USA, Europe and Japan. Several of these publishers have Australian operations. The main locations of publishers, in order, are:

1. USA
2. Japan
3. France
4. Britain

The USA market includes the largest publishers by market share, but the French and Japanese markets are also significant. "Five of the world's fifteen independent game publishers in 2000 were French and five were Japanese." (Multimedia Victoria, 2003)

Some of the publishers have been established by or are owned by film and music production companies (LucasArts Entertainment, MGM interactive, Disney Interactive, Vivendi Universal Games, Fox Interactive), some are owned by current and former hardware manufacturers (Microsoft, Sony Computer Entertainment, Nintendo, Sega), whilst other are stand-alone game publishing houses (Electronic Arts and others).

As well as commissioning outside developers to produce games, many publishers also have in-house development arms. In Australia, there is currently a core group of around 50-60 companies who supply games to the large publishers. The high costs of developing games for today's advanced platforms mean that developers usually need to obtain outside funding prior to developing a game.

Australian developers engage in two ways with publishers: producing original game concepts then seeking a publisher to fund and publish the project; or being commissioned by a publisher to produce a game to certain specifications based on the publishers concept (which may be a franchise such as Jurassic Park or Men In Black).

Funding is one of the biggest obstacles that Australian developers face, given the high cost of hardware and labour that are required to produce today's technically sophisticated games. In a similar way to the book industry, publishers can give developers an "advance" on the future game royalties – but this would rarely cover all of the development costs.

As well as developing games, some companies develop games software design engines. These are the middleware programs used by developers to either design or run the game. They might be an engine to handle the 3D animation, or an engine to manage the events and artificial intelligence in a game. BigWorld is one such Australian company which produces middleware technology for Massively Multiplayer Online Gaming.

There are also companies that are service providers to the developers – these companies provide services such as post-production, motion capture, quality testing etc. Given the amount of real life footage, and the advanced levels of sound used in software for second-generation consoles, many of the Pre- and Post-production houses that service game developers are the same companies that service the film industry.

Alongside traditional channels, an emerging new distribution channel is online delivery. Whilst at the moment most games are sold in retail outlets, and the only software commonly downloaded from the internet are demonstration games and patches, downloads will expand as broadband access spreads and online games grow.

High Overall Growth

The games industry has seen strong consumer hardware sales, and significant growth in software sales –Video games sales in the US grew at 10% in 2002 and 12 % in 2001 (Philadelphia Inquirer, 30 January 2003). The Japanese games software market however is at a saturated level, and has been declining since its peak of 580 billion yen (AUD $6.5 billion) in 1997 (Nikkei Weekly (Japan) 29 July 2002). Overall though, growth worldwide has been strong, and the next generation of consoles will likely spur another surge in games sales. These characteristics distinguish the games sector from many other areas of the ICT industry.

Technical Platforms

Consoles vs. PCs

Consoles are specialised games computers which are designed to play DVD-Rom format games – specifically only those licensed by the manufacturer. They are connected to play through televisions. The two main consoles, the Sony PlayStation2 and Microsoft Xbox, are capable of online gaming.

Since its launch in late 2000, the Sony PlayStation2 has dominated the console market. Microsoft Xbox and Nintendo GameCube entered the market later, towards the end of 2001. Due to their late entry, a lack of "must-have" software titles, and a smaller range of software titles overall, the Microsoft and Nintendo consoles have failed to mount a serious challenge to Sony's position despite competitive pricing.

To date, Sony reports having sold 50.3 million units of the PlayStation2, Microsoft has sold 8 million units of the Xbox. Whilst Nintendo does not release sales figures, it is believed to have sold 8 million game cubes to date. On 2002 sales, Sony held 60% of the market, Microsoft 23% and Nintendo came 17% of the market. (Philadelphia Inquirer, 30 January 2003)

It is difficult to determine exactly how many PCs are used for the purposes of gaming. All PCs can be used for some kinds of computer games, although the more advanced games with 3D graphics require PCs with high-end processor chips and graphics cards. Sales of software give a point of comparison between the relative size of the PC and console segments of the market.

NPD Funworld report that in 2001 141.5 million units of video (console and handheld) games were sold (value US$4.6 billion), as opposed to 83.6 million units of computer (PC) games (value US$1.75 billion). Also, unit sales of video games grew at 8.3% from 2000 whilst unit sales of computer games fell by 1.5%. (NPD FunWorld cited in Essential Facts about the Computer and Video Game Industry, IDSA, 2002).

Handheld

Currently, the handheld market is dominated by Nintendo with its GameBoy Advance system. Nintendo have sold 11.7 million units to date in the US alone. The position of dominance will be increasingly challenged in the near future by advanced mobile phones (such as Nokia's N-Gage), and PDAs – particularly if wireless gaming takes off.

Future Trends and growth areas

Platform issues

Wireless and handheld gaming

Wireless gaming is where players use 2.5 and 3G mobile phones and Personal Digital Assistants (PDAs) to play games against other people on a wireless network. It is forecast to be a major area of growth for the future – and could prove to be a significant revenue generator for telecommunications providers by increasing demand for downloads.

Ovum (an independent research and consulting company offering advice on IT, telecoms, e-commerce, and data) estimates wireless and handheld gaming will be worth US$4.3 billion by 2006, is also poised for strong growth in Australia on the back of high mobile phone adoption rates. (Invest Australia, 2003)

Games for 2.5G and 3G mobile phones (excluding phones such as the NGage) are technologically simpler than console games, due to the limited computing power and small screen size of the devices.

These limitations mean that the games are cheaper to develop, and so may not require the massive funding only a publisher could provide. The limitations also mean that games in this area will have to rely on innovative concepts and great game play rather than impressive graphics or other gimmicks.

This may mean that it may be possible for Australian developers to sell games directly to mobile phone manufacturers or mobile carriers for mobile wireless devices. This could be a potential opportunity for Australian developers.

Console life cycle and implications for software demand

In the current environment, successful games consoles have a product life cycle of around five years. For example, the original Sony PlayStation was launched in 1995, the PlayStation2 in 2000, and the PlayStation3 is reportedly due for a 2005 release.

This cycle means that hardware sales fall in the lead up to the release of the next generation console. It also means that whilst software releases and sales can be slow in the initial period following the release, (as developers learn the parameters and capabilities of the new hardware) this early phase is then followed by a boom in sales as console sales rise and the quality of games increase. As stated in The Economist there is "one advantage: the games business is, in effect, isolated from the broader economic cycle". (The Economist, 22 June 2002)

Online gaming

Online gaming is still in a relatively early stage, and so this segment of the games market is still developing.

The advantages of online games are that for the service providers, the publishers and the developers, they provide ongoing income streams, as opposed to the one off revenues from traditional software sales.

Furthermore, the margins on online games are very high – Sony's margins on online gaming are 65-70% [Nick Gibson of Durlacher Research (The Economist, 22 June 2002)].

Massively Multiplayer Online Games (MMOG)

Massively Multiplayer Online Games (MMOG) are games played on PCs where the game play takes place online in a virtual world populated by many other game players as well as computer controlled characters.

In some of these games there are as many as several hundred thousand players, and players maintain the same characters for extended periods – even for many years. Unlike traditional games where game-play is based around achievement of very specific short term goals, game-play in MMOGs is usually based around long term accumulation of skills, wealth, and status.

As well as the regular development costs, the online world requires significant maintenance and administration by the game's publisher – both from a game-play and a technical perspective. Hence there is usually a small initial fee along with a regular subscription fee (on top of regular ISP charges). These games generate ongoing revenue streams.

New online console gaming

Sony and Microsoft have recently launched online gaming in the USA for their consoles, the PlayStation2 and Xbox. They are due to release the service in Australia toward the end of 2003. The two companies have adopted slightly different business models for online gaming, with Microsoft bundling the required broadband access with gaming subscription fees in a complete package, whilst Sony leaves broadband access to the consumer's choice of ISP.

As with MMOG, new games made specifically for online gaming are required for this new arena. Whilst this presents new opportunities as Sony and Microsoft seek to encourage new content for online gaming, online games are technically advanced and resource intensive for developers and publishers.

Perhaps the biggest obstacle to take-up of online gaming is the low penetration of broadband access. This is a problem for the US who, whilst ranking fourth in the world, still only had a broadband penetration rate of 3.21 per one hundred inhabitants in June 2001, and will also prove to be a problem in Australia, as we have broadband penetration of just 0.58 per one hundred inhabitants (OECD, 2001). Reportedly "most observers do not expect a boom in online gaming until the next console cycle, starting in 2005" (The Economist, 22 June 2002).

LAN Gaming

Another more established area of online gaming is LAN (Local Area Network) Gaming, where a PC game is played with (and against) other players on networked computers. These games tend to be "first person shooter" or action games.

Some of the games in this genre are now designed specifically with LAN game playing in mind. LAN gaming has also created a mini industry for companies to provide the networks on a fee paying basis – often internet café's with high end machines, or temporary LANs established in large halls.

Convergence with film/television etc

Convergence between the film and the games industry is taking place in two main ways:

- Content – "Game based on films are commonplace, and films based on games are no longer rare (Final Fantasy, Mortal Kombat, Resident Evil...Tomb Raider). (p11, MMV, 2003)" Furthermore films and games such as Lord of the Rings: Two Towers and the Matrix 2 were developed and shot concurrently "to ensure that the characters, storyline and art direction (look and feel) of the two products are consistent." (p11, MMV, 2003)

- Techniques – 3D Computer animation technology is now an integral technique used in many films. Many feature length films (ie Final Fantasy, Toy Story, Shrek, Monsters Inc), are now made solely using 3D computer animation. On the game side, many games use real actors and motion capture technology to create life-like 3D animation. Many games also use actors for dialogue in games. Grand Theft Auto: Vice City, one of the all time best selling games for the PlayStation2 uses the voices of Hollywood actors Ray Liotta, Dennis Hopper, Burt Reynolds and others.

Given that the Australian film industry is in a more advanced stage of development relative to the games industry, this convergence presents opportunities for the Australian games industry.

Advanced film studios such as Fox Studios Australia and Melbourne's forthcoming Docklands Studio can provide the technology and infrastructure needed for motion capture and voice recording. For example, The Matrix sequels, filmed in Australia, used motion capture technology to collect the images and data to be used in animation for both the movies and the games.

Competitive Advantages of Australian Industry

Low development costs comparative to US

As with other areas of the ICT sector, one of Australia's principle advantages in the games sector is that the development costs in Australia are low relative to the USA. This is primarily due to the exchange rate differential and wage differences.

Experience in other areas of the sector should serve as a warning that Australia cannot compete on cost alone. Developers in India and China offer a far cheaper alternative, and although they may not currently have the requisite advanced skill levels in the area of 3D animation this could be acquired quite rapidly.

As a result, the cost differential with the USA is only an advantage if it is in conjunction with world-class creative talent and innovative game concepts.

High skill level

Over 650 full-time artists, designers and producers are already employed in the industry, and the Game Developers Association of Australia forecasts this could reach 2,000 within five years as local studios continue to expand their share of the global market.

Drawing on Australia's multicultural and multilingual employment base, games developed in Australia have a uniqueness that appeals across all cultures. Australia also has a strong base of complementary creative industries, including advertising, design, entertainment, film and media.

Quality university courses, and vocational education and training ensure this talent supply will continue to meet market needs into the future. Charles Sturt University, Griffith University, Latrobe University, Queensland University of Technology and the Universities of Queensland and South Australia offer significant games oriented study within degree programs.

Private institutions such as the Academy of Interactive Entertainment and QANTM, agovernment-funded cooperative multimedia centre, also offer highly specialised courses for games developers.

In addition, the Australian Government, has provided A$12.4 million to establish the Interaction Design Centre at the Queensland University of Technology. This centre is being established under the Cooperative Research Centre (CRC) program, a longstanding initiative to encourage closer linkages between researchers in education, industry and government.
(Invest Australia, 2003)

Local offices of foreign publishers

Australian companies have successfully built linkages with the international games industry. Infogrames acquired Australian games developer Beam Software in 1999 as the basis for its IMH centre. The company subsequently consolidated its major sales, distribution, and localization operation for the Asia Pacific region in Sydney following its 1999 acquisition of the major local distributor OziSoft.

Acclaim Entertainment and French media company Vivendi Universal also have Asia Pacific regional headquarters in Australia, while PC and console games specialist THQ is using a regional base in Melbourne to grow its business across Asia, New Zealand and Latin America.
(Invest Australia, 2003)

Other companies, including Electronic Arts (the world's number one independent publisher) and Nintendo (one of the "big three" console makers) have distribution, sales and marketing operations in Australia.
(Multimedia Victoria, 2003)

The local offices allow local development talent to raise their profile with the major publishers, and may allow easier access for developers to pitch new game ideas.

Availability of quality post production and support services due to local film industry

As described above, the availability of high quality post-production and support services which also service the film industry, and the strong state of the local film industry are advantages for the Australian game developers against some other countries.

Government support

The Australian industry also enjoys active government support in certain areas. The state governments all provide some kind of support for games and entertainment companies. The Victorian Government for example, is providing funding for a number of the expensive PlayStation2 developer kits needed to develop games for the platform.

At a federal level, agencies including Invest Australia, DITR/AusIndustry, and DCITA all provide support to the industry. "Rich-content" electronic or computer games, are also eligible for funding by the Australian Film Commission under their interactive digital media programs. The Australia Council has funded some video-game type projects, but this is much less common.

Industry Issues

Back catalogue of Australian developed games

Although the Australian film, television and music industry has produced large international commercial successes (Crocodile Dundee, AC-DC are examples), the Australian Game industry has not produced as many blockbuster "must-have" games. This can in part be attributed to difficulty in obtaining development funding.

This lack of big commercial successes can act as a barrier. Often, the first breakthrough success can open doors for later projects by focussing attention on the local industry.

Funding/financing barrier for local developers

Given the advancements in animation and game technology, future games will become even more expensive to produce. This means funding will become an even bigger issue in years to come.

The industry has lobbied for the tax relief schemes for investment in Australian film productions to be extended to cover Games productions.

Trade barriers for Australian developers

Given that the buyers of Australian game developers products are the Games Publishers and not the end consumers, there are no significant formal trade barriers or tariffs for Australian developers. The same is true for service providers (such as testing) to games developers.

For consoles, the end product (ie a finished packaged DVD-Rom format game ready for sale) is subject to regional coding (similar to DVDs) to prevent piracy. This has the effect of limiting parallel imports, and so could be considered a form of trade barrier.

Broadband and 3G access

The availability and pricing of broadband access and 3G mobile devices will have a significant impact on the take-up of online and wireless gaming.

AUSTRADE SUPPORT AND PROGRAMS

Austrade supports the film, animation, special effects and electronic games industries via a number of programs, initiatives and dedicated staff. Austrade also supports these industries via alliances with relevant industry groups and linkages with other Commonwealth and State Government departments and agencies.

Doubling the Number of Exporters

Austrade is the lead agency in the whole of Government strategy to double the number of exporters by 2006. This strategy aims to double the exporter community from 25,000 (at a base year of 2000-01) to 50,000 by 2006-07. Austrade research shows that there are clear economic benefits from the doubling strategy.

In terms of export revenue, the aim of doubling the number of exporters by 2006-07 could create additional export revenue growth of over 5 per cent a year, or $40 billion over the five-year period. Achieving the doubling target will also have benefits to Australia's micro economy. Austrade research shows that, on average, exporters use technology quicker, are more innovative, and more productive and profitable than non-exporters. Therefore, having a faster growing and larger exporter community will spread the gains in knowledge, technology and innovation further in the Australian economy.

The doubling strategy is significant for the film, animation, special effects and electronic games industries in two respects. Firstly, the doubling strategy is deliberately targeting small to medium sized businesses and the overwhelming majority of local firms in these industries fall into the SME category, although there is a trend towards a smaller number of major players in the film industry. Secondly, the ICT sector has been identified as a key sector where the growth in exporters will come from. A majority of firms in these industries are heavily ICT focussed, most obviously in the electronic games industry, but also in the film, animation and apecial effects industries.

New Exporter Development Program (NEDP)

In 2002, the New Exporter Development Program (NEDP) commenced. The NEDP, which is a the key Austrade program targeting new exporters as part of the strategy to double the number of exporters by 2006 is built on five key elements:

1. Programs to generate new exporters built upon agreements with allies in the private and public sector. Initially this will focus on working cooperatively

with State Governments through their enterprise development programs, and supporting State Government export programs. Austrade has also signed alliances with Australian Business Limited (ABL), the Australian Industry Group (AiG) and the Victorian Employers' Chamber of Commerce and Industry (VECCI).

2. An expanded and enhanced TradeStart program that links Austrade's resources and services with qualified allies to provide export coaching programs focussed on individual clients.
3. A substantial increase in Austrade resources focused on new exporter development including significant dedicated time from its overseas network.
4. Identification of and services for new exporters in Biotech, ICT and Services (BIS) areas in conjunction with Austrade's overall strategy for these sectors.
5. Development of partnerships with private sector organisations, such as professional associations, traders and consolidators designed to identify and support new exporters.

The NEDP provides opportunities for prospective exporters in the Film, Animation, Special Effects and Electronic Games industries to receive free advice, and access to the resources and assistance of Austrade and its government and private sector allies.

TradeStart

To build on its success, the Government has allocated $21.5m to extend and expand the successful TradeStart export assistance network. TradeStart extends the assistance Austrade can provide through contracts with Ally service providers in other Government agencies and industry associations.

The primary objective of the TradeStart Program is to assist Small and Medium Enterprises (SME's) to commence exporting and to convert irregular exporters to sustained export activity. In addition to its prime objective, the Program is focussing on the particular needs of regional Australia and industries that have high potential for export growth.

As part of the success of the TradeStart program there has been a significant increase in the number of organisations wishing to be involved in delivering services under TradeStart as it goes forward.

Austrade is continuing the process of establishing contracts with Ally organisations for the delivery of the TradeStart program over the next four years. To date, at total of 49 of 51 proposed TradeStart offices are open, involveing 29 different Ally service providers.

TradeStart can assist businesses in the Film, Animation, Special Effects and Electronic Games industries by providing support in locations close to where businesses are operating, together with specialist expertise in relevant industries. In relation to many of the industries covered by the inquiry, national TradeStart coverage is provided by the Australian Interactive Multimedia Industry Association (AIMIA) and the Australian Electrical and Electronic Manufacturers' Association (AEEMA).

Export Market Development Grants (EMDG)

The Export Market Development Grant (EMDG) scheme is the Commonwealth Government's principal financial assistance program for businesses seeking to develop export markets. EMDG assists small and medium sized exporters to seek out and develop export markets by partially reimbursing their expenditure on export promotion.

EMDG is open to any Australian business that meets the eligibility criteria, and in the first year of claim, satisfies Grants Entry requirements.

Recently announced changes to the EMDG scheme will will further focus the scheme on small business and less experienced exporters and will better support the goal of doubling the number of Australian exporters.

Specific Initiatives

Film, Animation and Special Effects

Austrade supports Ausfilm financially through our LA post (around $250,000 pa) - Ausfilm is the key film export agency.

Other film projects with which Austrade has some current interest include:

- Facilitating discussion and negotiation between Australian documentary filmmakers and a government investment center in Japan in Osaka. The project is seeking to develop some forms of joint ventures that might result in co-productions or in projects that could be taken to the international market place. This project could have two good outcomes for Australian film businesses – Australian companies working with Japanese companies assisting them to access the international market; and Australian companies accessing the Japanese market, which has been extremely difficult.

- A Vietnam film delegation visited in 2002 and Austrade Vietnam is now following up to develop business. Strong interest in location and postproduction facilities.

- Indian filmmakers remain interested in Australia as exotic location for Indian produced films, but this is not attractive to Australian sector, as it has no profit margin.

Austrade also provides support and assistance to the industry via its international network of offices and market intelligence and the expertise and market intelligence gathered in conjuction with AusFilm and the AFC, assisting exporters overseas and building capacity domestically.

Electronic Games

Austrade as co chair of the Information and Communications Technology Events Committee (ICTENC) process has supported the E3 Entertainment Games Conference and Showcase in Los Angeles as a designated event worthy of support. The event was well attended by exhibiting companies this year and deal flow looks very promising. Three of the States provided direct financial support as did Invest Australia and Austrade. The Technology Australia branding was used at this event which is in line with Federal Government policy.

Austrade supports the professional approach of the Games Developers Association of Australia (GDAA) and its role in fostering greater international business success for its constituent members and the industry overall.

The GDAA will be requesting funding from the Department of Communications, Information Technology and the Arts (DCITA) for a Strategic Plan. Austrade supports the formation of such a plan but obviously the issue of funding support is up to DCITA.

GDAA will be requesting Government support for the Games Developers Conference in San Jose in March next year. Austrade considers ICTENC to be the appropriate vehicle to consider such a proposal.

Global ICT team

The Australian Government and its Trade Promotion agency, Austrade, encourage two-way investment; exports and technology transfer between the Australian ICT industry and overseas business partners.

Austrade currently has an international network comprising 96 overseas offices. Austrade also has a Global ICT Team dedicated to Technology roles within this network. Australian technology companies are encouraged to take advantage of our specialist staff who are well connected into their local market IT industries including excellent access to key international ICT buyers and customers.

APPENDIX I - AUSTRALIAN ELECTRONIC GAME COMPANY CAPABILITIES

Table of Companies

Source: GDAA, 2003. The following firms are Australian based games developers. This list is not exhaustive.

Company	Location	Platforms	Titles	Contact
Auran Development	Brisbane	PC, Xbox. PS2	Ultimate Trainz Collection Mixports: Basketball Microsoft Train Simulator: USA and Canada Trainz Community Edition Auran Jet D20: Sanctuary Trainz D20: Dark Awakening Dark Reign: Shadowland Dark Reign	tcarter@auran.com www.auran.com
BigWorldTM	Sydney	Xbox, PC	BigWorldTM Technology middleware for massively multiplayer online games	licensing@bigworld.com www.bigworldtech.com
Blue Tongue Software	Melbourne	PS2, Xbox, NGC, GBA, PC	Jurassic Park: Operation Genesis Starship Troopers: Terran Ascendancy Riding Star AFL Finals Fever	info@bluetongue.com www.bluetongue.com
Bullant Studios	Melbourne	PS2, Xbox, NGC, PC, GBA, Mobile, iTV	Legend Has It AutoDestruct	Ross.symons@bullantstudios.com www.bullantstudios.com
C4	Melbourne	Mobile, GBA	Nick Toon Racing Soul Daddy in LA Soul Daddy BKB Usagi Yojimbo	paulm@c4-digital.com www.c4-digital.com
Dimsdale & Kreozot	Brisbane	Pc, GBA, NGC, PS2	Tito the Bouncing Alien	louis@dimsdale-kreozot.com www.dimsdale-kreozot.com

Company	Location	Platforms	Titles	Contact
Extreme Testing	Adelaide	All	N/A - Provide all aspects of games testing services to developers and publishers	info@extremetesting.com.au http://www.extremetesting.com.au/
Eyecon	Brisbane	PC	Gore – The Ultimate Soldier Online web games	scott@eyecon.com.au www.eyecon.com.au
Halfbrick Studios	Brisbane	NGC, GBA, PS2	Rocket Power – Beach Bandits	sdeo@halfbrick.com www.halfbrick.com
Infinite Interactive	Melbourne	PC	Warlords III & IV Warlords Battlecry I & II	sfawkner@infintie-interactive.com www.infintie-interactive.com
Infogrames Melbourne House	Melbourne	PS2, Xbox, NGC, GBA, PC	Le Mans MIB2 GPC Looney Tunes Space Race GP500	cwall@au.infogrames.com.au www.infogrames.com.au
IR Gurus Interactive	Melbourne	PS2, Xbox, PC	AFL Live Saddle Club Equestriad Riding Star	shoney@irgurus.com www.irgurus.com
Irrational Games	Canberra	PS2, Xbox, PC	System Shock 2 Freedom Force The Lost	jon@irrational.com.au www.irrationalgames.com
Krome Studios	Brisbane	PS2, Xbox, NGC, PC, DC, PSX	Ty the Tasmanian Tiger Sunny Garcia Surfing Barbie Beach Vacation Barbie Sparkling Ice Show Extremely Goofy Skateboarding Championship Surfer	rw@kromestudios.com www.kromestudios.com

Company	Location	Platforms	Titles	Contact
Micro Forté	Canberra Sydney	Xbox, PC, Pocket PC, Mobile (Symbian J2ME)	Unannounced 1st Party Xbox MMOG for Microsoft. Lord of the Rings MMOG Fallout Tactics Hotwheels Bash Arena Enemy Infestation Demon Stalkers Fire King America's Cup Sailing Simulation	johndem@microforte.com.au www.microforte.com.au
Pandemic Studios Australia	Brisbane	PS2, GameCube, Xbox	Star Wars: The Clone Wars, Lucas Arts Army Men: RTS Triple Play 2002 Dark Reign II	info@pandemicstudios.com.au www.pandemicstudios.com
Ratbag	Adelaide	PS2, Xbox, NGC, PC	Powerslide Dirt Track Racing DTRSC Leadfoot DTR2 World of Outlaws Sprint Cars	mbracken@ratbaggames.com www.ratbaggames.com
Tantalus Interactive	Melbourne	PS2, NGC, GBA, PC, PS2, Xbox, PSX	South Park Rally Equestriad 2001 Mary Kate and Ashley Winner's Circle Woody Woodpecker in Crazy Castle 5 Flintstones: Dino to the Rescue ATV Quad Power Racing Top Gear Rally Monster Truck Madness Over 10 Conversions	tom@tantalus.com.au www.tantalus.com.au
thatgame	Melbourne	PS2, PC, Mobile	Unannounced PS2 title Casino Blackjack Champion ThatChess Shooting Stars That Baseball	Ben@thatgame.com www.thatgame.com

Company	Location	Platforms	Titles	Contact
Torus Games	Melbourne	PS2, Xbox, GBA, PC, NGC	Duke Nukem Minority Report Carmageddon 3 Jackie Chan Adventures Space Invaders Spider Man: The Sinister 6 Doom II The Incredible Ironman Ice Nine	info@torus.com.au www.torus.com.au
Wildfire Studios	Brisbane	PS2, PC	Balls of Steel Kiss Pinball Dirt Track Racing Pinball Austin Powers Pinball	darren@wildfire.com.au www.wildfire.com.au

Useful Links

Refer to table above for company links.

Entertainment and Leisure Software Publishers Association (UK) - http://www.elspa.com/index.asp

E3 - http://www.e3expo.com/

Game Developers Association of Australia - http://www.gdaa.asn.au/

Interactive Digital Software Association (USA) - http://www.idsa.com/

Invest Australia - http://www.investaustralia.gov.au/

Multi Media Victoria (Resource Centre – Publications) - http://www.mmv.vic.gov.au/CA256985002E8DB7/All/AD6B46CEC2470674CA2569980083BF2C?OpenDocument&1=80Resource_Centre~&2=20Publications~&3=~ .

NPD Funworld - http://www.npdfunworld.com/funServlet?nextpage=index.html

APPENDIX II – COMPANY PROFILES

1. Storyteller Media Group Pty Limited

www.storyteller.com.au

Western Australia-based Storyteller Media Group Pty Limited is producing a documentary special and set of four training videos aimed to help rid the world of land mines.

Managing Director, Mike Searle spent time in Afghanistan investigating the use of sniffer dogs to search out land mines in war torn Afghanistan. The results will air worldwide on the Discovery Channel's Animal Planet and be made into training videos for the Geneva-based Centre for Humanitarian Demining.

"Land mines not only kill people, they create refugees, simply because if you know you could tread on one, you don't go back to your home country," Mr Searle said. "There are around 100 million land mines found in over 20 countries worldwide. Our training videos are suitable for international use, we use simple graphics, vision and voice-overs in foreign languages," he said. Mr Searle started Storyteller in 1989 following a ten-year stint as a news reporter on Channel Seven and Nine.

The inspiration to go solo was inspired by a famous incident in 1998, when he covered a story about 96 false killer whales beached in WA. "I thought the story was so incredible. The determination of volunteers to free the whales in freezing September waters captured my imagination," he said.

"I wanted to turn the story into a documentary and my employer, Channel Seven wasn't interested, so I raised the money to purchase the footage and made a documentary. It ended up selling in 60 countries and ironically Channel Seven purchased it too." The average cost of putting together a series of 13 half hour programs is around $2.5 million and they can take 12 months to complete. Before setting out to make a series, financial backers are sought.

The Australian market is small so international markets are targeted. "In developing export markets I've received expert advice from Austrade and funding through Austrade's Export Market Development Grants (EMDG) Scheme. I've found Austrade's services to be essential to our export success," Mr Searle said. "In the early days and even today we run the risk of being project driven. When a project ends, if there's not a new one to start, it can be worrying. With the EMDG it helps smooth out the bumps and allows us to spend money on marketing," he said.

Storyteller operates with six permanent staff and around six casual contractors. Their skills cover film and television, new media, website design and interactive CD ROMs. As well as documentaries, Storyteller produce corporate material. "The newest thing is interactive CD ROMs, we can put up to 10 minutes of full vision and stereo footage onto pocket sized compact personal digital organisers. When travelling you can whip out your pocket-sized PC and show off the corporate footage just about anywhere, anytime. It means the end of searching for a compatible video player," Mr Searle said.

2. Prototype Casting

www.prototypecasting.com.au/flash/index.html

Believe it or not, actor Russell Crowe really does have something to do with exports. His fame is continuing to lift the international profile of the casting consultancy that discovered him, Sydney-based Prototype Casting.

Director of Prototype, Robyn Gibbes said around 75 per cent of their business is through exports. "Actors like Russell Crowe, Nicole Kidman, Geoffrey Rush, Hugh Jackman and Toni Collette have firmly cemented Australia's position on the worldwide film stage. Our actors are currently amongst the most famous and sort after in the world," Ms Gibbes said. "Although film making from the US and UK has dropped off due to the war in Iraq and other factors like fear of SARS, the long term prospects for our industry will only lead to better things in the future," she said.

Robyn Gibbes and fellow director, Greg Apps, started Prototype under the name Liz Mullinar Casting, 19 years ago in Melbourne. After five years in Melbourne they moved to Sydney and began operating as Prototype Casting. "Greg and I are former actors and we only employ staff who have acting backgrounds. I look after business relations and marketing and Greg is the creative casting director. At the moment we employ seven full-time staff, however that changes when new film projects come in," Ms Gibbes said.

"We've deliberately focussed on developing our international business and are thankful to receive funding assistance through the Austrade managed Export Market Development Grants (EMDG) scheme. Greg and I travel to the United States constantly to promote our company and the EMDG allows us to do it. The EMDG opens up the Australian film-making community to the rest of the world - it's terrific," she said.

Ms Gibbes said many people are aware of the role of casting agents - they are theatrical agents who represent people or actors - but many are not aware of the role of casting consultants like Prototype which is completely different.

"As casting consultants we are usually the first port of call for the film making process. Film companies or directors send us scripts. We read the scripts and make sure they're good enough to succeed. We then advise what we think the budget should be to cover the cost of stars and production etc. and we recommend actors we believe would be most suitable for the roles," Ms Gibbes said.

"We recommended Russell Crowe for the lead role in Proof, the initial vehicle that launched his career. We then recommended him for the lead role in Romper Stomper. The thing that stood out about Russell was his passion and ambition. He was more ambitious than any other actor that Greg, who cast him, had ever met. Russell also has a hero's aura, when he walks into a room you know he's the hero, he's difficult to cast as anything else.

"We still recommend Russell for scripts. We read small budget scripts with great roles and because of our good relationship with his manager we tell them, just in case he wants to star in an Australian film," she said.

3. Base Camp Productions

www.basecamp.com.au

A decision to entice overseas advertising agencies and production houses to Australia to make television commercials has helped push earnings by 100 per cent annually for Melbourne-based Base Camp Productions. Born in Korea and now a proud Aussie citizen, Managing Director Kimbo said he recognised there was a lucrative potential market in bringing Far East Asian production companies to Australia. "From the beginning, I wanted to bring jobs from Korea, Japan and China to shoot in Australia because of its great natural beauty and diverse locations. Another attraction is our seasons are opposite to Far East Asia. When it's their summer we're in winter," Kimbo said. "Now on average I'm bringing between 30 to 50 production or advertising agencies here each year.

They use Aussie crews; in fact Australia is becoming well known for having some of the best cameramen in the world." Exports now account for 98 per cent of business and Base Camp recently set up its own liaison- marketing office in Tokyo and Milan in order to widen the export market.

Kimbo has lived in Australia for more than 12 years. He originally came here to study for an MBA after majoring in economics in Korea. While studying, he worked for a broadcasting station in production for almost five years and had a couple of acting jobs. This provided Kimbo with the experience and capability to go into freelance production in 1996, then after a year he set up Base Camp. "The business has always been growing, even during the Asia crisis. When everybody was closing their businesses because of the situation in Korea and Japan, I cemented my relationships in those countries," Kimbo said.

"I decided to do my marketing during that period because I knew Korea and Japan didn't have the land mass and locations Australia could offer to shoot commercials and America and Europe were too expensive. My idea payed off and clients now include Samsung, LG, Hyundai, Mazda and Daewoo.

"Austrade has provided me with export assistance over the years. In 1997 I went to Korea with them to hold a seminar and last April we went to Japan for an AusFilm/Austrade initiative. "We have also received an Export Market Development Grant through Austrade. The EMDG is really helpful for small businesses like ours," he said.

4. Micro Forte

www.microforte.com.au

Crawling through a post-apocalyptic wasteland with your Brotherhood of Steel warriors at your side would fire up the pulses of most "game happy" players. But for the founders of the leading Australian gaming company Micro Forte, it's not all joysticks and cyber shootouts. "It's a lot of hard work. Just the other night we finished at 4am, and many nights we finish at 10pm," said Steve Wang, one of the founders of Micro Forte.

Canberra-based Micro Forte was a finalist in the Arts and Entertainment category of the 2002 Australian Export Awards. The company got started when its Managing Director, John De Margheriti, took a job at a computer store soon after finishing his degree in 1985. While road testing the latest software that was on sale, Mr De Margheriti answered a phone call from someone needing a computer game for the America's Cup. Gaming had been a bit of an interest for Mr De Margheriti and four university friends who had studied computer science and electrical engineering at university. So the five boys took holidays from their jobs, and wrote the America's Cup Sailing Simulation. Their work was so good, a US publisher picked up the game.

“On the basis of the successful demo we tendered our resignations," explained Steve Wang. "We had really only just finished university and had just been working for six months or so."

Micro Forte is now one of Australia's leading developers of computer games and has supported the growth of the Australian games industry by establishing the Academy of Interactive Entertainment and Industry Association. Some of the company's better known work includes Fallout Tactics: Brotherhood of Steel, Enemy Infestation and Demon Stalkers.

"Fallout Tactics is a strategy game. It's a kind of a ‘Mad Max’ setting where language is harsh and the rules of survival are fairly tough," Mr Wang said.

"We’re now working on specializing in MMOGs - massively multiplayer online games. "The technology is fairly new and lets massive amounts of people play the games online at the same time."

Micro Forte exports mostly to the US, but its products are sold internationally via American games publishers and distributors. "Austrade has been quite helpful for us exporting. We have received funding through Austrade’s Export Market Development Grants Scheme which has helped in terms of getting to trade shows to demonstrate our games to distributors and to build the all important relationships," Mr Wang said.

Micro Forté was a participant in the 1998 Electronic Enterntainment Expo (E3) in the US as part of a small Austrade organised delegation, and has since become a world leader in the Massively Multiplayer Online Games market, with more than 50 staff, studios in Canberra and Sydney and multi-million dollar annual revenues. Micro FortéPresident and CEO John De Margheriti, said E3 gave the company the profile necessary to break into the world's leading markets.

"Without Austrade's vision to participate in the first E3 tradeshow, we would not have generated over $10 million in sales and many other games companies would not have followed our example to help them grow. It was a catalyst that has enabled the Australian games industry to take off," Mr Margheriti said.

A record 25 Australian companies participated in the 2003 E3 which was held in Los Angeles from 14-16 May.

APPENDIX III – ARTICLE: GLOBALISATION OR HOLLYWOODISATION?

By
Tim Harcourt
Chief Economist
Australian Trade Commission
Email: tim.harcourt@austrade.gov.au

The Oscars have come and gone for another year and the big news - 'Our Nicole' taking one for her classy portrayals of Virginia Wolf in 'The Hours'. As we all know Nicole Kidman is the latest Australian actor to win an Oscar, following Russell Crowe and Geoffrey Rush in recent years.

But is the 'rush' of Australian actors to Hollywood and globalisation ('hollywoodisation') of the film industry bad news for our local industry back home?

New evidence suggests that the opposite might be true. Whilst Australia's creative export success has been most noticeable on Oscar night, there has been significant foreign investment back here in Australia too. Hollywood producers in particular are using Australia as a prime location spot for film production. According to Kim Dalton, the CEO of Australian Film Commission (AFC), American producers like the professionalism of Australian crews, find the locations attractive and have benefited from the recent effects of a low Australian dollar. "Foreign drama production in Australia has grown over the past decade spending $191 million in 2000/01".

But what about the workers? According to the Australian Bureau of Statistics (ABS) employment in the Australian film and television industry grew between 1993 and 2000 from 5998 to 15,195. And rather than harming Australian film industry jobs here, some new statistics from AFC demonstrate that foreign production can be good for film industry workers in Australia - particularly special effects crew, first assistant directors, grips, gaffers, sound editors, directors of photography, and art directors.

According to the AFC, Australian film crew were asked to name the benefits of working on foreign production. Around 41 percent of Australian film crew believed the major benefit of working on a bigger budget was to realise their creative goals, 38 per cent highlighted increased levels of pay, 24 per cent said learning new skills was a benefit, and 21 per cent mentioned continuity of employment. Anecdotally, local crew spoke of increased career development, the chance to work with bigger budgets, more advanced technology ("more toys"), and the emergence of a 'critical mass' cluster of creative talent due to the presence of foreign filmmakers in Australia. Foreign production was also helping expand the opportunities available for local aspiring filmmakers - 18 out of 19 Australian producers felt that foreign productions were creating opportunities for new entrants. For their part, the US producers liked the egalitarian, efficient and highly performing Australian crews.

The film industry reflects the Australian exporter community more generally where, on average, exporters pay higher wages, better conditions, higher skills and more employment. As Lloyd Downey, Global Team Leader for Service Exports at Austrade says: "When people think of exports they think of 'traditional' items like coal, wool and wheat... but service industries like the film industry also bring enormous flow-on benefits to local communities in terms of local retail and personal services. Just think of the hairdressers, taxi drivers and local restaurants that have benefited from foreign filmmaking". So 'hollywoodisation' works both ways. Nicole goes off to Hollywood to pick up an Oscar and, in turn, Hollywood film producers come to Australia and provide jobs, skills, knowledge, technology and creative opportunity for film industry workers here.