

CROSS PARTY GROUP ON VIDEO GAMES TECHNOLOGY

The Scottish Parliament, 14 May 2013

AGENDA

- 1 Apologies**
- 2 Presentation by Brian Baglow (Scottish Games Network): overview of the video games technology industry in Scotland**
- 3 Presentation by Dr Richard Wilson (TIGA): EU Commission's investigation of proposed tax breaks for the UK games industry**
- 4 Support for start-ups in Scotland**
- 5 Re-election of office bearers**
- 6 AOCB**

MINUTES

The meeting was chaired by Jenny Marra (list MSP, NE Scotland), who welcomed all the delegates, and asked them to introduce themselves to one another.

AGENDA ITEM 1: Apologies

No apologies were noted.

AGENDA ITEM 2: overview of the video games technology industry in Scotland

Brian Baglow delivered a presentation on this subject, which included the following statistics and arguments:

- The success of the games industry in Scotland tends to be overlooked by the media and by people outside the industry.
- In the early 1990s, there were six major computer games companies in Scotland, each employing typically 25 to 50 people. They developed games using early desktop computer models and consoles. They sold games via mail-order, or by manufacturing disks which were purchased by retail outlets. This was generally an expensive process, and so these games development companies worked with large publisher companies – thus giving away corporate power to the publishers. If a publisher was facing difficulties, the games company could lose the support and face bankruptcy.
- From the late 1990s until recently, computer games devices and graphics became much more powerful, as consumers demanded more and better features in games, and games development budgets soared as a result. Development became more risky, with companies such as Realtime Worlds collapsing as a result
- In the years 2007 and 2008, the games market witnessed a transformation. Apple released the iPhone in 2007, and the App Store was created in 2008. Facebook also created the API. As was demonstrated by *Angry Birds*, small and simple games

could simply be released online, without the need for a substantial budget to build a console game, and without the need for a publisher. Games companies could also generate sales via merchandise. Finland has benefitted from the small companies, small online/mobile games revolution. However, small companies with small budgets which achieve immediate success with a game may have trouble securing their IP.

- The App Store has changed the games market. Soon, over 15 billion apps will have been downloaded. There were 2 billion downloads in December 2012. Seven out of the “top ten” apps are games.
- There are 89 games development companies in Scotland. By far the largest company is Rockstar North (which has sold 114 million copies of *GTA (Grand Theft Auto)* worldwide. When *GTA4* was released, this yielded revenue of £6 million in the first week. The company is developing *GTA5* using a budget of £137 million, and expects sales of 18 million copies in the first year.
- Most games development companies are based in Dundee (40); there are 22 in Edinburgh; 18 in Glasgow; and another 9 elsewhere. These companies mostly develop games for mobile, online, casual and browser markets; only 3 companies build console games (including Rockstar).
- There are also 33 related companies in Scotland, which offer technology, finance, audio, community support and other assistance to the games industry. 13 companies are in Edinburgh; 11 are in Glasgow.
- Four Scottish universities are producing graduates specifically trained for the games industry (Abertay, GCU, Napier and UWS). Dundee and Adam Smith colleges are also training students for the industry.
- *Dare to be Digital* has been run at Abertay for 14 years. This is still a fairly unique event; nothing like it is run by universities abroad. In 2013, the Dare2013 competition lasted 9 weeks, and was attended by over 10,000 people. The Dare to be Digital award winners are now recognised by BAFTA.
- Will computer games be much easier to build in the near-future? YoYo games, RunRev and ZapCoder have released easy-to-use game design tools, which even school pupils with limited programming skills could use. Could this signal the death of (games) programming?
- There are over 30 government and other agencies in Scotland, which offer help for games companies and developers, including AmbiTan, BAFTA Scotland, the Abertay Prototype and TIGA.

(End of presentation)

The chairwoman thanked Brian Baglow for his presentation, and took questions from the floor:

- One delegate mentioned that GCU has been running the Scottish GameJam event for the past five years. In 2012, over 200 developers (from over 60 countries) participated.

- Another delegate mentioned that although it is relatively easier to build games for mobile phones, the demands will increase, as mobile phones become more sophisticated and with larger screens, more polygons and detailed graphics. (Brian Baglow mentioned that one major success of *Angry Birds* was the attraction of casual gamers, and suggested that “graphical fidelity” is not the only factor behind a successful game.)
- Another delegate dismissed the fear of “the death of programming” (noting that such predictions were made back in the 1970s) and that apps will always need to be programmed.
- Another delegate informed everyone that the Scottish government is launching a Skills Investment review, which will examine the skills shortages and needs in 32 sectors, including the games industry.
- Another delegate mentioned that women are still a small minority in the Scottish games industry, even though a few of them are very talented and successful, and emphasised the need for mentors to visit schools and promote the games industry to schoolgirls, and focus on aspects such as digital artwork. (It was mentioned by someone else that several female students participate in the Dare to be Digital events.)
- Another delegate noted that UKIE launched a scheme to send “indie” developers to visit schools and inspire pupils to become games developers.
- Another delegate mentioned that one of the greatest problems games companies face is trying to make themselves visible on the market, and much talent is being lost as a result.
- Another delegate suggested that games created by Scottish companies should be branded (i.e. “made in Scotland”), and this was not current practice.
- Brian Baglow commented that the computer games industry suffers from a poor image of the overworked programmer stuck in an office for very long hours, and that there is limited communication between games developers and contacts outside the industry.
- Another delegate mentioned that around 25 independent games studios have been started at Abertay in its “indie platform”.
- Another delegate expressed concern about the rapid changes in the games industry (especially in terms of technology), and companies are struggling to recruit people with particular skills.
- Another delegate agreed that small companies which release a game which “goes viral” (suddenly becomes very successful) need to protect their IP carefully, as there are “sharks” (programmers) who can steal the game elements and code and release their own products. He also mentioned that in the past, the large publishing companies handled issues including marketing, investment and IP, whereas now, games companies have to deal with these issues on their own. (Richard Wilson (TIGA) replied, mentioning that TIGA provides free advice as well as access to lawyers. He also lamented on the fact that too many successful games developers sell their companies and IP as soon as an attractive payment is offered to them.)

- Another delegate mentioned that he had received assistance from eSpark, which had provided him with free office space, mentoring, and assistance with recruiting talented co-workers.
- Another delegate mentioned the Edge Fund, and NESTA, which also offer networks, mentoring and some training sessions; he also emphasised that new games companies do not just require financial loans.
- Another delegate was dismissive of agencies, noting that when he contacted one, the agents simply advised him to write out a business plan, and possessed limited knowledge of the games industry and its issues.
- Another delegate mentioned that NSTA and Cultural Enterprise Scotland run courses on setting up a business, and do source their ideas globally. However, he asked for a more intensive system for strengthening the Scottish games industry, similar to the approach in Boston, where MIT advisors have actively been supporting technology companies. He suggested the Scottish government needs to recruit reputable mentors from abroad to visit Scotland and advise companies on issues such as third party licensing, and to visit games development students in Scottish universities.
- Brian Baglow commented that many games developers are unaware of the market forces and the help which is available to them, and that many of them are not business-minded.
- Another delegate expressed fear that games companies can be exploited by people and businesses from abroad, and advised caution on sending in foreign mentors. He noted that the games industry in Scotland suffers from a poor image, and this contributes to the difficulties in recruiting the best talent. He advised there should be more publicity to boast of the successes in the Scottish games industry (including strong sales of over 1000 games products, and a new games-based company starting in Dundee each month).
- One of the MSPs present suggested that the games industry should organise presentations within the Holyrood premises, and invite prominent figures from abroad to attend such events.

The chairwoman closed the discussion, and asked all delegates to agree on action points. These included (i) the need for government and its agencies to promote and publicise the Scottish games industry successes; (ii) more communication between agencies, companies, universities and colleges to improve business development and new talent.

AGENDA ITEM 3: EU Commission's investigation of proposed tax breaks for the UK games industry

Dr Richard Wilson (TIGA) delivered a presentation, which included the following statistics and arguments: (over-page)

- TIGA is focussed on lobbying the British government, and on raising the profile of the UK games industry in the media.
- TIGA has been campaigning for tax breaks for the UK games industry for three reasons:
 - The UK games industry is not on a level playing field with industries abroad (namely in Singapore, South Korea and Canada where there are tax breaks). The UK games industry lost around 10% of its workforce in 2012, and investment in the industry has also decreased. There is also a “brain drain” affecting the UK games industry; 41% of the jobs lost in 2012 were relocated overseas.
 - Tax breaks would benefit the games sector, improve access to capital and boost employment. The proposed tax breaks (by TIGA) would raise investment in the sector by over £100 million, and create around 9000 more jobs.
 - More highly-skilled people are needed in the UK games industry, one which has great export potential.
- Proposals for tax breaks for the UK games industry were rejected in 2008 and 2009 by the Brown government. The proposals gained some recognition during the 2010 general election campaign, but were rejected again in Osborne’s first budget. In Scotland, the proposals have received some support from the Holyrood parties, and TIGA is currently redesigning the proposed tax breaks, before sending proposals to the EU Commission.
- The tax relief proposals are as follows:
 - Reduce the percentage of tax on profits;
 - Increase the tax rebate (for games companies which made a loss);
 - Apply a cultural test (this is necessary in order to secure a tax break from the EU).
- The EU Commission may award a tax break if an industry sector can pass three cultural tests. There are points awarded for:
 - the cultural content of a product;
 - the location (i.e. of the game story);
 - the location of the workforce.
- If a sector or company accrues 16 points or more, it is awarded a tax relief.
- At present, the EU Commission is not convinced of the economical need to award a tax relief to the UK games industry. There is debate over the cultural value of computer games, e.g. are they as cultural as film or theatre? The commission also fears that awarding a tax relief to the UK games industry would induce other EU states to demand the same benefit.
- The British government is liaising with trade associations, and will submit more information to the EU Commission. TIGA will marshal the following arguments:

(continued)

- the UK games industry has declined significantly since 2008 due to competition from abroad;
 - the industry is suffering a “brain drain”;
 - computer games do possess a cultural element, especially in terms of digital artwork;
 - computer games can also be used for education and training purposes.
- In 2009, around 45% of British computer games products were deemed to have passed the cultural test; there was a similar pattern for games produced in France.
 - “Cultural games” do not include advertising and gambling games. TIGA wants British games companies to submit examples of cultural aspects in their products.

(End of presentation)

The chairwoman thanked Dr Richard Wilson for his presentation, and took questions from the floor:

- One delegate asked if TIGA’s proposals would match Quebec’s 37.5% tax relief for its games industry. He also asked what happens if the setting for a computer game is “based” abroad e.g. in the USA. (Richard Wilson replied, saying that the proposals are similar to the Quebec tax relief percentage, and that some UK games companies produce ‘internationalised’ games, e.g. by hiring foreign actors.)
- Richard Wilson warned delegates from games companies to be cautious about passing comment on the EU Commission and on tax relief, and advised them to write comments via TIGA. He also noted that proposals have to be simple, and not complicated and numerous.
- Another delegate noted that France had submitted an application to the EU Commission for tax relief for one of its sectors, and this process lasted just 12 months. He also mentioned that the tax relief package in Quebec might be just a “one-off” measure, although this included 5-year income tax “holidays”.
- Another delegate commented that many computer games developers tend to mutter and complain amongst themselves, and that they need to communicate with one another and be of one accord in presenting their demands to governments.
- Brian Baglow commented that several computer games tend to have an American, Chinese or Japanese theme, whereas many British TV programmes and films have a British setting. He advised that games companies need to converge with film and TV studios, e.g. at arts festivals, and need to communicate more with one another.
- Richard Wilson assured delegates from the games industry that all comments sent into TIGA (re: tax relief for the UK games industry) will be treated anonymously.

AGENDA ITEM 4: Support for start-ups in Scotland (no discussion)

AGENDA ITEM 5: Re-election of office bearers (no discussion)

AGENDA ITEM 6: AOCB (no items)

(End of minutes)