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EGDF response on the Review of the Communication on the Framework for State aid for research and development and innovation

About EGDF

1. **The European Games Developer Federation e.f. (EGDF)**[1] unites national trade associations representing game developer studios based in 18 European countries: Austria (PGDA), Belgium (FLEGA), Czechia (GDACZ), Denmark (Producentforeningen), Finland (Suomen pelinkehittäjät), France (SNJV), Germany (GAME), Italy (IIDEA), Netherlands (DGA), Norway (Produsentforeningen), Poland (PGA), Romania (RGDA), Serbia (SGA), Spain (DEV), Sweden (Spelplan-ASGD), Slovakia (SGDA), Turkey (TOGED) and the United Kingdom (TIGA). Through its members, EGDF represents more than 2 500 game developer studios, most of them SMEs, employing more than 35 000 people.

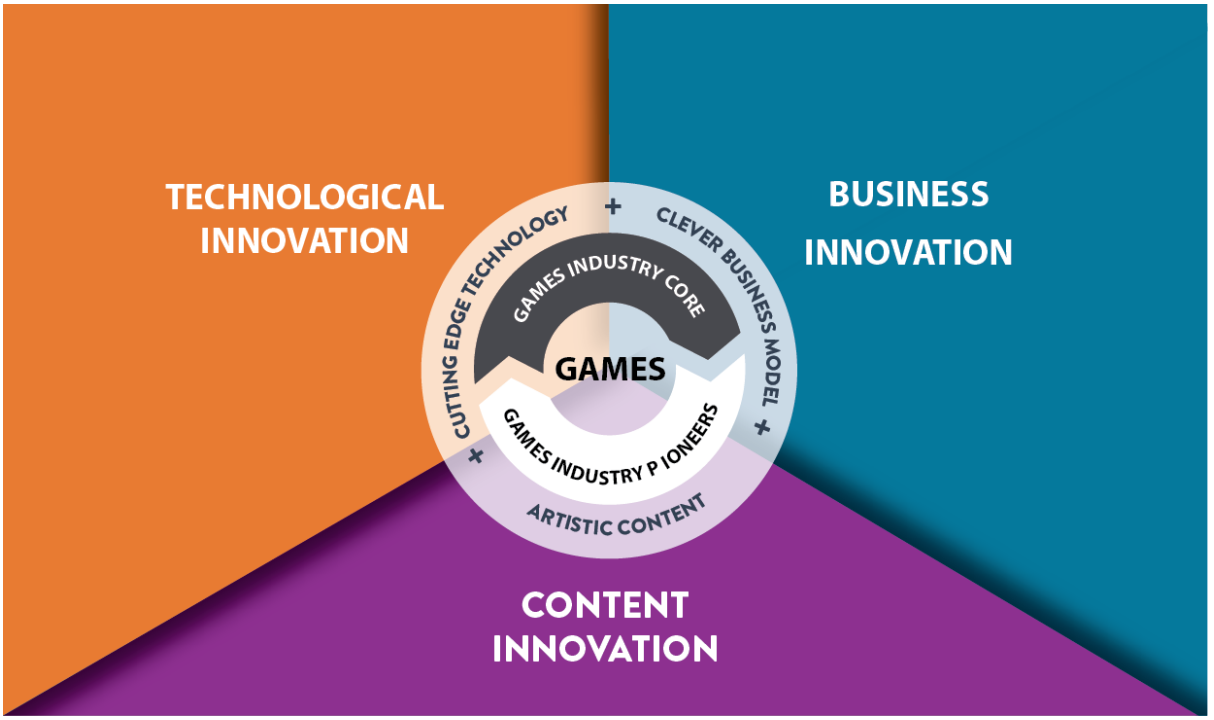
2. **The games industry** represents one of Europe's most compelling economic success stories, relying on a strong IP framework, and is a rapidly growing segment of the creative industries. The European digital single market area is the third-largest market for video games globally. In 2019, Europe's video games market was worth €21bn, and the industry has registered a growth rate of 55% over the past five years in key European markets[2]. All in all, there are around 5000 game developer studios and publishers in Europe, employing closer to 80 000 people.[3]

3. **Game developer studios are the forerunners of the Digital Era. State aid for R&D plays a crucial role in helping the industry to introduce novel technologies, business models and game designs to consumer markets.** Quite often, these novel solutions are so risk-taking that European risk-avoiding private investors are not ready to invest in them. Or the big enough consumer base with good enough network infrastructure to run them only exits in densely populated Asian megacities. The EU state aid system must move the focal point of the current system, which focuses on minimising competition between member countries, towards improving the global competitiveness of the Union. The Union needs a state aid system optimised to enable the success of European companies on the worldwide market.

[1] For more information, please visit www.egdf.eu
[2] ISFE Key Facts 2020 from GameTrack Data by Ipsos MORI and commissioned by ISFE https://www.isfe.eu/data-key-facts/
[3] European Games Industry in 2018: http://www.egdf.eu/wp-content/uploads/2020/08/European-Report-on-the-Game-Development-Industry-in-2018.pdf

The scope of state aid for R&D&I

The state aid framework should acknowledge the importance of business and content innovation



4. Games are at the crossroads of novel technologies, cutting edge business models, and artistic content. During the 2010s, the importance of business and content innovation rose rapidly. This should also be reflected in the state aid framework for R&D&I.

Technological Innovation: video games are a driver of technological innovation.

5. It is widely acknowledged that video games have contributed to the worldwide development of computer hardware more than any other application. So far, video games have been the most demanding mass-market applications for computer hardware and will remain in that position in the foreseeable future.

6. The development of microchips at the core of the hardware, as well as the development of graphics cards and other elements, like displays, is deeply related to the increasingly demanding architecture of modern video games. During the 2010s, this approach spread

to the networks themselves, as the videogames using the bandwidth for both downloading and uploading digital content pose a tough technical challenge for them.

7. It is also important to note that video game technologies are used more and more in other industries. For two decades now, some of the industry's core tech (artificial intelligence, physics simulation, biomechanics, behavioural models, virtual and mixed reality, wearables etc.) have been used for defence and aerospace applications. Now, games industry tech tends to spread to more "civilian" applications, such as in the education (edugames), medical (health games), robotics (e.g. social cobots) or automotive fields (e.g. car interfaces).

8. During the 2020s, games industry tools and technologies will play a key role in developing extended reality content and solutions. In addition, the games industry will continue to play a leading role in finding novel ways to use machine learning and AI in a creative process.

9. Thus videogames are not only revolutionising the field of art and media. With the help of public R&D&I aid, they are paving the way for the other sectors that still have not undergone the digital shift.

Business Innovation: video games are an economic driver

10. The video games market is the most dynamic entertainment market. It has grown exponentially over the last years and still has huge growth potential and a natural ability to overcome cultural and linguistic barriers. The video games sector has enjoyed constant growth for three decades and was one of the few sectors that continued to grow through the ongoing pandemic. The industry has become the most dynamic digital content industry in Europe, and its growth is expected to continue.

11. The reasons for this dynamic are to be found in the constantly increasing diversification of platforms and the constant development of new content and peripherals, making games accessible to an increasing range of audiences in terms of age and gender.

12. Therefore, it is not surprising that the videogames industry is a pioneer in developing business models suitable for the digital environment. Other industries often follow its example.

13. A process called gamification is introducing both the applied games (a.k.a. serious games) and the new business models to the fields of education, geriatrics, training, policy-making etc. It is reshaping them to face the needs and challenges of the new era.

14. The 2010s was the first decade when the major breakthroughs in the video game industry were not technological. Before technological disruptions like the internet in the 1990s or smartphones in the 2000s dominated the R&D&I. During the 2010s, the most significant market disruptions were caused by new business models like free-to-download or data-driven game monetisation. Therefore, if Europe wants to secure its leading position in global digital markets, the scope of the European state aid for R&D&I must also cover business model innovation.

Content Innovation: video games are a cultural driver at the heart of digital culture

15. Game developers now perceive themselves as full-edged creators in their own right. A true new language has emerged – interactivity – with its own grammar and vocabulary, a form of expression that transcends cultures and is experienced by billions worldwide. As a result, the influence of video games on how people perceive values, structure organisations, express themselves creatively, and learn is more and more significant.

16. Video games are played by young and old, male and female alike, and they are no longer a marginalised form of culture. On the contrary, thanks to constantly evolving content and the perpetual invention of new services by the sector, video games are becoming a driving medium of culture with their innovative, interactive digital content and services.

17. Videogames are usually the first applications developed for new emerging platforms in order to introduce their possibilities to the public. Good examples of this are the virtual reality headsets and smartwatches, which both relied on games in promoting their novel technologies for consumers during the 2010s.

18. During the 2010s, many of the key innovations answering technological and business challenges were linked to game design and artistic content itself. Instead of waiting for the technology to improve, improving the game design from a first-person perspective to a more static third-person perspective turned out to be the way to address virtual reality sickness. Similarly, the success of the free-to-download business model is highly based on the rapid development of the data-driven game design. Often it is content that is the driver of technological and business innovations, not vice versa.

19. Consequently, it is crucial that beyond technological and business innovations, the state aid framework for R&D&I acknowledges the importance of content innovation.

Test marketing should be acknowledged as an important part of experimental development

20. In general, the creators of digital content and services rely more and more on their fan communities in getting feedback about their content and services. Consequently, the focus of innovation models is increasingly moving towards co-innovation with consumers. At the moment, especially mobile game developers test the market potential of their games by soft-launching them and collecting consumer data in a limited number of small market areas before making a full global launch. In Europe, this is usually their home country.

21. Currently, marketing activities are often left outside the scope of the R&D&I state aid instruments. This creates significant problems in the R&D&I processes of European companies, as collecting real market data with a prototype or demo version of a game might not be allowed. Consequently, the definition of experimental development should be widened to cover also test marketing.

Implementation of the R&D&I instruments

22. Games industry competent in-house funding experts and sufficient resources to be present at industry events are some of the reasons why the Finnish funding agency Business Finland has been so successful in supporting the local games industry start-ups. Furthermore, Business Finland builds their programmes in close cooperation with local industrial ecosystems. Consequently, the funding guidelines should encourage member states to invest more in securing the competence of their experts running the R&D&I programmes.

Aid intensity levels

Aid intensity levels for SMEs should be increased

23. It is important to remember that, as games markets are by their nature global, state aid for video games is not able to disturb price competition in the markets. In games markets, only the most efficient operators are able to survive. This fact is underlined by novel business models like Free-To-Download games that are free for consumers to download; subsidies cannot push down their prices as games are already free.

24. At the same time, global conglomerates are increasingly taking over the value chain with their user-friendly and affordable tools. Game developers, for example, do not just use Alphabet's services to access the markets through Google Play as a distribution platform. They also use Alphabet's ad networks for advertisement, attribution and analytics services to measure the effectiveness of the advertisement, the operating system for running the game, cloud services for hosting the files, crash analytics, performance measurement tools, hosting services, machine learning tools, database services and authentication and cloud messaging services.

25. The reliance of European companies on third party tools is becoming a bigger and bigger business risk. On the other hand, it is sometimes difficult for European companies to estimate the regulatory risks related to these tools (e.g. GDPR). On the other hand, there is always a risk that a small third-party service provider gets acquired and closed down.

26. Consequently, it is crucial to encourage European SMEs to invest in their own technology development by increasing all SME aid intensity thresholds to at least 60%. This is, in particular, important for experimental development. Any lower aid intensity threshold easily leads to a situation where European state aid guidelines force European SMEs to accept risk capital with poor company evaluation to fulfil the self-funding requirement.

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