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Rt. Hon. Lord Mandelson  
Secretary of State for Business, Enterprise and Regulatory Reform  
Department for Business, Enterprise & Regulatory Reform  
1 Victoria Street  
London  
SW1H 0ET

March 11<sup>th</sup> 2009

Dear Lord Mandelson,

### **Industrial activism in the video games development industry**

I am writing to you in my capacity as CEO of Tiga, the UK's national trade association for game developers. Tiga has 150 members including games developers, outsourcing firms, technology businesses and universities. Tiga's vision is to make the UK the best place in the world to do games business.

In your speech at the Royal Society for the encouragement of Arts, Manufacturers and Commerce (RSA) on 17<sup>th</sup> December 2008, you rightly said that the UK's future strengths lie "...in high value-added, knowledge-intensive areas where the combination of skilled workforce, innovation companies and a world class research base have maximum effect."

The UK video games development industry is the epitome of a high-value added, knowledge-intensive sector. 60% of a typical development studio's workforce is qualified to degree level and in many studios this figure rises to 80%.<sup>1</sup> Development staff are highly productive. In 2007, the UK games production sector grossed £1.24 billion, equating to £124,000 per worker, whereas the UK film production industry grossed £1.65 billion, equating to £49,253 per worker.<sup>2</sup> Salaries in the games industry typically exceed £30,000 per annum, above the national average. The industry is export oriented, with on average 46% of developers' turnover generated from the export of games.<sup>3</sup>

Yet while global games sales grew by 11% in 2008, the UK development sector's workforce shrunk by 2.5% as studios closed or contracted. This is because the UK games industry is competing on an uneven playing field. Our principal competitors in Australia, Canada, China, France, South Korea, Singapore and the USA all receive national or regional/state tax breaks for games production. No tax breaks for games production exist in the UK. Consequently, video games development in the UK is

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<sup>1</sup> Wilson, R., (2009), *State of the UK Video Game Development Sector*, p. 6.

<sup>2</sup> Gibson, R., (2008), *Games up? The economic case for introducing tax breaks for the video games development industry – a summary*, p. 3.

<sup>3</sup> Wilson, *State of the UK Video Game Development Sector*, p. 5.



increasingly uncompetitive, despite its world-class talent pool and impressive track record. Investment is flowing away from the UK with global companies downsizing or relocating their UK operations. Many UK based developers are being actively wooed by overseas companies and government agencies to relocate to jurisdictions with more favourable tax regimes. The UK game development industry fell from third largest in the world based on revenue in 2006 to fourth position in 2007 and is expected to fall to fifth place in 2009.

If no action is taken, the UK development sector will continue to contract. Investment in UK video game studios is expected to decline by £180 million over five years. Approximately 1,700 'knowledge-economy' jobs would be lost over the same time frame.<sup>4</sup>

If we want the UK games industry to remain world leading then we must introduce a tax break for games production similar to the European Union approved French tax credit. Industry research indicates that if a 20% production tax credit was introduced, investment would increase by £220 million over five years, generating a further 1,600 graduate jobs over the same period. This tax break would cost HM Treasury £150 million over five years.<sup>5</sup>

A tax break for game production would enable the UK games development sector to remain one of the top five countries for games development in the world. It would also safeguard the games industry's substantial contribution to the economy, which in 2008 represented £1 billion in Gross Domestic Product, £419 million in tax revenues to HM Treasury and 28,000 jobs (10,000 in games development). Conversely, if a tax break for games production is not introduced, the resulting decline in economic activity in the games development sector is anticipated to lead to a fall of £145 million to HM Treasury revenues in 2013 alone.<sup>6</sup>

85% of UK game developers now believe that they need a tax break for games production.<sup>7</sup> Without immediate action, one of the UK's critical knowledge economy sectors will contract further, more creative jobs will be lost overseas, and we could lose one of its first, world-class digital industries.

In your RSA speech you advanced the case for a "new industrial activism". Introducing a tax break for games production is just the kind of industrial activism that our economy needs. It would promote investment; expand graduate level employment; and strengthen a key creative industry.

I hope that you will consider the case for a tax break for games production in your discussions with HM Treasury in the run up to the April Budget.

Tiga will be making this letter public, given the importance of the issues discussed in this letter.

Yours sincerely,

Dr Richard Wilson  
CEO of Tiga  
The game developers trade association

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<sup>4</sup> Gibson, *Games up*, 2.

<sup>5</sup> Gibson, *Games up*, p. 2.

<sup>6</sup> *The Economic Contribution of the UK Games Development Industry* (Oxford Economics, October 2008).

<sup>7</sup> Wilson, *State of the UK Video Game Development Sector*, p. 7.