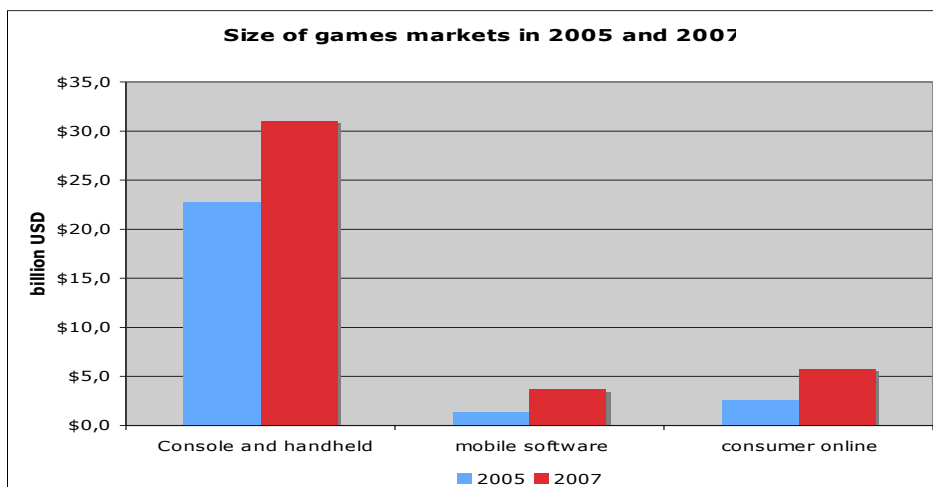


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Subject: Statement on the future “EU 2020” Strategy

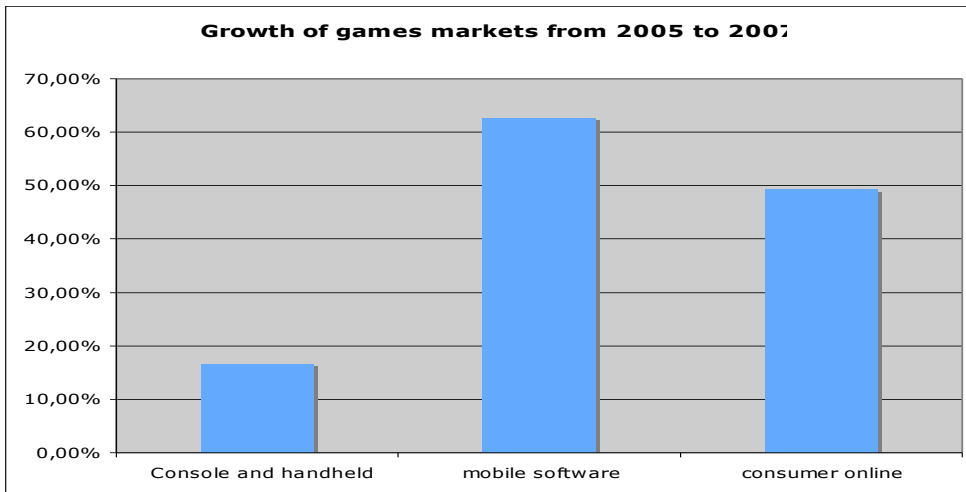
1. Computer games are a growing industry in the very centre of the digital shift

As the first truly digital medium computer games have developed considerably over the last twenty years into an important content driven industry at the crossroads of culture, technology and economic growth. While being a so central link between those three areas, computer games have not yet received the place on the agendas of the European Union they deserve. The EU 2020 strategy is an opportunity to rectify some omissions of the past and to give the development of computer games in Europe more positive attention as a creative and cultural industry, deeply embedded in the digital economy of tomorrow.¹



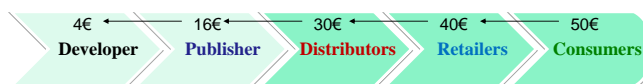
Especially in the online sector computer games have grown considerably and the shortening of the value chains through the transition to digital distribution is a strong asset for the European industry itself.

¹ Bessemer Venture Partners (Slide 1 and 2)



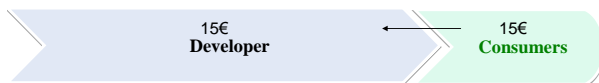
For the first time, the European industry is profiting from the growth of the games sector and not only international media groups; so far Europe hosted mainly developers and had in the traditional value chain to cooperate mostly with publishers and other partners from overseas.

Traditional Value Chain



- Many parties between developer and consumer
- Each party takes a share of the revenue

Online Value Chain



- Fewer parties means more revenue for the developers

Computer games have weathered the storms of the 2008 crisis so far it concerns online games. In the market the digital shift is even supported by the economic decline of the old economy. Europe is a strong player in online and browser based games.

Size of leading online games studios from Europe²

	Bigpoint (DE)	Gameforge (DE)	Ankama (FR)	Jagex (GB)	Sulake (FI)
Founded	2002	2003	2001	2001	2000
Employees	over 290	about 300	about 400	about 400	about 260
Turnover €	27 million	Over 100 million	30 million	35 million	50 million
Registered users	91 million	88 million	25 million	165 million	151 million

² ICO partners

2. The Commission working document

The EGDF is in general in line with the three priorities the commission considers as the keydrivers of EU 2020. However we will have some specific commentaries in the following.

Creating value by basic growth of knowledge: Strengthening education is important, but will not replace economic growth. Companies with strong growth and innovation potential have often other priorities. And often they can not compete on the salary (yet). In the end even a perfect education will not replace the possibilities to develop innovative and new products within Europe.

While we agree, that education is an important approach, it should not be overseen that education alone can not change the current situation. Even less it should be believed that universities change the situation. Universities are organizations, which turn often around themselves and give little care to the market or the innovation potential. Only in some cases universities and governmental research institutions can have a substantial impact on innovative development.

Nevertheless universities and research institutions should be strengthened and put into an innovation context. But they can not play a central role. The research area needs to be truly open for SMEs and research from independent groups – especially in the digital age. The processes need to be adjusted to these needs. The idea to develop innovation and creativity through large entities is probably not adequate any more in general. Small projects like “twitter” can have a strong potential in the digital age. Education should however reflect technological as well as content and business model oriented new developments such as computer games in the digital age.

Innovation is (as the German chancellor Angela Merkel put it years ago) happening most of the time where we don't suspect it. It is important to be open and sensitive for new developments. And it is important to find creativity and innovation where it is really happening in Europe and to support it there. It will often not be in the context of formalized research institutions in universities or research organizations; neither will it be in large corporations. Innovation will most likely happen in independent contexts or SME's. This is especially true for the digital age, where it is not necessary to have a large organization to develop and implement innovations.

It is an important step to **keep innovation and creativity at the center of the debate**. Computer games as the new medium exemplify the possibilities to link both. We underline, that we do not consider a functioning system of intellectual property rights a sufficient answer to the innovation challenges of Europe. However, games and more specific gameplay should be protected in copyright legislation from plagiarism. Similarly games should be included in the legislation as their own category equal to e.g. works of visual art or films.

Europe has enormous opportunities in the digital age. Europe has a lot of already quickly developing digital companies. But they need support to develop stability and to make their way into a more competitive era. Especially at the beginning these company-projects are often fragile. Prototyping should be made easier and creative entrepreneurship become a more realistic perspective.

Further it is a very important role of the European Commission to defend an open and neutral internet and competition at any level of the value chain. Only when we keep up the pace, we will have the innovation of the digital age in Europe. We should not give up the fundamental innovative elements of the internet in Europe. Therefore its non-discriminatory approach should be kept. Weakening network neutrality eventually endangers the innovation potential of Europe.

Computer games should play **an important role in the European Digital Agenda**. They are at the same time part of digital culture and the first truly digital medium and an important business and technologic driver. It is widely acknowledged that computer games have contributed in the past to the development of computer hardware worldwide more than any other application. So far, computer games have been the most demanding mass-application for computer hardware and they will be in the future. The development of microchips inside the hardware as well as the development of graphic cards and other elements, like displays, is deeply related to the more and more demanding architecture of modern computer games. Today this approach spreads to networks themselves, as computer games played in the networks are a high technical challenge for them. Therefore computer game developers and companies can be seen as an indicator for innovation on computer based systems and networks.

There are further important spillovers of the computer game industry to the industry as a whole. As computer games have become more and more **important part of modern culture**, it can be observed that the culture itself becomes more and more digitalized. DG competition has decided that “certain video games may constitute cultural products”³, because they have a growing impact on the way people think and act. The influence of computer games on the way people perceive values and organize structures and learn may not be underestimated. Computer games are therefore at the very centre of the creative side of innovation.

The European computer games development community is only partly able to grow as fast as it needs to grow without public support. Traditionally, Europe is not a strong player in the computer game industry. Most of the computer games are still imported from overseas, mainly from the Americas and Japan. While some computer games are developed in Europe, large parts of the revenues leave Europe. This means that Europe can not profit sufficiently from its production efforts, its cultural heritage and its technical skills, because of the economic realities of the content media industry. Similar situations can be observed in film or in the music business. In the end, this has to do with the effect that digital media have almost no reproduction costs, but high fixed start costs to produce a product. So the scale and network effects are enormous and eventually “the winner takes it all”. Older media industries have in Europe public support (e.g. public film funding, public television, radio systems and the book price regulation). Only in the computer game business there are no such mechanisms.

The more important and stronger the computer game development sector becomes, the more obvious this becomes in the context of the **digital shift**. More and more computer games are made directly for the Internet. Here Europe has an opportunity as the value chains are shortening for the benefit of those who actually make the computer games and those are often Europeans. That means

³ C47/2006(ex. N648/2005) Crédit d'impôt pour la création de jeux vidéo. Available online at: http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3_C47_2006

that the European part of the value chain is strengthened. At the moment, rating does hinder free movement of content. As the ongoing digitalization has made game developers one of the main providers of creative digital content for minors, they should also have a blocking minority position in the management board of the PEGI.

However, one problem remains. The set up of a new computer game (and this is not related to the creation of a new company) stays a high risk and complicated activity, especially the development of a game prototype. A prototype is a tryout, which means that sometimes a prototype is not selected to be further developed into a complete game. But when this happens once or twice, usually a creative company is in problems. Therefore it is very important that the public sectors support the development of prototypes of the gaming industry. This is done in some member states as France and the Nordic region, but not all over Europe. It could be a very good opportunity for Europe to focus on innovation and the challenges brought by digital age. Other parts of the world as Canada mainly the regions of Ontario and Quebec, countries like Japan and Korea, but also some states of the United States as Texas or more and more other countries like Singapore are investing heavily into public support for game development. This means that European developers have to compete every day against heavily public supported games from other parts of the world.

Concerning the point of **empowering people in inclusive societies** it must be underlined, that every job which has been developed in the game industry has been set up over the last 20 years. Computer game developers are usually young, creative and risk taking entrepreneurs in a content driven technology environment. Their products did not exist twenty years ago. We see computer games in a central position directly at the crossing between technological development, economic growth and cultural variance. Few sectors in the economy can claim to be part of all three development strings. If you support the games industry, you support at the same time economic, technological and cultural development. Large entities and governmental structures need to become more flexible, in the new media industries the instability is an important subject. Here on the other side we need more support to stabilize careers and professionalize personal management. It seems as if those who carry most of the innovation of Europe have to do this often standing outside the traditional social security systems. While self-employment plays an important role in the context of innovation the value of self-employment is often underestimated by the societies in Europe. This especially is true for social security systems such as health insurance and retirement insurance. It is very important to see in the context the link between the risk taking of innovative self-employment and social security.

Concerning the third point creating a competitive connected and green economy it has to be underlined that the best broadband has little value without relevant content and services. It is not sufficient to provide infrastructure and to hope, that the market will provide European content (empty pipe syndrom). Users do not buy data, they care for content. The competitiveness of our network economy depends especially on its neutrality. When those who carry the information through the networks have control over the content it is very obvious that they will choose the largest and not necessary the European partners to impose content and business models to the end users and the innovative and new companies and structures from Europe will be set back again.

In **conclusion** EGDF would like to underline following aspects in relation to the topic:

- In the context of the European Digital Agenda it is most important to make the risk-taking parts of development of computer games - especially prototyping - legally eligible for public funding for culture and innovation in order to secure the cultural diversity, technological development and economic growth at the digital age. In this context it should be evaluated, if a specific financing model e.g. an EU wide support scheme for game development should be set up and given priority in budgetary planning.
- The Union has to focus on providing a legal environment in which SMEs can survive and freelancers and independents can operate more freely.
- As the ongoing digitalization has made game developers one of the main providers of creative digital content for minors, they should also have a blocking minority position in the management board of PEGI.
- Games and more specifically gameplay should be protected in copyright legislation from plagiarism. Similarly games should be included in the legislation as their own category equal to e.g. works of visual art or films.
- The best results on the fight against piracy can be achieved by developing new almost piracy proof business models (e.g. free-to-play online games). The further implementation of these successful business models should be given priority, not further anti-piracy measures.
- The endangerment of network neutrality places a serious risk for new business models. Thus, all in all an important source for growth and innovation in the games sector is the clear regulatory differentiation between networks and media content.
- For game developers, it is highly important to maintain competition on every level of the value chain. Governments should lower market entry barriers for content producers in Europe e.g. by making sure, that the European games industry has equal access to technology and that the access is fair and reasonable for all European companies.

In Malmö 14.1.2010

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