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The Honourable Rob Moore

Standing Committee on Canadian Heritage

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• (1530)

[English]

The Chair (Hon. Rob Moore (Fundy Royal, CPC)): Good afternoon, everybody. We'll get started.

Welcome to the Standing Committee on Canadian Heritage.

We're pleased to have a number of witnesses with us today as we continue our study on the Canadian entertainment software industry.

We have witnesses today from the Writers Guild of Canada, the Entertainment Software Association of Canada, KPMG, Interactive Ontario, as well as Alliance numérique—they're not here just yet, but I think they're on their way.

We will start with our rounds of opening remarks. Most of you have two witnesses per group, so you have a total of 10 minutes, however you want to divide that up.

Because someone has to go first, we're going to begin with the Writers Guild of Canada, Maureen Parker, executive director, and Kelly Lynne Ashton, director of policy. The floor is yours for your opening remarks.

Ms. Maureen Parker (Executive Director, Writers Guild of Canada): Thank you very much.

We did try to reduce our speaking time to seven minutes because we know there are a number of people.

Good afternoon, members of the heritage committee. My name is Maureen Parker and I am the executive director of the Writers Guild of Canada. Also with me today is Kelly Lynne Ashton, WGC's director of policy. Thank you for inviting us.

The Writers Guild is a national association representing more than 2,000 professional screenwriters working in English language film, television, radio, and digital production in Canada. We are here before you today to talk about the work they do specifically in writing for video games and how the government could support their work as part of the Canadian video game industry.

There is a common misconception that video games are nothing but shoot 'em up games for teenage boys. People are often surprised to hear that WGC members work on video games and that our guild has jurisdiction over that work.

What writing could a game need? Well, writing is an essential element of production of a video game. While in many ways it is the same craft as film and television writing, there are differences as well. Unlike television, the video game writer rarely initiates a project.

While every game is different, screenwriters can be engaged from the beginning to work with the game designer to write out a whole story for the game, including the world that the game inhabits, and end up with hundreds and hundreds of pages of script. We brought a sample script with us today to show you. It's hundreds and hundreds of pages. Or, they can be brought in late for the development of a game to write a few lines of dialogue for non-player characters who will add personality to those characters. Those lines of dialogue can add up over a game to 20,000 lines or more, depending on the game. Even if it is a simple shoot 'em up game, there has to be a story to explain why the battle is going on, and there are cinematic elements to move the action forward. An increasing amount of time and attention is being given to create the world in which the story is taking place, with detailed back stories and bonus scenes of action or dialogue among characters.

Fighting bad guys can be fun, but there needs to be a reason why to make the game truly interesting. In the crowded video game market developers want to be as engaging as possible to attract players, keep players with their game, and ensure that the players buy the series over multiple titles. Increasingly, the game community is turning to mainstream drama and comedy writers to bring plot and characters to life in their games. While Canadian screenwriters are being hired to work on video games in Canada, some Canadian-based video companies are still going to L.A. for their screenwriters.

We would like to describe a few games written by our members to give you a better idea of the kind of work they do and the role they play in this process.

Adrian Vershinin, who is also a television writer, has been writing video games since he got started on the racing game, *Need For Speed: Underground2*, in 2004. At times he writes dialogue for non-player characters and other times more involved scripts, such as for *Battlefield3*, a game where the player becomes a U.S. marine sent to battle terrorists in the Middle East. His video game scripts are often 300 pages long. In comparison, a feature film script is 90 to 100 pages long.

Matt MacLennan is an accomplished drama series writer. He has worked on *The Listener* and *Republic of Doyle*. His most recent work was as a writer on Tom Clancy's *Splinter Cell: Blacklist*, an ongoing adventure series about a fictional American black operation division that takes out terrorists around the world. But before you think that story-based video games are all about terrorists, we can tell you about our member Mario Azzopardi's work on *Warriors: Legends of Troy*. He wrote 300 pages of script to tell the story that allows players to participate in the battle of Troy.

Some video games can take up to two years to write. Game developers can also be hired to perform the job function of game designer or level designer, which includes writing responsibilities. Job descriptions are certainly more fluid in the video game industry than in film and television, but the role of the writer is increasingly recognized and valued. For example, there are now awards for best writing for a video game around the world, including in Canada.

• (1535)

Ms. Kelly Lynne Ashton (Director, Policy, Writers Guild of Canada): The WGC believes that video game writing is an emerging sector within our jurisdiction. We see video game companies engaging mainstream drama and comedy screenwriters, and we see young screenwriters choosing to explore a career in video game writing.

This committee has asked what measures government might take to further promote growth, innovation, and commercial success in this vital 21st century industry. We have a few suggestions. A labour-based tax credit has been very effective in helping to build the gaming industry in several provinces, including B.C., Ontario, and Quebec. The tax credit is based on the provincially resident corporation's labour expenses for a qualifying interactive product. It can be used in financing, or as corporate revenue. It encourages companies to hire and develop a domestic talent pool rather than bringing in temporary talent from outside the country. We are very supportive of measures that will not only allow video game companies to grow in Canada, but also to support a domestic talent pool.

The government has done much with Telefilm, the Canada Media Fund, and the film and television tax credits to both support small businesses working in film and television and to ensure that they support Canadian talent as well. We understand that the video game industry is a different sector and perhaps needs different support systems, but the government should maintain the social policy goals of supporting Canadian talent as well as Canadian businesses. This means prioritizing hiring Canadian talent as well as ensuring that the majority of costs are spent in Canada. The Canada Media Fund's experimental program, which funds innovative digital media like video games, requires companies to be Canadian owned and controlled, and costs to be spent 75% on Canadians. They cannot be conditional upon a talent requirement system like CAVCO's because one does not exist.

However, if the government decides to directly support the production of Canadian video games, we strongly urge the development of a comparable talent system to ensure that federal funding assists in building a talent pool as well as capable companies. We want to be clear that we are not at all advocating for a content requirement for federal funding of video games as there is with film and television. While a video game that reflected Canadian society and stories would be fun, requiring that as a condition of support would be contrary to the fantasy nature of most video games. We are not advocating inserting beaver characters into hack and slash games.

Other witnesses that have spoken before you in this study have suggested that funding more university programs, such as specifically for video game writing, is needed. We would like to suggest that while university programs are helpful, it would be equally of

value and would make more skilled writing talent immediately available if there was support for mid-career training programs that would allow experienced drama and comedy screenwriters to learn about the specific craft of video game writing. The transition from film or television screenwriting to video game writing requires workshops rather than a degree program.

Ms. Maureen Parker: We are excited about the opportunities that exist for screenwriters in the video game production world, and we are actively exploring those opportunities. The sector could benefit from federal government support in the areas of funding and training, provided that the government maintains a regulatory framework that insists on the development of a domestic talent pool along with a domestic video game industry.

We thank you for your time and look forward to answering any questions.

The Chair: Thank you.

Next is the Entertainment Software Association of Canada, Mr. Jayson Hilchie, who is the president and chief executive officer, as well as Jason Kee, director of policy and legal affairs.

Go ahead.

• (1540)

Mr. Jayson Hilchie (President and Chief Executive Officer, Entertainment Software Association of Canada): Good afternoon. My name is Jayson Hilchie and I'm the president of the Entertainment Software Association of Canada. I'm joined today by Mr. Jason Kee, ESAC's director of policy and legal affairs.

ESAC is a national association representing companies in Canada that make, market, and distribute video games for video game consoles, hand-held and mobile devices, personal computers, and the Internet. ESAC represents the Canadian video game industry, which collectively employs approximately 16,000 people at nearly 350 companies across the country. Our industry directly generates \$1.7 billion in economic activity.

First off, I'd like to thank the committee for having devoted time to studying and better understanding the Canadian video game industry. The Canadian industry is currently the world's third largest, and first on a per capita basis. We appreciate the opportunity to discuss the success of this sector.

We've seen tremendous growth in this sector over the past few years, even in recessionary times, and we're expecting to see a continued growth of approximately 17% this year.

The types of jobs that are offered in the video game industry are truly the jobs of the future: high paying, knowledge intensive, innovation driven, and at the cutting edge of creativity and artistry. Our industry comprises a unique mix of artistic and technological professions, and the collaboration of these two areas is what produces truly innovative products.

It also fosters the creation and development of many different multi-functional skill sets, such as art and design, animation, visual effects, game design, sound design, motion or performance capture, computer engineering, production, quality assurance, narrative development, and business and marketing. These skills transcend narrowly construed industries and constitute the types of transferable skills that can be used to grow various subsectors of the Canadian knowledge economy.

We have a good sense that these types of jobs will be the jobs of the future, because of the growth in the popularity of the interactive entertainment industry all over the world. The video game industry is the fastest growing entertainment industry globally. The global market is currently estimated to be approximately \$67 billion U.S. That's bigger than the box office revenues for movies. With a growth rate of 7.2% annually, this industry will be worth \$83 billion by 2016.

Mobile phones, tablets, and online game platforms are expanding the video game market in unexpected ways. We're seeing women and men over the age of 55 getting in on the action. Innovative new technologies are transforming the way people play games, extending the life of a game across multiple devices and providing immersive experiences that rival our enjoyment of television and movies. The average age of a Canadian gamer is 31 years, so any notion that this medium is strictly for kids in their basement is outdated.

Canada has seen tremendous success in the past with big budget video game blockbusters, and we're known the world over for franchises like NHL, FIFA, Mass Effect, Dragon Age, Assassin's Creed, and Splinter Cell, just to name a few. However, the rise in the number of companies developing games for mobile devices has largely grown out of exciting new opportunities on the mobile front and the challenges associated with risky big budget titles that take hundreds of thousands of dollars more to produce and many more years compared to lower costs and production time for mobile or more casual types of play.

The industry has also been shifting to a model of digital distribution, where consumers purchase games directly from their mobile devices, PCs, or their consoles. This has created challenges for existing distribution models, but has also opened up opportunities in reaching a global consumer base for games.

Innovation is a key component of our industry. We make significant investments in research and development to continually advance the technological underpinnings of games. Our consumers are demanding better, faster, bigger game play experiences, and our industry is responding by investing in technology in a concerted way.

The National Research Council and New Media BC undertook a study which showed that 55% of Canadian video game companies are developing technologies to aid them in production, and that 61% of these companies believe they could develop viable commercial products from these technologies. Our 2011 study showed that over 53% of companies surveyed indicated they'd spent between 76% and 100% of their production budget on the development of new intellectual property. In addition, over 45% indicated that up to 25% of their production budget was devoted to the development of new technologies.

To maintain a strong video game industry, Canada must seize the opportunity to establish itself as the world leader in this innovative and cutting-edge industry. In our view, this requires a holistic approach that recognizes the interrelationships between different segments of the digital ecosystem.

● (1545)

ESAC urges the federal government to develop a digital economy strategy that addresses a full range of digital economy issues, including ready access to skilled labour and capital. Indeed, as already discussed by the companies that have appeared in previous sessions, our industry is facing a shortage of available talent at the intermediate, senior, and expert levels in various disciplines, and delays in processing work permits for foreign workers are causing significant challenges which must be addressed.

We have a comprehensive list of recommendations to make on specific actions that could be taken to continue to create the right conditions for the success of the video game industry in Canada. We've circulated those recommendations to you in our information package along with a more detailed brief on our issues bringing in temporary foreign workers. We will also be providing a paper on our recommendations to you shortly.

We thank you for the opportunity to present and would be happy to answer any questions that you may have.

The Chair: Thank you.

Next from KPMG, we have Rob DePetris and Carole Deniger. Rob is the senior manager and Carole is an executive director.

The floor is yours.

[*Translation*]

Ms. Carole Deniger (Executive Director, KPMG): Good afternoon. I will be making my presentation in French.

I am Carole Deniger, from SECOR-KPMG. It feels a bit odd to say that name because SECOR and KPMG merged very recently. My colleague Rob DePetris will speak to you afterwards. I will be making a somewhat more general presentation, whereas Rob will address specific questions and tax issues.

KPMG-SECOR's expertise in this sector is in both the tax and economic areas and in more strategic studies, particularly those that SECOR conducted at the time for Quebec, Ontario and Prince Edward Island and many industry clients.

At the risk of seeming to repeat what was said by our friends from the Entertainment Software Association of Canada who preceded us, I believe it is important to note all the profound changes that have been affecting the industry in the past few years.

We know that the recession hurt the market, but there have also been major paradigm shifts as a result of digital distribution, new platforms, the construction of mobile and online platforms, networked games, particularly social games, and all the new business models that have followed, with subscription and micro-transaction models. So there have been some major changes to which Canadian and foreign businesses must adapt.

Incidentally, when we talk about Canadian businesses, I believe we are still really talking about businesses that are provincial or are based around major cities such as Montreal, Toronto, Vancouver and various hubs where solid expertise and real maturity have been developed. I believe those hubs have managed to position Canadian businesses on the global stage. That is also the case of foreign businesses because we know that most of the gaming industry's workforce is at large firms owned by major publishers such as Ubisoft and Eidos, but also by many national businesses and smaller but very dynamic players.

As for the growth issue, as a result of tax credits in particular, I believe we have achieved such a degree of maturity that this is not a priority at the present time. We have managed to build critical mass, expertise that is recognized and no longer challenged. Now we have to develop recognition related more to our content and success, and that is perhaps where we must focus our efforts, particularly at the federal level and across Canada. For the general public, what is made in Canada does not really exist. It exists for the professional industry because people know each other. Initiatives such as Game Nation are also starting to make our businesses better known here, but we are talking about an entertainment-related sector. So it is important to position ourselves as Canadians on the world stage.

What does that mean? There is obviously a marketing issue, but we have to make sure that there is support for intellectual property created here. We have to be able to maximize the success of that property, that is to say original content, to support it and to generate maximum profits. In fact, in certain respects, we are talking about a service industry that creates a lot of jobs. Now we have to think about creating value. That does not mean that we have to control everything here. I think it is important, particularly for games intended for very large audiences, to have publishers outside Canada. However, if we can retain more of our intellectual property, we will negotiate better conditions, earn larger royalties and generate more profits that will stay here.

That can be done through existing measures, in particular the Canada Media Fund, which is quite a large fund, particularly its experimental component. However, perhaps it should be adjusted to provide more support for the creation of original content. That is what we also call prototyping in the gaming industry. We have to get to at least the prototype stage. We obviously already have the research and development tax credit. However, tax credits are mainly granted at the provincial level, and we are well served in that respect.

• (1550)

Incidentally, I took another look at the KPMG study. As you probably know, it states that Canada is a mature region where digital entertainment costs as a whole are the lowest in the world. We are well served in that respect.

I do not want to go back over immigration, but the issue of work permits, like that of marketing and commercialization support, is becoming an increasingly important issue. The same is true for venture capital in general. I know you have funded studies on that topic, including this one, which is a very good study. It shows that there are obvious deficiencies in funding to assist business start-ups, particularly in the digital entertainment industry.

Thank you.

The Chair: Thank you.

[*English*]

Rob, do you have anything to add?

Mr. Rob DePetris (Senior Manager, KPMG): Yes, I'm going to take a different tack on this.

I want to thank you for inviting me. It was so important to me that I gave up Tuesday night bowling.

Basically, my role at KPMG is tax, but in the past I worked at a video game company. I was vice-president of finance for a domestic company. I want to bring that experience in and touch on some of the things we did in Ontario.

Our goal, when we looked at this from an Ontario point of view, was to grow the industry. It wasn't about other factors, such as trying to create Canadian content and other things. We focused on one thing: creating jobs in a knowledge-based economy in Ontario. With that goal in place, what we looked at a lot was the tax credit system. We looked at taking a tax credit system that didn't work in Ontario and making it work.

We also looked at investing through business incubators. The federal government played a great role in this. We looked at how to help the entrepreneurs out there. Tax credits and entrepreneurial training are things I think the federal government should be concentrating on.

That's the reason things have progressed so well in Ontario, Quebec, and in places like Nova Scotia and Manitoba. I think B.C. was affected by a weak Canadian dollar at the time the industry started there. The tax credits over the last 20 years have been a replacement for a high Canadian dollar. The Canadian dollar back when B.C. created their industry was at 64¢ to 65¢ U.S., and now we have a Canadian dollar at par and we're replacing that with tax credits.

I think there's opportunity out there. I'm not saying the federal government has to jump into providing tax credits, but I think the SR and ED programs and other federal programs have helped. However, we must remember that in most video game companies, only 20% to 30% of the staff are programmers. The rest of the staff are artists, writers, and designers, people who aren't subject to the SR and ED credit. Even a lot of the programming people are not necessarily getting those tax credits, so SR and ED is only a small part for a video game company, whereas the digital tax credits offered by the province allow them to do a lot more.

That said, we need to concentrate on how to grow the industry. One of the things I'm not a big fan of, and this may be more personal than anything else, is the Canadian Media Fund. It does a lot of good things, but it's a \$375-million fund. Why is the video game part of it a small fraction that is called "experimental"? How did a \$67-billion industry become an experimental arm in Canada? I don't understand that.

This fund needs to focus a lot more on the video game industry. The other thing is, it's picking a lot of winners and losers, and I'm not sure that's always the best thing for government. I'd like to know how much return on investment they get from all these things they're investing in. How much have they actually gained? Can we put that money to better use than somebody sitting back and trying to figure out which video game they think is going to be commercially successful? I don't have the evidence on this, but I'd like to know.

Those are my initial thoughts.

On retaining intellectual property, perhaps there are ways through a tax credit system to do that. The biggest problem from the domestic side of retaining intellectual property is simply that most video games, other than some of the small mobile projects, are David and Goliath situations where a Canadian developer is being financed mostly by a publisher such as Ubisoft or Electronic Arts or some other big entity. There's no way you ever win the battle; if they're supplying the cash, there goes the intellectual property. It's very rare for a company to keep intellectual property.

• (1555)

The other thing I will quickly mention is the tax credits for investors.

The Chair: We're running a little over on time, so I'm sure that will come up in the question and answer round.

Mr. Rob DePetris: Okay.

The Chair: Thank you for your presentation.

We will go to Interactive Ontario, and Donald Henderson, the president and CEO, and Peter Miller, the chair.

Mr. Peter Miller (Chair, Interactive Ontario): Thanks, Mr. Chair. I am Peter Miller. Members, thank you for having us. It's a delight to be here to discuss with you one of Canada's huge success stories, our entertainment software industry within the broader digital media sector.

I am going to ask Don to start and I will pick it up later.

Mr. Donald Henderson (President and Chief Executive Officer, Interactive Ontario): Thank you, Peter. Good afternoon everyone.

Interactive Ontario is a not-for-profit trade association. It was founded about 12 years ago. Our mandate is to assist our members in growing their businesses. Those are businesses in what we call the interactive digital media or IDM sector. IDM is one of the six cultural sectors supported by Ontario Media Development Corporation. We represent approximately 300 interactive digital media companies. These companies create interactive content across a range of sectors and for a wide variety of digital media devices or platforms.

Our members create video games but they also create e-learning applications, web-based content, apps and other types of content for mobile devices, transmedia properties for broadcasters or other rights holders, interactive advertising campaigns, and social media content.

Given our mandate and membership, it will not surprise you that we take a broad view of what the entertainment software industry means. As a couple of people have already alluded to, the idea of what a video game is has changed pretty dramatically over the past five years. You have already heard from witnesses who represent the triple-A game studios that create games for consoles such as Xbox 360 or PlayStation3 or for PCs. This is the traditional idea of a video game.

As you've heard, the industry in Ontario is quite different from that in Montreal. Ontario is home to many smaller developers who are bootstrapping their small businesses. They're financing their own projects and distributing their content through new digital marketplaces such as the App Store.

People also consume gaming content in new ways. You've heard a little bit about that. People, including people in this room, will pull out their smart phone while they wait for a bus and play a game really quickly or take a break at work and play a game on Facebook.

Games also serve a purpose broader than simply entertaining: they can also inform or educate. This is no different from other cultural products like film or television. According to somewhat dated data, Ontario's interactive digital media industry employs approximately 16,000 full-time employees. Approximately two-thirds of these companies employ 10 or fewer employees, so it is much more skewed to smaller companies. Ontario's digital gaming companies are heavily export oriented, with about half of the firms reporting that foreign sales reflect 90% to 100% of their revenues.

Ontario has had great success. As Peter said, this is a great Canadian success story. We believe this is due to four factors:

First, unlike the manufacturing or natural resource sectors, the barriers to creating an IDM company are much lower and this encourages entrepreneurship and the creation of small businesses. The main input in creating great content is great talent. Ontario benefits from a large number of universities and colleges that provide skilled labour to create these games. This includes technical skills, such as computer science, as well as artistic or creative skills through programs like Sheridan's world-leading animation program, or Centennial College's game design program, and many others.

Second, there is a concentration of other creative industries in Ontario. There's been a long history of excellence in creative industries such as music, broadcasting, publishing, film and TV production, and so on. This provides talent and cross-media opportunities that have fostered the development of a strong digital media sector.

Third, the Ontario government has made digital media, along with the broader ICT sector, one of its economic priorities, investing through tax credits and other means of support.

Fourth, both the federal and provincial governments have provided support targeted at domestic, Canadian companies as well as foreign-owned digital media companies. Not necessarily to the same extent or in the same way, but the government has recognized that to build strong Canadian companies, we need an ecosystem that has both smaller and large companies. You heard about that from some of your other witnesses as well.

• (1600)

Government's role in fostering a successful digital media industry is critical and it cannot be overstated. That said, we believe the objective must be to build a successful creative industry. The emphasis is on the last word: industry. It's not to subsidize cultural products as has been the assignment for other cultural industries. In other words, unlike is often the case in film or television, the goal must be to make money and for the government to see its investments recouped through employment, taxes, or even straight ROI.

Mr. Peter Miller: Thanks, Don.

It's typical for witnesses in a situation like this to speak with great certainty about the industries they know. We thought we'd actually tell you about some stuff that we don't know because it might inform you on some of the things that you want to inquire into.

Surprisingly, one of the things we don't know is the precise size and scope of the digital media sector in Canada and in Ontario. The Canadian Interactive Alliance, the trade association that we and Alliance numérique are members of, have done some studies in the past. They are sampling survey studies. They don't get a full sample of the sector, but roughly speaking, with the best numbers we have, there are about 3,000 digital media companies in Canada, about 1,000 of which are in Ontario. It seems like a simple thing. One of the things we as a trade association have as a goal and as a priority is to try to do a proper mapping of the sector in Ontario and find out things like the extent to which companies depend on government support, because that simply isn't known. That's something we're hoping to do with the Ontario government around venture capital in the next little while.

The other thing we actually don't know much about is precisely how the synergies among subsectors within the digital media industry and among the digital media industry and traditional media work. We know it's important, and we know it's a competitive advantage for Canada and for Ontario, but we don't know exactly how it works. That might be an interesting thing to understand a little more, because if we understand it a bit more, we can replicate it in perhaps a more formal way.

Tax credits have been spoken about. I would agree with what Rob has said about their importance in building the industry and building companies. Where we have been less successful is in the early-stage support. I define early-stage support as both early stage in the life of a company and early stage in the life of a project. That leads down two paths of VC, venture capital, support for early-stage financing of companies and project support for specific projects. The challenge there, quite frankly, is we don't know what the right mix is; we don't

know how to do it. Inevitably you get to the problem that Rob alluded to. If you're not careful, you find yourself picking winners and losers rather than supporting all parts of the sector.

Another thing we're still not really that sure about is whether the design of federal and provincial credits, for example, the intersection of SR and ED and the provincial tax credits that support digital media, work in an ideal coincidental way or whether it's actually a perfect synergy. It's fascinating when you think about it. SR and ED was designed for something entirely different. You all know a bit of the history of R and D tax credits and the controversy surrounding that, but SR and ED does sit there so importantly on the technology side, and then digital media tax credits, in Ontario and Quebec, in particular, sit there on the content side. They seem to work very well together, but we don't actually know if there are other ways we could get them to work better. Are there gaps between the two that could be improved?

All that said, and this is difficult for public policy-makers, we think public policy has to take some chances and take some risks and experiment. We're an industry and a technology that's having to reinvent itself all the time. We've always taken risks. We're always going into new territory. In this area in particular we think government should do likewise. Be prepared to experiment. Be prepared to examine what you've done. Be prepared to refine what you've done. There's no shame in not getting it right precisely the first time. If we want leading-edge digital media companies in Canada, we're going to need a leading-edge public policy framework as well.

Thanks very much.

• (1605)

The Chair: Thank you.

Finally, we have Alliance numérique, Pierre Proulx, general manager, and Stéphane D'Astous, chairman of the board.

The floor is yours.

[*Translation*]

Mr. Pierre Proulx (General Manager, Alliance numérique): Thank you very much.

I in fact will not be making a long introduction because I am going to repeat many things that have already been said, particularly by the Interactive Ontario representative. We are two sister organizations within the Canadian government, in Quebec and Ontario, and we both belong to the Canadian Interactive Alliance. In short, our missions are very similar and we have virtually the same origins.

Alliance numérique has been in existence for 12 years. It is the result of the merger of three organizations that was conducted in order to make Quebec a centre of excellence for the development of the digital industry for all content, that is for the creation, production and distribution of digital content.

Alliance numérique's mandate is to support businesses and facilitate their development in a variety of ways. We play a major role in unifying the ecosystem as a whole around common issues. I often say that 95% of jobs in the video gaming industry in Quebec are held by Alliance numérique members. That means approximately 8,200 jobs. So we represent much of the video gaming industry.

In fact, Montreal is really the hub of video gaming in Canada because it has nearly 8,000 jobs in the video gaming field. Stéphane D'Astous, the president of Alliance numérique's board, is the general manager of one of the major studios, Eidos-Montréal, which is affiliated with a large Japanese group, Square Enix. That shows you how strong the international structure of the video gaming industry is.

Obviously, Alliance numérique, like many organizations in Canada, sees a connection, a convergence with other sectors, since our members also come from the e-learning, mobility and web services and applications sector. Digital is no longer vertical, but rather horizontal. So our content appears on various platforms and it is possible to consult or access that content.

One thing distinguishes us from other places in Canada, and that is the creation of the Montreal International Game Summit nine years ago. We had a short prospectus to show you but could not distribute it to you since it is in English. I apologize, but we only have English versions. That is just to show you that this summit is the most important event of its kind in Canada and on the east coast of North America. Our competitors are more in San Francisco or Seattle than on the east coast or in the rest of Canada.

I would also like to draw your attention to the fact that Alliance numérique organizes a number of commercial activities or missions around the world. As you will see in the documentation we have submitted to you, we travel practically around the world every year with our companies to help them market themselves internationally, since the earth is only one country in the digital world. As the Quebec and Canadian markets are small, we have to move toward international markets if we want to ensure the success of our businesses.

There is one negative factor, and we would perhaps like to address that at greater length this afternoon. Financing is very difficult to obtain. The tax credits offered by the provincial governments support product creation, but there is very little assistance for commercialization. So we have trouble in many cases, particularly with regard to young start-up businesses that want to launch their own intellectual property. This is more difficult for them because, as we explained, they are often at the mercy of a major publisher or of corporations that corner a large percentage of revenues in exchange for the services they offer to ensure a product penetrates the international market as a whole, an approach that is really difficult and costly to take.

We would like to address three points or see the federal government address them. They are very important points in guaranteeing industry stability.

The first is to shorten the time it takes to obtain necessary immigration permits for our workers. Currently, it often takes 14 to 16 weeks to get an answer, which means that many studios are

forced to abandon projects. The project as a whole, which normally requires 40 to 50 people over two or three years, cannot be done in Canadian studios. We deplore this situation.

In addition—and some stakeholders mentioned this earlier—there is not enough support for the proper commercialization and development of Canadian intellectual property in certain fields. An effort should really be made to clarify what it would take to improve assistance and to support businesses developing their intellectual property, in particular, but also to help them in that commercialization effort.

In closing, I would like to raise a third point, which was addressed in connection with the funding granted by the Canada Media Fund.

We talk about considering the video gaming industry as a full-fledged cultural industry in Canada, but funding through other cultural bodies should also be granted in a much more consistent and significant way.

If we round the figures, we can say that approximately 10% of funding from the Canada Media Fund is granted to what is characterized as experimental activities. It goes without saying that we loved the fact that our sector was characterized as experimental. In short, we are talking about approximately \$33 million out of the \$330 million or more that is paid out annually. That is barely 10%, which is very small, considering the impact, renewal, growth and salaries paid. In the case of the video gaming industry, we are talking about an average of \$63,000 for each of the 16,000 people who work in it. That represents an enormous amount of money for the Canadian economy. Furthermore, these people are all good taxpayers, particularly at the federal level. Consequently, you will understand that it is important to provide more adequate support to the industry in this field, which could be a priority.

Now I will hand the floor over to Stéphane. We are here today above all to speak with you.

• (1615)

[English]

Mr. Stéphane D'Astous (Chairman of the Board, Alliance numérique): Thank you, Pierre.

Good afternoon, everyone. As a good Montrealer, I'll be speaking some *franglais*, so I'll be giving the translator some difficulty.

Thank you for giving us some time to provide our testimony and express our thoughts about our great industry. It's a great success story.

I am wearing several hats today. As Pierre mentioned, I'm the proud president of Alliance numérique and also a proud GM of a major studio in Montreal.

Just last week I was invited by the federal government to participate on a panel in Seattle for Invest in Canada. The three chosen industries were aerospace, green energy, and digital media.

This summer I went to the Olympics and was at Canada House in August for an Invest in Canada work session with potential foreign investors. I'm going to preach for my neighbourhood. Obviously, digital media was high level and received the most questions after the panel, and was the most interesting, I think, in the eyes of the investors.

Video games are a serious business involving serious money and serious jobs. I will use my studio as an example. We opened up barely five years ago and we have created 500 great-paying jobs. Our first game took 4,000 man-months. Think about that. That's about 100 people for 40 months. We're very far from two guys working out of a basement. Don't get me wrong; that still happens in some aspects, but the maturity of the industry is there for sure.

As Pierre also mentioned, what the investors are really looking for, after talking to them, is that the talent is there. Yes, the subsidies and incentives are truly important, but if you have money without talent, it's a short-term goal. The pool of talent has to be there. Yes, the schools play a part. We're working hard in every province, but we sometimes need to go outside Canada, unfortunately.

Two years ago my staff was composed of about 24 different nationalities, about 15% and now two years later, about 20% of my workforce. Sometimes we need to go outside because there's such a demand. When we go outside, we need some help from the government. As Pierre mentioned, the delays have been increasing. Two years ago we were looking at maybe eight weeks. Now we're looking at 16 weeks. That really hurts a project. When we invest in HR people to scan the globe to find the right talent, the right specialist, it takes four to five months before that person comes to our workplace to help us produce international high-quality games. It really hurts. Sometimes we need to cancel a couple of mandates because of that.

This is obviously something that is very close to our hearts.

• (1620)

[Translation]

As Pierre mentioned, we would like the video gaming product to be recognized for what it is. Last year, I believe, the U.S. Supreme Court said it officially considered video gaming a cultural product. That acknowledgement made south of the border was very welcome. I do not know why we could not do the same. As you know, most Canadian products in this field are of high quality, internationally recognized and well received. I believe we have reached a level of maturity in this area that deserves some recognition.

As regards intellectual property, a number of international publishers are established in Canada, more particularly in Montreal. To help the pendulum swing back the other way, it would be a good idea to stimulate the Canadian intellectual property associated with our products.

Thank you.

[English]

The Chair: Thank you to our panel for their very informative opening remarks.

Now we're going to move to our question and answer period. This is the first round, at seven minutes. Just so members know, I'm going to be sticking, pretty strictly, to the seven minutes.

Our first questioner is Mr. Armstrong.

Mr. Scott Armstrong (Cumberland—Colchester—Musquodoboit Valley, CPC): Thank you, Mr. Chair.

We've seen some trends develop over all of your testimony. One has to do with exports and distribution, another with training versus immigration and some problems with immigration, and the yet another is the concerns regarding capital, the Canadian Media Fund and some barriers to capital. I'm going to try to touch on all three.

First of all, Mr. Hilchie, you said that in Canada the industry is worth about \$1.7 billion. Do you know how much of that percentage is exported?

Mr. Jayson Hilchie: In our survey in 2011, 50% of the companies said that 90% to 100% of their revenue was all export. A good percentage of it, almost half, would be a good estimate.

Mr. Scott Armstrong: That's a significant amount. The industry really is international.

Mr. Jayson Hilchie: This is a global industry, absolutely.

Mr. Scott Armstrong: All right. With its growing worldwide by 2016, I think you said, to \$83 billion from a current level of \$67 billion, would you see Canada's industry continuing to grow at about the same amount it is growing worldwide?

Mr. Jayson Hilchie: That's what we're working toward. We're working to grow the industry here in Canada and to ensure that the labour is available and that the support from the governments is available to ensure that companies start here, companies invest here, and the industry continues to grow.

Mr. Scott Armstrong: You talked about the availability of skilled workers. We look around Canada and see 15% of youth unemployed and governments taking many steps to try to provide employment for youth. This is a young industry. Don't the people who work in this industry tend to be younger than in many other industries in the country?

Mr. Jayson Hilchie: I'm not sure, when comparing it with other industries in the country. The industry definitely employs new graduates, and the new graduates who come out of schools are options for our employers, and the companies that are in the industry are definitely out looking for those people.

The issue really is around the intermediate to senior level employees required for the video game companies to build studios and build games. It's difficult for any industry to build a company around new grads. What is needed is a good mix between new grads and intermediate and senior employees in order to mentor and train those new grads so that they can eventually become the intermediate and senior employees mentoring new grads who come out of our universities.

Mr. Scott Armstrong: Mr. D'Astous, you have 500 employees. What percentage of your employees would be under 30?

Mr. Stéphane D'Astous: The average age of the dev staff is about 34 years. That's the average of about 400 people who are working specifically on development.

Mr. Scott Armstrong: Probably 50% of your employees are under 30, at least.

Mr. Stéphane D'Astous: I need to add that we have a quality assurance department—testers, if you want to put it in different terms. We have 100 testers, and these guys and girls are much younger, because that's an entry-level position. The average age of our testers is maybe 26.

Mr. Scott Armstrong: There is no doubt, I think you'd all agree, that there is opportunity here. With a high percentage of youth unemployment in Canada and the struggle to find employment, especially that first job, there is probably some opportunity, if we can support the growth of this industry, to move that percentage down.

Would you all agree on that? It's a younger industry.

A voice: Yes.

Mr. Jason Kee (Director, Policy and Legal Affairs, Entertainment Software Association of Canada): I would certainly say that's fair.

There are two components to the talent challenge that we face.

One is the immediate challenge that we have at the intermediate and senior levels, where we can't find the expertise. There is a lack of domestic supply, which necessitates our sourcing it from abroad.

This is not the general preference of the industry. We pay a premium to bring in these people. We'd much prefer to have them domestically, if we could. It's only out of necessity that we have to go abroad to fill that role. That's the immediate challenge we have in front of us, which is why we're raising it with you right now.

There's the long-term talent development piece as well, which is about making sure that we continue to produce the graduates to fill the junior positions who then will get the training from the guys we bring in, gain the expertise over time, and then become the professionals in the organization.

The input that I have from our member companies is that they don't have challenges in recruiting at the junior levels; recruiting people to do QA or as testers is definitely not a challenge. Certainly there are opportunities for us to help address some of the youth unemployment issues with respect to entry-level jobs in our industry, but that isn't what the industry is facing as a challenge right now.

• (1625)

Mr. Peter Miller: Let me broaden that a little bit. There are lots of small companies, there's a lot of entrepreneurship, and there are lots of kids who do things that you and I never would have done. They go out and they start something. They start companies because they can't find traditional jobs.

Your basic question is whether, by supporting this sector, we support youth and their ability to find ultimately well-paid, high-level jobs. Absolutely we do.

What's great about the ecosystem is that it feeds off itself. You get little companies founded by entrepreneurial Canadians, which can be bought by the big guys, and whether they succeed or fail, people learn and can grow in the sector. It's a huge factor.

Ms. Maureen Parker: We absolutely understand the need for training in universities and schools. We have many programs in film

and television as well. But we do get to a point, as a company, where we can approach, for example, our senior writers. They don't need training. They don't need universities. They maybe need a workshop. In terms of looking for government support and tax credits and such, the film and television industry gets those credits, but it employs an entire field of Canadian creators and below-the-line crew.

That's all predicated on employing Canadians in good jobs. These are the good jobs. We certainly are prepared to train for those good jobs. That doesn't require a university degree. We could do a workshop.

Mr. Scott Armstrong: You mentioned the next step. What's happening now is the emergence of the digital distribution of games, and not only to mobile devices. It is how they're distributed. That's really how you market and how you get your product out there.

Is the next step you're going to face as an industry the distribution of the good product you're making as you compete with other countries internationally to get those products out there digitally?

Mr. Jayson Hilchie: Definitely the challenge in the industry right now is the change in the industry from distribution of physical product to distribution through digital downloads. The industry definitely is shifting in that respect.

It is a challenge, but it also opens up opportunities, opens up new markets, opens up new customers. Also, in some senses, it is a more efficient, lower cost way of distributing a product.

Mr. Scott Armstrong: I represent a rural riding. Don't you think this is going to level the playing field a bit? If you had a company producing something in a remote place and actually distributing a hard product, their costs would be high because of the gasoline costs and the transportation costs, but if you distribute it digitally, you can distribute all around the world. It doesn't matter if you're in Tatamagouche, Nova Scotia, where I come from, or in downtown Toronto or New York City.

Doesn't it level the playing field if there's a lot of emphasis on and a lot of support put toward the digital distribution of product?

Mr. Jayson Hilchie: What it has done is create a renaissance—I think my colleague Mr. Kee used that term—in the independent development community in this industry. It has levelled the playing field so that smaller companies are able to make games and distribute them and get those games into the hands of customers. In the past, they would not have been able to do that, because they didn't have the capital to box the games or ship the games or deal with the logistics around that.

Absolutely, it has done that for companies.

Mr. Scott Armstrong: When you look at the places that are really successful right now, such as Montreal, Halifax, Ontario, and B.C., it's typically the more urban areas that have been the hubs for this industry. What you're telling me is there's an opportunity now with the change in distribution patterns for your whole industry to actually see some of this explosive economic activity happen in the more rural areas.

From the other things you've said, one of the drawbacks is that you need that creative community around you to produce this. For the most part, that exists in urban areas. For the industry to really flourish outside the major urban centres, we're going to have to support this creative community in the rural areas as well. Would you agree with that?

Mr. Jayson Hilchie: Yes. May I speak to that?

The Chair: Sorry, but I'm trying to stick to seven minutes a round. I wasn't paying attention to the clock. Maybe someone else will pick it up later.

Mr. Nantel.

[*Translation*]

Mr. Pierre Nantel (Longueuil—Pierre-Boucher, NDP): Thank you, Mr. Chair.

First of all, I want to thank you for being here. You all seem very enthusiastic about coming to talk about your businesses, and that is great. We rarely have such spontaneous discussions. We are interested in this field, but it is an environment that we know little about, like most people. You are happy to talk about it, and that is so much the better.

Coming from the recording industry, I find it very strange to see that the situation of the recording industry is completely the reverse. For once, the major players are more established in Montreal, whereas there are more independents in Toronto, which is very strange.

Would that explain the difference in immigration needs? Mr. Kee talked about immigration problems, but I believe this need is greater in Quebec, since there are more large companies that need specialists for major launches.

Do you know whether immigration issues fall under Quebec's jurisdiction or federal jurisdiction?

• (1630)

Mr. Stéphane D'Astous: I can answer your question. As you know, for a work permit to be issued, we have to obtain the consent of both orders of government. We have the most difficulty shortening delays at the federal level.

Do the large companies necessarily recruit more outside Canada? I believe so. I believe we can make that correlation. I have four projects under way, and they are all at least \$30-million productions. Those projects involve very specific technical specialties for which we have to find experts to help us do what we want to do.

One should not generalize, but I believe the vast majority of international recruitment is being done for large projects requiring a lot of expertise.

[*English*]

Mr. Jason Kee: To supplement that, I agree entirely. I think the problem has become particularly acute in Quebec because Quebec has a greater concentration of the larger companies than any other jurisdiction. I can assure you that our member companies that operate in Ontario and B.C. suffer from the same issues. It just isn't quite as acute as it is in Quebec because there just aren't as many of them.

[*Translation*]

Mr. Pierre Nantel: We are talking about manpower training. I understand perfectly well that, in the case of an individual who has designed a very specific item that we want to integrate into a game, that expertise cannot simply be made up. Even if that person is prepared to come and work, the fact nevertheless remains that manpower training is important. As residents of our country and of our provinces, we have an interest in having our people work.

You also have an interest in hiring people from here. It would cost you a lot less to hire someone from here than to bring in somebody from Sri Lanka. For you, is manpower training a field where you could dialogue more specifically with the people responsible in order to come up with a tailor-made solution? The Toronto people talk a lot about Sheridan College and Centennial College, which seem to have met a certain need. Are there similar institutions in Quebec?

As the lady from ACTRA said earlier... No, it was not ACTRA, but rather Publishers... What was it again?

[*English*]

A voice: Writers Guild.

Mr. Pierre Nantel: Thank you. The acronym I don't remember, but the wonderful lady from the Writers Guild.

[*Translation*]

That person said she could potentially organize seminars with her staff who were already trained to write for television.

Mr. Pierre Proulx: That is being done, particularly in Quebec. After the Ubisoft Campus closed two or three years ago, we set up a group to take over from it, together with the 12 largest companies. We noted at the time that college-level training was no longer enough. Everyone had to have at least a university education to be able to meet the needs of businesses. That led to the establishment of a needs directory. We came up with an average number of programmers. For example, approximately 800 or 900 people were needed per year for the first three years.

However, this is good. The new students will be graduating and we will incorporate them in the industry.

However, how do we go about having my employees who are currently at an intermediate level, or my more experienced employees, replace the people I will be looking for on the other side of the world? Two weeks ago, the Behaviour company in Montreal celebrated its 20th anniversary. It is one of the oldest businesses in the field in Canada. Most of them have been around for 15 years or less, and 80% of them are much younger. Consequently, there are not a lot of experienced people who are capable of managing a business or a group of 40 or more individuals. When a quick response is required as part of a project, failing which the project will get done somewhere else, the deadline has to be very short and the person who comes from outside Canada has to be able to confirm that he or she can pick the project up and deliver it in two years. So the three- or four-month delay in bringing someone in from outside Canada is very long.

However, we conducted a study and decided, based on it, to organize master classes to meet those needs. We have had nearly a dozen, which have been attended by people like screenwriters and others who work on technical aspects as well. We brought in people from California, where the software we want was written. It costs us \$100,000 to bring that specialist in to train 12 people over two days. Businesses are prepared to make that choice and to pay those amounts because they need to train these people. This is for their development.

As you said—and I am going to answer another question that was asked—the export percentage is nearly 100%. On average, a business makes 3% to 5% of its sales in Quebec, if it is lucky. In Canada, that varies between 5% and 8%. The rest of it is sold elsewhere in the world, not in Canada. As you can understand, this is not a consumer good. Since the population is small, sales are made in foreign markets rather than here.

To get back to the question, I would say that it is indeed possible to organize master classes. However, there are specialized schools such as those in Ontario that you mentioned.

However, the studios are currently making a lot more connections directly with Quebec universities. As a result, someone from Eidos Montréal may meet with a professor or the head of an animation or programming department to talk about various avenues and upcoming issues to makes changes and improvements to course programs. I would say that is done on a monthly basis.

• (1635)

Mr. Pierre Nantel: That is unfortunate because—and I believe this applies to virtually everywhere—institutes in Quebec are seeking to train the labour force in the entertainment and television field. However, that field is declining, at least generally, even though demand is high. It would definitely be easier to find people who ultimately would find a job after taking that kind of training.

Mr. Pierre Proulx: The question here is cost. I will let Stéphane talk about that.

Mr. Stéphane D'Astous: I also want to let my colleagues speak.

Take our company, for example. We attend graduation ceremonies at colleges and universities at least 15 times a year. We spend approximately \$10,000 on scholarships in order to build bridges with the École polytechnique and various colleges and universities. That is a priority on my agenda.

The Chair: Thank you.

[English]

Mr. Pierre Nantel: Nine minutes are already over.

The Chair: Mr. Simms.

Mr. Scott Simms (Bonavista—Gander—Grand Falls—Windsor, Lib.): Thank you, Mr. Chair, and thank you to our guests.

It appears to me, and has now for the last two meetings, that this is a greater and more complex industry than I had imagined, and a lot of it deals with the facts you have spoken about here. But, of course, as we're doing this report we have to come up with recommendations.

The school aspect of it is very interesting because we should probably look at a model similar to what Germany is doing. They actually have technical schools set up around clusters of industries, specifically for that reason. We obviously are not there. Maybe we should consider doing that, but the cultural side is what really interests me, because we do have cultural industries that we invest in, and heavily in some cases. We brought up the Canada Media Fund and other organizations but it seems to me the bulk of the conversation is about tax credits. There are labour-based tax credits for starters, and the digital economy strategy. There's the SR and ED program. You mentioned the SR and ED program, and that really only affects 25% to 30% of the workforce, the programmers. The other side is creative, which is where the Department of Canadian Heritage has a role. Therefore, we go back to the standard bearers that we invest in, such as the Canada Media Fund.

We also have regulations about Canadian content, and God knows I'd love to see an angry puffin in Angry Birds because I'm from Newfoundland. I would love it.

A voice: We use Montreal for our video games.

Mr. Scott Simms: See? That's good for you, but here's the thing. There is a game called Puffins: Island Adventure, and it was produced by Other Ocean Interactive out of St. John's. St. John's is not typical. It's not Montreal. It's not near the size of Toronto, but for some reason they have a little gaming industry that's happening. What's interesting about it is that this gaming company out of St. John's does Iron Brigade, and *CSI* games. They do something based on *South Park*, all of these games that are not Canadian in nature, but on the website for Puffins: Island Adventure there's a moniker that says "Telefilm Canada".

My first question is about recommendations based on cultural investment, whether it's the Canada Media Fund or according to this, Telefilm Canada. I don't quite understand that and I hope somebody can address it.

What do we recommend for the traditional sources of investment or tax incentives through the Department of Canadian Heritage?

• (1640)

Ms. Maureen Parker: To start, I believe that was funded under the old CMF, not the new CMF.

A voice: The Canada New Media Fund, which was Telefilm

Ms. Maureen Parker: Right now, yes, there is at CMF a certain allotment of money for experimental interactive, which is generally where the video games fall, and the rest of the money is allotted to television and what they call convergent content. That's digital content that accompanies television programs.

The way the CMF works, and we're fine with the way it works, is with a points system. Ten points mean all of the elements are Canadian: there are Canadians working on these projects; they're Canadians paying taxes, they're employed in Canada creating Canadian content. We certainly support the request for funding, etc. We just think that if there is federal money involved, that money has to be accompanied by Canadian jobs. Maybe there's a tier possible. As you continue to train, maybe there's a tiered credit.

Mr. Scott Simms: I don't mean to interrupt but I think this is a great round table we have going here, so I'd like to just keep on going.

Jason.

Mr. Jason Kee: We have detailed discussions about this in our recommendations. It basically breaks down to three.

In our view there is a role to be played in a combination of a tax credit based funding, which is historically how many of our provinces have done it. That has the value of being agnostic. One of the reasons why, in our view, anyway, the IDM tax credits that have emerged particularly in Quebec and in Ontario have been successful is that they were deployed as economic development plans and not necessarily as a cultural policy objective.

There is a tie to Canadian labour. You have to have labour doing the work that is resident in the province for a certain amount of time. That's what you have to have to be eligible. That makes sense. It's an economic development about building jobs. That's a prerequisite. That tax credit is useful for some types of companies, but it means you are going to get that money after you have delivered and completed your project. That could be years out. A smaller company may have cashflow challenges, in which case direct funding options for them are often good. They fill a role in the ecosystem with respect to making sure they can survive over long periods of time. There is a role to be played there.

The linkage of an IDM fund to what was originally the Canadian Television Fund and got split into two streams is slightly problematic insofar as it is informed by a television and film perspective—I will call it a bias—that doesn't necessarily reflect the full roster of IDM production, especially on the game side, which from a production standpoint operates very differently, especially for the smaller projects. Hiving it off is worthwhile.

Mr. Rob DePetris: Most of the tax credits for small companies across Canada are on completion of projects, as Jason was saying. The larger companies have annualized tax credits. The difference is you can't go to the bank with these credits that are based on finished products because the bank won't lend you money. They ask what happens if you don't get the product done. The guys who need the annualization don't have it with all or most of the tax credits because of their size.

In Newfoundland and Labrador, the government gets away from the tax credits and starts making individual deals with the companies

that invest there. They have different grant and loan programs and so forth. They don't really base themselves on a tax credit system.

Ms. Carole Deniger: In Quebec, a low-cost gap financing tool helps you have your money beforehand because you are going to get secured revenue. That also helps to bridge. That's an issue.

• (1645)

Mr. Peter Miller: Thanks for the question. It's an excellent one.

I come at it as someone who has worked in traditional media for 20 years. My Interactive Ontario hat is one I just put on about five months ago. It's pro bono.

I'm going to say this very directly. The worst thing you can start doing with digital media is to start to think about it the same way you think about film and TV. They are completely different. You simply don't want to go there and start thinking about digital media the same way.

It's funny, I was moderating a panel at a conference of the so-called International Institute of Communications yesterday. We had a subject on this. I asked the participants what I should say to them because I needed some advice. One of the things I heard from an independent producer was a very frank comment that the trouble with traditional film and television is the companies are based on earning fees rather than making profits. It's a whole different kind of business model. With all respect to my friend Maureen, the last thing you want to do is import something like a point system, or 10 out of 10, or any of that crap we have in film and TV and bring it over to digital media. It would be a huge mistake.

Just to finish, you will ultimately have to pick priorities. Government funding is limited. One of the things you might have to ask is where limited public funds go.

A voice: Can we hear from these two gentlemen?

The Chair: You have to use your minutes.

Mr. Peter Miller: That was my fault.

The Chair: That's up to you.

Next we have Mr. Young.

Mr. Terence Young (Oakville, CPC): Thank you.

With your agreement, I'm going to ask Mr. Armstrong to finish what he was asking before.

Mr. Scott Armstrong: The question I asked Mr. Henderson had to do with the barriers, the level playing field, that digital distribution of the product can have for the rural areas of the country, but also maybe the challenge of having that creative culture outside urban areas and trying to develop that. You were cut off, so maybe you could just finish your thought.

Mr. Donald Henderson: Sure. I would say two things. One is that these triple-A games cannot be made in small centres. There's just not the talent there, and we've talked about that.

However, in Ontario there are a lot of small companies, which could really be two or three people, and two or three talented people can be almost anywhere, so there is an opportunity for those people to create great content. These games are different from the retail box product, but you can play them on your phone. The studio that made the Puffin game was a larger studio, but it was probably made by a small team. That's one thing, and I think that is a benefit.

Also, if those smaller teams make a smaller product, they still need help to get the world to find out about it. That has been alluded to, that there needs to be more support for marketing. That small team can be based anywhere and make the best game in the world, but if nobody knows about it, it doesn't exist. I think there is a real opportunity to assist on the marketing side—we call it “discoverability” or having people find your game—because so much content is being created. The flip side of the low barrier to entry is that a lot of people can make that content.

Mr. Terence Young: Thank you. You spend 4,000 person months developing a video game, and somebody calls it content. That's kind of demoralizing sometimes, I guess.

Thank you, everyone, for coming here today, by the way.

I'd like to ask Maureen Parker a question, please.

You talked about a concept for developing a domestic talent pool. Could you comment briefly on how that might work? Would there be a role for the federal government?

Ms. Maureen Parker: Thank you for the question.

We're not envisioning the same system as film and television. I agree with my esteemed colleague, Peter Miller, that we're not talking about a point system and we're not looking at content, as Kelly Lynne was saying, beavers and so forth. What we're looking at is tying public federal money to Canadian jobs.

While we appreciate there is a learning curve, and based on your presentation, I think you said one of the companies has been in business for 25 years.

A voice: Twenty years.

• (1650)

Ms. Maureen Parker: It's 20 years. It seems to me there's a lot of time to get some training done. In some ways, the film and television industry is constantly retraining as well.

We now work with green screens, etc. The tech is moving so quickly in our industry that there is always retraining, but in the cultural industries, and I want to include you in that, we've made a commitment to ensure that our top jobs are going to Canadian creators and residents because those are stories, those are cultural products, in whichever way you want to tell them.

I certainly see that some support is needed, and perhaps more support for training in different capacities.

To answer your question, what we're looking at is to definitively tie any federal moneys to a domestic talent pool requirement.

Mr. Terence Young: The corollary of that is that the U.S. or the U.K. could do the same for their homegrown talent. Have you ever thought about that side of the coin?

Ms. Maureen Parker: Sure. I'm only using television as an example because that's what I know, but we do things called co-productions, minority and majority. You work out deals based on who put in more money and you split the financing.

We're not saying there can't be any level—I was listening when the alliance was talking about having a software expert from San Francisco, who's the only person who can do this. That sounds reasonable to me. There has to be some flexibility in the system, but we certainly know from our perspective that we can provide writing skills, that you don't need to go to L.A. to get a writer for Assassin's Creed. That's my point.

Mr. Terence Young: Thank you.

Mr. Hilchie, you said that Canada is number three worldwide in the gaming industry. Can you give me a 45-second answer on why?

Mr. Jayson Hilchie: We have spoken a lot about why in the various conversations we've had, but in general, I think the theme is that the talent pool that exists, the skilled labour that's available, along with the government support and the creative nature of the employees and the industry, really was a fantastic mix to help this industry grow.

As the industry has grown, it has trained domestic labour and enlarged the labour pool to be able to grow. The history of games that have been made here, NHL, FIFA, Assassin's Creed, Mass Effect are blockbuster games that sell millions of copies all around the world. In a sense, being involved in successful projects like these has created the skill set for some of those employees to continue to create games like that, and the companies here benefit from the support.

Mr. Terence Young: Mr. DePetris, you were saying the Canada Media Fund does a lot of good things. It's \$375 million. You also said that the gaming industry is still considered experimental. It sounds like they're way behind the times on that.

You said maybe we could put the money to better use. If you were in charge, how would you do that?

Mr. Rob DePetris: If I were in charge, I would do less picking of winners and losers in using a fund. I would start off by asking: What is the success of this fund? Are you making money on it? The criteria seems to be that you should be investing in commercially viable ventures. It's a repayable loan, so how much of it has been repaid over the last number of years? I'm curious about that answer. My gut feeling is I don't think it's that high, but I don't know.

What would I do?

Mr. Terence Young: Where would you put the money?

Mr. Rob DePetris: I would put the money into infrastructure, into investing in incubators to help small entrepreneurs. The federal government has done some of this in my hometown. I would put the money into looking at systems and credits or grants that go out to people, without trying to pick a winner or loser.

Mr. Terence Young: Did you want to comment?

Ms. Carole Deniger: Yes. I think that automatic measures such as tax credits have great value. The results have been tremendous so far in the gaming industry, mostly for provincial tax credits.

I agree with Rob, in a way, about picking losers and winners. Another option doesn't have to be taking the money from the Canada Media Fund, but could be in parallel. We've talked a lot about there not being a lot of venture capital and equity, especially to put into projects. Private third party venture capital has been quite successful in picking losers and winners, but in a more market-driven way with a portfolio approach. You need to have losers; you can't just have winners. Government can play a role in supporting those third party investors, either directly or through incentives to individual and private investors to the third party venture capital fund.

• (1655)

Mr. Rob DePetris: An example of that would be where the Ontario government has put together a fund to invest in certain innovative projects, a fund of funds.

Ms. Carole Deniger: Yes.

The Chair: Thank you.

Mr. Cash.

Mr. Andrew Cash (Davenport, NDP): Thank you, Mr. Chair, and thank you all for being here.

This is an excellent opportunity for us as parliamentarians to get a handle on what is not an experimental industry, but a very significant part of the Canadian economy and the cultural space we endeavour to support.

On that subject, I want to touch on the need for an overarching digital plan on the government side. I believe that many of you made submissions to the Government of Canada's study in 2010. How important would it be for the sector if the government finally revealed the results of that study? It's almost three years since we did the study.

I'll start with the folks from Ontario and then I'd like to expand that out.

Mr. Donald Henderson: Chair, thank you.

Definitely, there is a need to have a bunch of policies that work together to help support this very complicated industry. I think it was actually the ESA that had made submissions to the digital media strategy, as opposed to us, so maybe I'd let Jayson speak to that.

Definitely, it's a complicated industry. There are lots of questions we don't know the answers to that need to be researched.

To answer your question directly, it would be helpful to have a path to know what things need to be done. I think that's the purpose of having these types of meetings, to educate and inform members from both sides of the House on what needs to be done.

Mr. Andrew Cash: Mr. Proulx or Mr. D'Astous.

Mr. Pierre Proulx: We were part of a *mémoire* with TechnoMontréal at that time, in 2010. Basically what we were asking from the federal government was to put out money to help implement infrastructure across Canada to have accessible broadband for everyone, at a low price, on any device: using a cellphone

in subways and everywhere across Canada, if it's possible, and using a cellphone or tablet with WiFi everywhere across Canada. That basically sums up a way to look at it. There is a way to access everyone across Canada with an infrastructure that will help everyone across Canada.

Mr. Stéphane D'Astous: If we look at a broader vision, obviously, entertainment and information comes to mind, but there is digital education.

My daughter, who is 15, started this year with an iPad as her new support. I get medical broadband.

Once you've poked into the digital plan, you'd better strap yourself because you're going to be talking about a lot of things that will impact a lot of people in different ways.

Mr. Andrew Cash: Just so I'm clear, that was part of your submission in 2010.

Others participated, I believe.

Mr. Pierre Proulx: Yes.

Mr. Andrew Cash: Could you talk about what you were asking for?

Mr. Jason Kee: Certainly. Our fundamental view is that there are a lot of interdependencies and interrelations between disparate elements that come into play with the digital economy strategy. It was going to be a long and difficult process. Also, we are keen to see the strategy. That being said, I would rather the government take the time to do it right than to hurry something out the door just to address criticism that it hasn't been fast enough.

In our view there were different elements. One was the issue of access to capital. That includes SR and ED credits. That includes an IDM credit. That includes direct funding options like the Canada Media Fund. There are issues of access to talent in terms of immigration challenges, in terms of long-term talent development. There are issues of broadband access and making sure that we deploy broadband, because broadband is the future of our industry. We have to have broadband to access customers.

There are issues of smart regulation to make sure that any time we decide to regulate in any area that is going to affect our industry, which is nascent and in its early stages of development, that we think through the possible permutations of those kinds of interventions so we don't suffer from unnecessary or unintended effects.

Those were the range of issues that we covered in our digital economy strategy. We largely updated some of those recommendations in the packages that we provided, and it pretty much covered the field. But it's a pretty wide area of issues.

• (1700)

The Chair: Thank you, Mr. Cash.

Mr. Gill.

Mr. Parm Gill (Brampton—Springdale, CPC): Thank you, Mr. Chair.

I want to thank our witnesses for taking the time to be here with us to share some of the real success stories. It's great to hear some of these numbers—16,000 employees in 350 companies—and Canada being the third largest and first on a per capita basis.

I'm going to throw something out there and maybe each of you can give us your input on what you think and why. I'm just asking for your thoughts in terms of why you feel Canada has such a strong standing on the world stage on this? What gives Canada such a competitive advantage?

Ms. Carole Deniger: It will be rapid because I'm sure everybody has something to say. The position we have now is a given, unless we go back and take away everything. We've been there, especially in Quebec, for over 20 years.

I have to say that was the vision of economic development of the Prime Minister and the finance minister at the time. That was an extremely aggressive and risky move at the time but it paid off drastically. Quebec is more than 50% of the Canadian industry.

As somebody mentioned before, the whole west coast was a bit different. It was again the dollar value and things like that.

The fact is that with that much maturity and with the link with other industries—we have film and animation, the National Film Board, and the IT industry—all this nourishes the whole ecosystem. It's a given now, whatever the reasons, because there are plenty.

The issue is how we maintain and capitalize on that. How do we value that?

The whole multicultural aspect, I think, is a very interesting aspect. In Montreal we're proud we attract that. We understand that we don't want to take jobs away from Canadians, but it is something that's amazing to be able to attract people to work in Canadian companies in those fields.

Mr. Stéphane D'Astous: I will add to Carole's comments. Maybe 10 to 20 years ago there was a brain drain. People from Canada were going south, or in whatever direction out of Canada, sometimes because of the lack of important projects in their fields. What I can say is that I'm really proud that my small company is able to attract these people, who left 10 years ago, back to Canada, because we have the most interesting projects in our domain. That is the brain drain in reverse.

I tried to sum up in one phrase daily life in a video game industry studio. It's like a high-speed train collision between art and tech. There's no other industry that can say they have these two elements. How do you manage this energy? I think Canada, in particular, Montreal, the west coast, and Ontario have a certain ability to manage these two great forces.

Mr. Jason Kee: Our industry has actually always been a global one. We have never looked to our domestic marketplace as our sole market. We would not survive in this industry, because we aren't large enough. Canada is actually 2% to 3% of the global market. As a result, we've always looked abroad. In fact, this is why the introduction of new online platforms and mobile platforms has actually accelerated. We have tremendous opportunities.

When we already had the talent base here, when we already had the instructions here, when we had government support in the form of provincial tax credits and other funding options, it basically meant that we had an array of circumstances that worked in our favour and that we were able exploit.

To allude to something Carole said, one thing we want to be careful about is resting on our laurels. We're third in the world now. We weren't always third. We won't always necessarily be third if we're not careful. We're in constant competition with the U.K., in particular, which tends to be very tense with us about this. But we have huge development forces in South Korea, China, and a lot of the Asian nations, which have many more emerging industries that are extremely strong. They are very good at exploiting some of the emerging areas that are going to threaten our third place position. We always have to be mindful of making sure that we're adjusting our public policy tools to ensure that we retain that position, if not moving to second maybe or even nudging the U.S. out of first.

● (1705)

The Chair: Ms. Sitsabaiesan.

Ms. Rathika Sitsabaiesan (Scarborough—Rouge River, NDP): Thank you, Mr. Chair, and thank you to our large panel here. I'm going to try to touch on one topic, because I think that's all the time I'll have.

I was reading ESA's temporary foreign worker document. I noticed that your workforce is a big topic. What I keep hearing is that we'd like to hire Canadians, but the talent doesn't exist yet. That seems to be about a lot of the technical people, if I'm correct. The talent doesn't exist yet at the senior levels to create that core team. We heard this last time, as well, from witnesses.

What I've learned from your temporary foreign worker document is that if the talent doesn't exist right now, we need to speed up the process for visa approval, because if we don't invest in the industry and get those leaders for the industry to grow, we can't risk losing this industry and losing that third place standing. We've seen changes to HRSDC and CIC policies that are making it harder. I also hear from Ms. Parker that we need to be making sure that we're hiring Canadians.

My question is for everyone and I would remind everybody that we probably have 30 seconds to 45 seconds each.

What should we be doing to make it easier for companies to hire Canadians? If that Canadian is not available right away, what training or what else can be done to get Canadian workers up to speed quickly? If we don't, then I'd say we should make sure that we're allowing the visa process to go faster so that we can get that good talent into the country.

Ms. Kelly Lynne Ashton: One of the things we're looking at is seeing where the real problem is and targeting those real areas. For writing, we have talented people here. Let's have intermediate level training to get those people into the video game sector.

Ms. Maureen Parker: I would add that we need a quid pro quo. Whatever we give, we have to receive back.

Mr. Jason Kee: In terms of the context of the brief, it's not what I'd call more conventional or traditional core creative occupations where I'm hearing from our member companies this concern comes up. It's not all technical guys. It's not all coders and so forth. They're only 25% or 30% of our overall workforce. There are groups we put into the creative element of our industry who aren't the conventional creative people you would think of from a film and television concept. These are the designers, the level designers. These are the guys who work on the digital arts, who create the art assets, and so forth. That requires a high level of specialized expertise to actually do. It isn't someone who just graduated from school. Those are the kinds of jobs we're talking about.

Again, it's not just a matter of doing a workshop and then they'll be able to fill the jobs. If that were the case, we would happily do it. Every single major company engages in a substantial amount of in-house training based on the individual tools they use for their own individual games, mostly to ensure that the new graduates, or even those who are experienced, are actually qualified to be working on the individual project they happen to be working on.

Ms. Rathika Sitsabaiesan: I'm going to play devil's advocate for Ms. Parker here. Are we mostly hiring Canadian writers for our games? You are representing the Writers Guild, so I'm going to help them out here. Are we mostly recruiting Canadians to do the writing, and then if they don't have the technical or video game specific writing capacity, are we helping them to develop that?

I see the Quebec team nodding. Is that happening in Ontario and the rest of the country as well?

• (1710)

Mr. Donald Henderson: In Ontario, it's the larger projects that have professional writers because they're larger, more narratively driven projects, instead of something small that is played on a phone. Ubisoft Toronto is one of our members and they hire locally for writers.

Ms. Maureen Parker: Sometimes, but it's infrequently; sorry, I'd love it if it were true. We would be talking more often other than just here, so maybe we'll endeavour to talk more.

Mr. Jason Kee: It's also important to recognize that the kinds of projects that would necessitate bringing in professional writers are a fairly small proportion of the overall games that we're producing collectively. For a small iPhone game, as Don has alluded to, you don't necessarily need a professional writer. Also—

Ms. Maureen Parker: citizen's arrest 3 [*Inaudible—Editor*]...you did, and you used an L.A. writer in that one.

Mr. Jason Kee: In some instances, that individual company will make individual choices and, therefore, will not be eligible for the tax credits for those choices.

The Chair: Thank you, everybody. We're moving on to the next question, as interesting as that's getting.

Mr. Brown for five minutes.

Mr. Gordon Brown (Leeds—Grenville, CPC): Thank you very much, Mr. Chairman, and thank you to our witnesses.

I had the opportunity this morning to speak to Ms. Parker and Ms. Ashton, and we talked about training. I know we have only a few minutes left, so I'm going to give you a couple of minutes to talk

about those things, because I know they're very important to you. In order to have the industry take advantage more often of the talent that we have here, the writers across Canada, tell us how we can tap into them even more than we are today.

Ms. Kelly Lynne Ashton: What we're looking at are workshops. That is something that can be done for writing. The importance in story-based games comes from plots and character. Screenwriters who have been working on drama series and comedy series, that's what they know, and they've developed a skill base over a career in Canadian television. That's why Ubisoft Toronto hired a drama writer who's been working on *The Listener* and *Republic of Doyle* to work on the latest version of *Splinter Cell*.

If we have that kind of targeted training of experienced, skilled screenwriters across Canada, they can then be part of the talent pool and work on these story-based games. We're talking with Interactive Ontario, and we'd love to talk with Alliance numérique about these kinds of partnerships where we can introduce their members to our members, which is also the other part of the story. They have to know that our people can do the work.

Mr. Rob DePetris: Can I add my two cents?

The Chair: Sure, go ahead.

Mr. Rob DePetris: Or maybe not any sense.

I respect the Writers Guild, but last time I made a video game—now I'm at KPMG—I had a team of 100 people and I had three or four writers—and maybe you guys can fill me in. The majority of people we're talking about here are programmers and artists, and some designers. I appreciate that.

I can tell you that when we made a video game all our writers were Canadian, and we did try to use as many Canadians as possible. Just remember when we make these games, it's not like a film where you make a project, you set up the film, and then the actors go home, and then you come back in. Eidos in Montreal has 500 people. Next year, they're going to be making four new projects and they're going to have 500 people, or maybe they're going to have 700 people. These companies continue on, and they're all Canadians.

Sure, we have to bring in talent. When somebody says that we were there 20 years ago, yes, we were there 20 years ago when the industry was 1,000 people in Montreal. The industry now is 16,000 people. We are a victim of our success. We're growing so fast we have to bring in some talent, but in reality how many people have we trained over the last number of years who are filling those jobs? We're doing phenomenally.

Let's look at the real picture here. This immigration issue is something that people have to deal with and we need to help to keep growing our industry, but it's a small issue.

Ms. Maureen Parker: I do have to respond in terms of what we do. I understand what you do is different, but you were saying you want to be considered a cultural industry and have—

Mr. Rob DePetris: I didn't say that.

Ms. Maureen Parker: Okay, I'm sorry.

Mr. Rob DePetris: He said that over there, just so we're clear.

Voices: Oh, oh!

Ms. Maureen Parker: I thought I heard that. I heard CMF access, I heard these things.

I guess the point of this is we also employ hundreds of thousands of people. They don't just work for eight months. They work for eight months, and then they start a new job. Again, we're not here just to talk about writers. We're here to talk about the principle of investing in a Canadian talent pool. I understand that you're going to have short-term needs that have to be met from outside the country, but again, I firmly believe that we have every ability to train Canadians to do these great jobs.

A voice: I do, too.

•(1715)

Mr. Stéphane D'Astous: On our last game we had a team of maybe four full-time writers out of 135. That gives you the percentage of writers on a game. Eighty per cent of the writers were from Canada. You want to put the right people in the right place. In business, you need to deal with two strong things: offer and demand. Excuse me, but why would I go outside Canada? If there was one qualified person in Canada, why would I go outside Canada? Please, somebody, explain that to me. If I invest in my human resources to go outside, it's because we've looked internally. Please give us a break on that. If there's somebody from B.C., Ontario, the Maritimes, obviously we'll take them. For us that person, that great talent, will be available in a matter of days, weeks, months maybe. If I need to go outside, I need to go for good reasons.

The Chair: Mr. Brown, your time is up.

Just so people know, we do have votes that are scheduled. Bells are supposed to go off any minute now. They haven't started yet, but when they do start, we'll have to wrap up immediately. In the meantime, Mr. Dubé, we have a bit more time.

[*Translation*]

Mr. Matthew Dubé (Chambly—Borduas, NDP): Thank you very much. One senses that time is of the essence.

In the context of this discussion, which is a kind of round table, as Mr. Simms said, I would like to say that this goes beyond any specific role. I do not want to suggest there is too great a similarity

between the design of a video game and the field of television or film, but there is a similarity in that an increasing amount of teamwork is involved. It was noted on the cover of this week's *L'actualité* magazine that a BA in history could help contribute to a video game. The game *Assassin's Creed* was cited as an example, of course.

Going back to the mistake Mr. Nantel made earlier regarding ACTRA, in fact, in that case as well, that concerned the importance of motion capture, which increasingly involves the contribution of actors. We are talking about screenwriters and history consultants. Even in war games, people with a military background are consulted.

When a business is established in a community, it hopes that people from the surrounding area can make that kind contribution. That is the case in Montreal, but I am less familiar with the situation in other cities.

How does it help you when those people—

[*English*]

The Chair: I'm sorry, Mr. Dubé, but you didn't quite get your question in on time. The bells are ringing.

Mr. Scott Simms: Can I raise a point of order?

The Chair: Yes.

Mr. Scott Simms: I would like to talk about this. I don't know if it's a point of order, but call it what you wish.

This is not workable, quite frankly. We have a round table here with an incredibly good discussion, and we're being cut off at five minutes. It's not working, quite frankly. I want to do this now in public because I think we need to change this. We could lengthen the time limits. The fact is it's no longer question and answer; it's now discussion. Normally, we would break the group up—

The Chair: Mr. Simms, the time limits are what we agreed to as a committee. We can discuss that in the subcommittee, and we can change our standing orders.

In the meantime, I want to thank our witnesses for being here today.

Mr. Scott Simms: That's always in camera.

The Chair: We had a very informative discussion.

The meeting is adjourned.

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