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The Honourable Rob Moore

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• (1530)

[English]

The Chair (Hon. Rob Moore (Fundy Royal, CPC)): We'll get started. I want to welcome our witnesses to the Standing Committee on Canadian Heritage for our study on the Canadian entertainment software industry.

We have two panels today. The first panel will run from 3:30 p.m. to 4:45 p.m. In the first panel, from the Canadian Interactive Alliance, we have Mr. Kelso, chief executive officer; from bitHeads, we have Mr. Simpson, chief executive officer; from Humber College, we have Mr. Acosta, dean of the school of media studies and information technology; and from the Alliance of Canadian Cinema, Television and Radio Artists, we have Stephen Waddell, national executive director, and Simon Peacock, performer.

Also with us, by way of video conference from beautiful Vancouver, British Columbia, we have Victor Lucas, executive producer, creator, and host of *The Electric Playground*.

Welcome to all of you. We're having an interesting study on Canadian entertainment software, and we're glad that you can be a part of it. We'll begin with five to seven minutes of opening remarks, and when you've all finished your opening remarks, we will have an opportunity for questions and answers until 4:45 p.m.

We will start with the Canadian Interactive Alliance and Mr. Ian Kelso. The floor is yours.

Mr. Ian Kelso (Chief Executive Officer, Canadian Interactive Alliance): Thank you, Mr. Chair. Greetings, and thank you very much for having me here to address this in committee.

I know you've heard from a number of intervenors over the last couple of weeks. There are some very common themes that have emerged, but I want to start off by just setting up two thoughts for you.

One, you've heard that Canada has a very successful video game industry. You've heard we're positioned as number three as the advocate for the video game industry in Canada. I like to say that we're not actually number three in the world; we have the most successful video game industry in the world.

We have half the number of people working in our industry who work in the U.S. We have 16,000 working in the video game industry versus 32,000 in the U.S. That's five times more per capita. We have something that is without precedent in this country in terms of a cultural industry, and I think we have the world's most successful video game industry.

The second thought I want to leave you with is let's not blow it. Let's not stop and think that we're really great. We've got a lot more to do. We have to use this position to continue to grow the industry, as the industry itself is in a constant state of transformation and flux.

I'll tell you a little bit about the Canadian Interactive Alliance quickly. We are the voice of seven regional trade organizations across Canada, two of which you've heard from already: Interactive Ontario and the Alliance numérique. We also have memberships in Alberta, British Columbia, Manitoba, Saskatchewan, and Prince Edward Island. Those are all of the legally incorporated trade organizations across Canada in interactive digital media. Our members span from very large firms down to one- and two-person shops, although the vast majority of the members, which equal over 1,000 in those combined memberships across the country, are very small companies.

We do a profile of the industry called the "Canadian Interactive Industry Profile". We've done a couple to date. The last one was in 2008. We are just about to embark on a process of serving the industry right now thanks to the Department of Canadian Heritage, which is one of the co-sponsors of that study. The figures I'm using are from 2008. At that time, the interactive media industry writ large consisted of 3,200 companies and employed over 50,000 Canadians.

The games industry portion of that is only about 10% of those companies, a little over 300 companies. It represents 30% of these jobs. The gross revenue of the entire interactive digital media industry is about \$4 billion per year. As you've probably heard, the video game industry itself contributes \$2 billion, so 50% of the revenue from interactive digital media actually comes from video games. It's a very critical part of the interactive digital media industry.

What are video games? I think video games are very much changing right now. They're very different than they were five years ago. Before, we talked mostly about a packaged good, something you bought in a store. Now, most video games are largely digital. Before, it was very much a blockbuster-driven enterprise. Now, video games are very much about niches. The tools of production before were very expensive, but now there are many tools that are very inexpensive and accessible. Before, the audience was mainly male, about 18 to 35 or 25 to 45. Now, it's everybody, of course. Before, games were nerdy, but now nerdy is cool.

Are there a few game players around the table?

One of the biggest revolutions that's happening right now is the smart revolution, which started with the smartphone. It's hard to believe that the iPhone is now only five and a half years old—June 29, 2007. Now, there are 491 million being sold per year. In Canada, that constitutes 45.3% of all of the mobile phone subscribers who now have a smartphone. Even more outstanding to me right now, reading from this device, is that this was just introduced two and a half years ago. It has become pretty much ubiquitous.

• (1535)

IDC, one of the world's largest marketing intelligence firms, predicts there will be 117 million tablet devices sold in 2012; 165 million sold in 2013; and by 2016, up to 260 million being sold per year. This device has now become a very critical device for video games. If you have kids, as I do, you know if there's an iPhone or an iPad around you don't get to touch it very much.

The industry itself is exploding, because these new devices are accessible. The distribution of these devices is global and is accessible. It's caused the industry, mostly very small companies, to expand at an incredibly rapid rate.

I think the change from the old way of looking at cultural industries to this new way is really interesting. We used to make policies to protect and to defend ourselves and to make sure Canadian voices were heard. Now we are actually in a situation where other countries.... For example, I was in the U.K. this spring to appear before the Westminster Media Forum, which is sort of a parliamentary summit for different industry leaders of media to address the video game industry. The U.K. is very concerned about the amount of talent they're losing to Canada. In fact, they just introduced a tax measure for the first time. They haven't quite figured out what it's going to be yet.

We're not really used to being in a situation where other countries are concerned about the brain drain to Canada. I think what's happening here is something I call the Hollywood effect. Hollywood started because it was a haven from the big companies in New York, companies that wanted to maybe escape paying some patent fees. Talent started to migrate there. As the talent arrived and found a haven for making content, the money soon followed. The talent followed the money and the money followed the talent, and there was a "virtuous" cycle of talent and money. And as we know, Hollywood is now the go-to place. If you want opportunity, then Hollywood is the world capital for making content in the film industry.

That's kind of happening in Canada right now, in places like Montreal and Vancouver, and now starting in Toronto. You go around the world and you hear people ask, "Where do you want to go to make games?" It's Canada.

So what do we need? I think we need to sustain our leadership position by ensuring we can get the talent here. As we get the best and the brightest from the world who want to move here, let's make sure we can get them here. Hollywood does not discriminate between those who are from the U.S. and those who are not. Companies will not bring in talent gratuitously. It's a very expensive proposition. I think we should remember that every senior person who is brought here is a job enabler, and they create jobs for more Canadians.

We did a study in the spring called *New Directions for the Financing of Interactive Digital Media in Canada*, which I'd like to draw your attention to. That study showed that there was clearly a lack of early-stage capital in this country. That's one thing we do lack as compared to our neighbours to the south. That is critical, because big companies tend to spin off talent in the form of people who want to start their own enterprises. People have great ideas, but if the capital is not there on the ground to help to grow those companies, they will go elsewhere. The climate for early-stage capital in the U.S. is very different than it is here in Canada. It's much more accessible. The money is much cheaper.

• (1540)

I think we need to focus on finding tools for that seed round of funding to get companies off the ground. The CMF has been a great thing and has been a major step forward in the right direction. We need to keep refining that to make sure that the capital being provided, which is still on a project basis, is patient enough and friendly enough to follow on investment so that the capital invested through that fund does not limit companies in their ability to find a second or third round of funding.

Right now there's some insecurity around whether that money has to be repaid immediately, whether an investor will see that as an exit, and whether that will enable a round of funding.

In conclusion, I'd say that as a country, we have something really fantastic happening here. If we were American, what we might ask at this time is what we should do with this opportunity. I think we would take advantage of this and double down and really try to make sure that we become forever dominant in this space so that when people all around the world think of video games, they think of us first, here in Canada.

Thank you.

The Chair: Thank you, Mr. Kelso.

Next we'll go to Mr. Simpson.

Mr. Scott Simpson (Chief Executive Officer, bitHeads Inc.): Hello.

Thank you, Mr. Chair, and thank you all for making the mistake of inviting someone like me to this committee. I will do my best to provide you with information, but soon you will realize that was a terrible mistake on your part.

I have no prepared remarks, so the good news is I'll get you back on schedule. I'll pick up on a couple of things that Ian said.

Good work, Ian. That's an "Ian" five to seven minutes. That was very good.

Things like the CMF are very good to provide some necessary funding for projects that we do. I have two businesses. One is a tech business that's been around for about 17 years, which actually takes advantage of a lot of federal programs, such as SR and ED and IRAP, and that's great. We also have a spin-out games company that's been around for maybe five years, and we find it much more difficult to actually qualify for different programs based on the structure of the business or the projects that we're actually doing. Even though they are primarily provincially focused, in terms of the funding aids that have been there, we've always tried to take the tack that you shouldn't be entitled to money; the money is there to help you succeed, but it should not be the be-all and end-all. You should not be operating a business if all you need is government incentives to actually make a profitable business. I think that's very important to remember.

One of the things that I think we lose a little bit when we talk about things.... And by the way, I really would like to preface all of this by saying, don't take away funding programs; they're all very good. But I think you need to build a sane business based on what that is. What we find is that through different programs, as great as they are, there are different downsides, I'll call them, to what's there.

Most of my friends in the entertainment industry are outside of Canada. A lot of them are in the U.K. Ian was just talking about how they are clamouring now to rebuild their industry. We took over the number three spot of a video game provider, and the U.K. fell down to number six or seven or something. What we find is that Canada is actually very good at putting out the message about how much they help developers, which they do, but the unfortunate side effect of that is that then people expect you to be cheaper, or they expect you to be able to do things a lot more advantageously than they can do there.

That's actually somewhat problematic. It's not your fault; it's my fault, or it's my developer's fault because they're not working hard enough, or something. They actually say, okay, fine, if it costs \$1 million to build a game...they know we're going to get \$400,000 back, we're going to get 40% of that back somehow, through SR and ED, or through one of the OMDC programs, or through IRAP, or whatever, so they expect it to really cost \$600,000. Then all of a sudden they only want us to charge \$600,000. That means I can't even claim my \$1 million. There's this weird rabbit hole whereby knowing that we are beneficiaries of good programs means that they're expecting our cost sheet to be very different. The fact of the matter is it's not. A developer in Toronto costs about the same as a

developer in London, England. The cost of living is actually a lot higher in London than it is here, but the fact is that in Toronto we have great programs that keep the standard of living high. Developers like to make good money, and that's all very good.

That's very beneficial for the developers who are working, but it's this weird idea or perception that because we've been very successful in doing what we're doing, the world knows about it, which is fine—that's good, it's the way it's supposed to be, and it's a good attractor for talent into the country, which is great, but it's one of those things that makes it difficult to actually operate a profitable business, especially when you consider that gap financing or the ability to actually get from, hey, I'm paying a guy, so today I paid somebody \$1 to do a job—I actually think I pay them a little bit more than \$1 today. That dollar, when I get my incentive from the government, through SR and ED or IRAP or the OMDC, or whatever, can take anywhere from 18 months to 46 or 50 months to actually return to me. I have to actually finance that money for the time it's gone, and that's very difficult, especially considering a lot of the chartered banks are very reticent to loan me money against something, especially on the provincial side. The federal is actually very good, so it's good work to you guys. But it's a little bit difficult to actually set up something where I can even borrow to put up for something that I'm actually going to receive from the government later.

Anyway, I don't want to bog down too much on that, other than to say, yes, as Ian said, tweaks in things like the CMF are probably important, but the programs themselves are very sound. The biggest problem the CMF has for a company like mine is that it is a very project-focused business, and yet the application deadlines are in August and September. That means that if I have a publisher who wants to do a game starting then, that's great, but if I come up with a good idea in May, I'm kind of out of luck.

● (1545)

Further, I might apply to the CMF in September or October, but I'm probably not going to hear if I'm successful until December or January, so it's very difficult to actually go through. Unlike a program like SR and ED or IRAP, which is a very immediate and timely thing, things like the CMF, which are great, are specific to one kind of project that happens at a certain time of year with a certain kind of publisher.

What I'm trying to say is that the programs are great. We shouldn't be relying on them to have successful businesses. But the idea that we're in some weirdo saturnalian bacchanal making all sorts of money hand over fist and just pissing it away by paying people too much is not true. We have very real financial concerns we have to work through, especially in the banking system. We look at our incentive programs as more of a defensive mechanism against low times of work or whatever. They're defensive armour that we like to strap on to get through tough times while we wait for projects to gestate and come around.

I probably didn't make any sense there, but I'll answer all your questions later. Once again, it's your fault for inviting me here. I had nothing to do with anything.

Anyway, I thank you for your time.

• (1550)

The Chair: Thank you, Mr. Simpson.

Mr. Acosta.

Mr. Guillermo Acosta (Dean, School of Media Studies and Information Technology, Humber College): I thank you for the invitation to participate in this session.

What I can offer the committee is an overview of the programs we have that address the needs of the Canadian software entertainment industry, and also some anecdotal information coming from our advisory committees and the faculty who work with us at the college.

I will start with the programs we have. We have four different programs that address the needs of the industry.

We have a two-year diploma in multi-media design and development and a three-year advanced diploma in web design and interactive media. The difference between these two programs is that the latter is focused on the development of mobile applications for android, iOS, or BlackBerry tablets and smartphones.

We also have a three-year advanced diploma in game programming, and the focus of this program is programming. It's not a program for artists; it's a program for developing coders.

We have a three-year advanced diploma in 3D animation. This is a program for art. This is a program where the graduates will develop the assets that the game programmers will require. We're talking about characters; we're talking about environments and animation, all those kinds of things.

We also have been approved just recently—last month—for a one-year foundation of art program that will give the opportunity to students who don't have a portfolio gain entrance into the more advanced programs that require a portfolio.

We are waiting for approval of a bachelor of fine arts program. We have heard from our advisory committees. They've requested to have people with a higher level of education. It's not only skills-based, but it's also that we have a foundation or strong knowledge in fine arts, and then we develop this program. It is a combination of skills-based study and a strong background in fine arts, which I think is a really interesting proposition for the market.

As you can see, we have developed different pathways to form professionals who can be successful in the Canadian software entertainment industry.

In terms of growth, the number of applications for this cluster of programs has doubled from 2007 to 2012. As an example, game programming was a program that started in 2007 with only one section. It quickly grew to two sections, and we're planning a third section of students for 2013.

The focus of the program is a moving target, as technologies shift quickly. It makes it a challenging cluster of programs to manage, in several aspects. First, we have to keep the curriculum up to date, and second, we have to keep the facilities and the faculty up to date as well in terms of meeting industry standards for professionals who are going to be working in the industry.

Another aspect of this is the applied research. Humber, as a degree-granting institution, is investing resources in doing applied research with industry partners, which I think can lead to really interesting developments in the areas of graphical user interface or usability and interactive media in general.

Last week we hosted a delegation from the Shenzhen Polytechnic university in China. They are interested in doing joint programs in applied research and courses, which I think opens up a number of really interesting opportunities for our students to develop skills that will be really valuable in the market.

When it comes to employment, I would say that 70% to 85% of our graduates find employment within 6 to 12 months after graduation in a related field, which is really good. The more fragmented nature of the industry in the GTA, with a large number of smaller developers, is a good fit for the programs we have. The situation is different in Montreal, where you have bigger players. The larger players want to hire people with a number of years of experience, which a recent graduate won't have.

•(1555)

Even though we've been successful lately in placing some of our most talented graduates in companies like Ubisoft or Gameloft, there are always opportunities to continue strengthening the links with our industry partners. There are initiatives like Gamercamp, or Digifest, or the Great Canadian Appathon, where students can really showcase their skills. It's a good meeting place for industry and graduates to understand the needs of the one and the capabilities and skills of the others.

There are also opportunities to develop more applied research. As I said before, there are game labs, usability labs, and international collaboration projects, but all these have a cost. These programs are costly and expensive to run, but I believe that if you want to continue with Canada in a leadership position in this sector, we need to continue investing more in these areas.

Another challenge we face is the speed of the industry. For example, we started planning our BFA in animation in mid-2011. We submitted the proposal to the ministry by the end of 2011. We're still waiting for approval. By the end of the process, we won't be able to offer this program, I don't think, until fall 2014, with the first graduates coming to the market in fall 2018. We're talking about six years from starting to plan to having the first graduate hit the market. In six years, the technology landscape will probably be very different from what it is today.

There are a number of opportunities and challenges. I think it's a very exciting place to be. Humber continues to invest in the programs and in the professional development of faculty to keep up with the pace of the industry.

That's what I can offer. Thank you.

The Chair: Thank you.

Next, from the Alliance of Canadian Cinema, Television and Radio Artists, Stephen Waddell and Simon Peacock, the floor is yours.

Mr. Stephen Waddell (National Executive Director, Alliance of Canadian Cinema, Television and Radio Artists): Thank you, Mr. Chair. Thank you to the committee for inviting Simon and me today.

I'm Steve Waddell. I'm the executive director of ACTRA. With me today is Simon Peacock, who is a prominent voice director and performer who lives in Montreal and works extensively on video games.

It's an honour to be here as the voice of 22,000 professional performers, members of ACTRA, whose work entertains, educates, and informs audiences in Canada and around the world. We're here to talk to you today about the role our members play in the video game industry, its growing significance, and how we think the federal government could support and nurture this sector here in Canada.

ACTRA members provide the voices for characters in a large variety of games, from simple apps that you carry around with you on your phone to award-winning, international bestselling console games like Assassin's Creed and Prince of Persia, produced in Montreal by Ubisoft, and Deus Ex by Eidos.

Not only are our members providing voicing for these multi-million dollar games, but they're also appearing on camera in games through the use of performance- or motion-capture technology and cyber scanning.

You might have some idea of what performance-capture technology looks like: actors moving around a sound stage, dressed in full body stockings with small sensors built into their clothing to help sophisticated computers track their movements. More and more of our members are finding they can make a living out of this type of work, not only in video games, but also in television and in movies like *Avatar*, directed by a Canadian, James Cameron, who made extensive use of this technology in his film, which broke box-office records.

ACTRA has strong relationships with many of these game companies, most notably Ubisoft. We're committed to working with the game industry to establish industry standard collective agreements, which bring stability and certainty to the engagement of voice and on-camera performers in game production.

I will now ask Simon to speak about the reality of working in games.

•(1600)

Mr. Simon Peacock (Performer, Alliance of Canadian Cinema, Television and Radio Artists): Thanks, Stephen.

Thank you all for having me here today for this opportunity to talk to you.

Over the past few years, work opportunities for Canadian performers in video games have grown tremendously. As Steve mentioned, we've been lending our voices to video game characters ever since Ubisoft opened its Montreal studios in 1997. Recently we've also been providing our performances on camera through performance-capture technology and our likenesses through 3-D scans.

As more and more game companies have come to Canada to set up shop, and performers have become more experienced, the number of work opportunities available to actors has exploded. That said, new opportunities also bring new challenges, and with this industry's unparalleled growth, we foresee some potential bumps in the road that the federal government can help us address.

I've worked with all the big game companies in Montreal. They all want to work with professional performers because they realize that we save them money. We deliver high-calibre performances and we understand how the business works. But these companies need more from us. They need a larger pool of professional talent skilled in the specialized requirements of video game performances. It's a different set of skills.

It's not good enough to be good at performing character voices, as you would for an animated TV show, for example. Video games operate on a whole other level. For example, motion capture demands that performers be able to work in an entirely imaginary environment. We have no costumes, no sets, and no props. Voice actors have to perform for hours, screaming and yelling without destroying their voices, often while wearing a head-mounted camera, light, and microphone. And all video game recording is done at a pace that film and television production would find unimaginable.

These kinds of working conditions require a very specialized skill set in actors, one that can take years to acquire. To respond to this need, ACTRA offers video-game-specific training and workshops for members so that they can provide the very skills for which these same companies are searching. However, more needs to be done. Theatre programs at our colleges and universities should start offering relevant training to their students, training that provides the kind of sturdy foundation that will be useful in the real world. Likewise, governments should help provide access to mid-career training for performers to teach them the skills the industry is seeking. Training more performers in this genre of production will provide the gaming industry with the depth and variety they're searching for in their drive to develop, flourish, and compete globally.

This committee has asked what measures the federal government might take to further promote growth, innovation, and commercial success in this competitive 21st century industry. I believe the government should provide support through training and education. We are already working closely with provincial governments to help develop training programs for students and working performers. In Ontario, for example, there is a partnership with the Screen Industries Research and Training Centre.

The federal government has helped Canada's film and television industry to develop through its support of the Canada Media Fund, Telefilm Canada, and federal tax credits. We think similar measures can also stimulate this country's video game industry. Provincial tax credits have been extremely effective in helping build the gaming industry across Canada, including having centres of excellence in British Columbia, Ontario, and Quebec. The tax credit is based on the corporation's expenses in producing a qualifying interactive product.

We strongly support measures that not only allow video game companies to flourish in Canada but that also help to create a robust and accomplished domestic talent pool. The tax credit encourages companies to hire and develop Canadian talent rather than bring in temporary workers from outside the country or go elsewhere to record, as many already do.

It's not enough to simply support the companies and the production of video games. The initiatives this committee recommends should pair production incentives with the need to develop a skilled workforce that can do the specialized work that needs doing, and we can keep the work here in Canada.

Mr. Stephen Waddell: Simon has talked about how we can grow and develop that talent pool and the very unique skills required. We'd welcome the opportunity to work with the government to create any training program that would develop these abilities among Canadian

performers. If we don't, these jobs and this work might go elsewhere. We can't afford to let it slip away.

Our members, Canada's professional performers, are already doing much of this work, and we're looking forward to doing more. We're building our expertise and becoming a workforce on which the game industry relies, but we need to keep up with the demand as it continues to grow.

Let me finish by saying that we're very excited about the opportunities that exist for our members in video game production. It's good, hard, rewarding work. The video game industry would benefit from federal support for game production, tax credits, education, and training. We want to keep the jobs here in Canada. That includes jobs for the developers, the writers, and the performers.

Thank you very much, Mr. Chairman.

● (1605)

The Chair: Thank you to you both.

Finally, waiting patiently in British Columbia, we have Victor Lucas, executive producer, creator, and host of *The Electric Playground*.

The floor is yours, Victor.

Mr. Victor Lucas (Executive Producer, Creator, Host, The Electric Playground): Thank you, Mr. Chair, and thank you, committee members and my esteemed panel. This is a real honour to be invited to communicate with all of you. I guess I also have the honour of representing the west coast, which is kind of cool.

I do host a television show that I created a long time ago. We went on the air in 1997. Our show, *The Electric Playground*, started as a weekly half hour about the video game industry. We were one of the first TV shows in the world to make it its mission to travel to video game studios all over the world, find out exactly who was making all these cool video games, and dive into their process.

It was incredible right out of the gate. It was a real honour to be invited to so many studios all over the place, but what I found during the course of production is that more and more of my work and my travel led me to studios in Canada. I became prouder and prouder of our country's contributions to the interactive entertainment sector.

We established a certain level of quality with our program, and we were able to keep our distribution growing. In 2008 we went daily. We are now the first Canadian television show that's focused on entertainment magazine-type content that's been distributed in broadcast syndication in the U.S. So I'm very proud of our company's growth, but it all started with our passion and our desire to really get into the video game industry.

One of the other things that has transpired through our connection or relationship with all the video game companies across this country is that I'm the co-founder of the Canadian Videogame Awards, and we're about to go into our fourth year. That is a great privilege. I wanted to be involved with the Canadian Videogame Awards purely to give back to this community and purely to honour the artists who make all these incredible video game products that I love to play.

In large part, I'm representing the fan voice, because I don't make video games; I cover them, and I talk to people who make them.

I want to one-up what Mr. Kelso said, because now we also cover movies, television shows, comic books, and all kinds of other media in the content we create. We talk to all kinds of really cool and prolific creators out there. I think video games are the most important medium and the most important and coolest art form that humankind has created. I think Canada not only is the best in the world at making video games, but the video games Canada produces as a cultural export are more important than any other media we create, more important than our music, our film, or our television product.

I think as part of this heritage committee, as part of talking about where we're going in the future with our observance of the importance of video games in our culture, we need to educate and recognize that a little more. As a society in this country, I think we need to be proud of the developers, the work they create, and the people they reach with this work.

Games like Assassin's Creed, Mass Effect, Need for Speed, and dozens of others reach millions of people, not just in our country but all over the world. What has become apparent to me is that people in our own country are a little unaware of the great depth, the great quality of work that's coming out of this country. I think when we have prominent events like Canada Day celebrations, or Walk of Fame-type celebrations, it's time to start including video games.

Obviously I have a desire to have the Canadian Videogame Awards grow in prominence and be recognized across the country in as wide a way as we possibly can. Certainly I'd like our programming to grow and be seen by more people as well. But I think it's really significant that we have reached this level of influence across the world with this art form. I think we need to recognize it as an art form. I think we not only have to encourage other companies from different countries to invest in our country, but I think we have to work with all the incredible talent all of these larger companies or mid-size companies have created with their on-the-job training. Let's encourage all those individuals who want to start their own firms to do that. Work with private investors. Try to shy away a little from the interprovincial competition that's happening right now. A lot of provincial tax breaks and credits are going on.

•(1610)

People are fighting for a little bit of attention. The entire country is something akin to what Hollywood's movie output was recognized for, as Mr. Kelso so elegantly said. I think we need to recognize that our entire country can create fantastic video games, and it doesn't matter what city you live in. I think developers should focus on where they want to live and live there, make the games they want to create, and send them out into the world. It doesn't matter if they are

in a small town in Saskatchewan or in the Maritimes or in B.C. or Ontario. I think we have to get away from the fighting. We should think of ourselves as something like Hollywood, but across our entire country.

We make the best video games in the world, this year in particular, with Assassin's Creed 3, Mass Effect 3, Sound Shapes, Little Big Planet Karting, and Sleeping Dogs. The list is unbelievable. The world-class product that we are producing is something that every Canadian should be proud of.

That's all I have.

The Chair: Thank you, Mr. Lucas.

We will now move to our question and answer period. We're going to be pretty strict with the time because we're getting tight with time.

We'll start with Mr. Young.

Mr. Terence Young (Oakville, CPC): Thank you, Chair, and my thanks to everyone for being here today. We appreciate your giving us some of your valuable time.

Mr. Peacock, you direct and do voice-overs, parts, on videos.

Mr. Simon Peacock: Yes, I do.

Mr. Terence Young: Do you have to compete against synthetic voices for work, or is the industry moving toward actors pretty well all the time?

Mr. Simon Peacock: It's pretty much all actors at this stage. Synthetic voices play a role during the early development of some games. Some companies will use them as "place holders" while they're doing the programming so they can see how things work together without the expense of bringing in the actors. As far as the final product is concerned, I would say 99.9% of the time it is real actors. If you hear something that sounds synthesized, usually it is made with a human voice first and has then gone through some sort of processing.

Mr. Terence Young: How many actors do this kind of work in video games? Any idea of how many in Canada?

Mr. Simon Peacock: Almost 300 from November of last year to November of this year.

Mr. Terence Young: When you do a part, is it a one-time thing? If they do a second or third version of Assassin's Creed, will they bring you back?

Mr. Simon Peacock: Yes, they will. It depends on the projects.

Mr. Terence Young: You can get more work from one part.

Mr. Simon Peacock: It is very seldom that you will come in and only do one role. Usually, you will do two or three. They will separate them throughout the game. With a game like Assassin's Creed, you have 40 or 50 hours of playing, so if they space the characters out properly and there's 10 hours in between, no one is going to recognize that there are some voices doubling up.

Mr. Terence Young: If the games hit a certain level of sales, will the actors get residuals like they do for TV?

Mr. Simon Peacock: No, we aren't affected by sales.

Mr. Terence Young: It's a one-shot deal, unless they make another game and they want to bring you back.

Mr. Simon Peacock: There's a buy-out period, but at the moment it is somewhat of a moot point with video games because they have such a short shelf life. Usually after six months or so, if you find them anywhere, they're in the bargain bin, and a year later they are consigned to memory.

Mr. Terence Young: Is the amount of work for actors in the entertainment and software industry growing?

Mr. Simon Peacock: Yes, enormously. When I first started working in the industry 15 years ago, when Montreal's Ubisoft first opened up, actors probably had an income of around \$2,000 or \$3,000 for all of them. In the calendar year we were just talking about, it's just over a million dollars that has been paid to actors.

Mr. Terence Young: You were talking about training programs for actors to do this kind of work. Do you partner with either Humber College or Sheridan College or any of the colleges to put together a program to do that?

Mr. Simon Peacock: At the moment in Montreal we are trying to partner directly with the industry. We are looking at partnering with Ubisoft and a company called Game On Audio. They both have their own motion-capture studios. We hope we can partner with them so that actors can get experience for the first time without the pressure of its being a paid gig.

As far as the college is concerned, we're starting an outreach program this spring. We will be going to all the theatre schools to see if we can have ourselves worked into their curriculums. We think it is important for young actors coming out, because this is going to be a big part of their income. If people still value things like actors being able to perform in theatre, that has to be subsidized by other income sources and this is a great way of doing that.

Mr. Terence Young: Mr. Waddell, you talked about a tax credit to help develop Canadian talent. I'm thinking back to the CanCon rules. When I was a teenager, the only FM station that played rock music was CHUM FM 104. But the industry wasn't really blossoming until Q107 came on the market and started to play Canadian artists, not at 2 o'clock in the morning like CKLW, but all the way through the day. Then the number of Canadian musical performing groups expanded incredibly.

The CanCon rules definitely worked. Are you suggesting some variation of CanCon, with the tax credit? Can you describe that?

•(1615)

Mr. Stephen Waddell: No, Mr. Young, we're not suggesting a Canadian content requirement. We're just suggesting a straightforward refundable tax credit that we see in the film and TV industry

extended on a federal level to digital media. That would be very helpful.

Mr. Terence Young: Thank you, Mr. Chair.

The Chair: Thank you, Mr. Young.

Mr. Nantel.

[Translation]

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

[English]

Thank you all very much. It's a very thrilling study for us.

I want to put a question to Mr. Lucas in Vancouver, but before that I want to finish up with Mr. Waddell.

[Translation]

The question was asked about the tie-in with creation. When the movements are done and the words are spoken, do the actors feel that they are working or creating? The notion of droit de suite comes into play in cases like that. Then again, as Mr. Lucas mentioned, we can be proud of all the products made in Canada, but we might wonder whether, say, a Lexus RX 450h that is made in Brampton, Ontario is actually created as part of our heritage.

[English]

Mr. Victor Lucas: What we are creating is heritage, absolutely. These are stories that resonate, that matter to people. I think what we should be doing is educating the consumer, educating players out there, and the developers too. Canadians are great at sublimating their pride and sort of working in a group, which is a perfect thing for video game development because you have to put a lot of ego aside and work in sometimes really massive collectives to follow a singular vision.

I think there needs to be a very enormous artistic cultural pride. We need to push this further, and I think it's going to engender more and more development, more work, and support for video game entertainment. It isn't just a product.

The thing that engaged me so much about video games and got me on this road—I used to be an actor as well, and I love the movie and television arts and I have a deep respect for all aspects of the artistic community—is exactly what our panellists have all been talking about. It is a moving target. It is constantly changing. It's fantastic for television because everyday it's a new day. We are talking about this medium in a totally different way, and more and more it's becoming closer to its artistic potential.

So, yes, I think this is art. It's part of our heritage and it has limitless potential.

Mr. Pierre Nantel: Thank you, Mr. Lucas. I hope we get some more time.

I want to pass the microphone to my colleague, Andrew Cash.

Mr. Andrew Cash (Davenport, NDP): Thank you, Mr. Nantel.

There have been some amazing comments, and many of them resonate with us. Wow. There's a lot here, and there's just not enough time to get to all of what's going on here in this industry.

Thanks to everyone for being here.

I want to direct a quick question to Mr. Kelso, and forgive me if I cut you off, because we don't have a lot of time. You participated in the government's consultations on digital media strategy, am I right?

• (1620)

Mr. Ian Kelso: Yes.

Mr. Andrew Cash: What year was that?

Mr. Ian Kelso: It was 2009.

Mr. Andrew Cash: In 2009-10 maybe? We haven't heard the results of that study at all. I'm just wondering about the impacts on a sector that you've described as a \$4 billion sector. We need an overarching digital media strategy and we don't have one.

Mr. Ian Kelso: Certainly, I think it would be advantageous to have one, but at the same time, if we're not ready, we need to get it right. Everything depends on what that strategy is. I guess I would like to see, as a sector, having more of a dialogue about the strategy as it's being developed, a little bit more opportunity to have input. I think it's going to be a living, breathing strategy. I don't think you can walk into a digital media strategy. It would be very advantageous to start to see iterations of that and to have a dialogue before perhaps we embrace it. What was true in 2010 may no longer be as salient now.

Mr. Andrew Cash: Do we need at least a point of departure or a base to sort of make these discussions happen?

Mr. Ian Kelso: It would be good. I would like to see an ongoing dialogue, not just a document.

Mr. Andrew Cash: That's partly why on our side we pushed for this study, because we felt we needed to have this conversation and to bring all these people together. In fact, we have a long list of folks who we haven't seen yet. I'm curious, because you said many in your membership are small, almost micro-entrepreneurs in your business. I think we need to hear from them.

I just want to say, Mr. Chair, that it seems to me like we have a lot more people we need to see. It would be great if we could extend the study. I'd like to propose that at the end of this meeting, and in public, we discuss that and make a decision on whether we should extend this study. We have a lot of people to talk to.

I'd just like to close by saying, Mr. Lucas, that your enthusiasm is very infectious. I was in Saskatchewan this week, and they have a bubbling gaming industry, an interactive media industry there, which is super important. It's super important right across the country. It's an exciting place to be and it's an exciting time in this sector.

Thank you all for being here. I hope we can extend this study and really get to the brass tacks. As you say, Mr. Kelso, it is a moving target. That's why we really need these discussions.

Thank you.

The Chair: Thank you, Mr. Cash.

We would have to extend the study because in five minutes you only got one question in.

Voices: Oh, oh!

The Chair: At that rate it would take a while.

Next we have Mr. Simms.

Mr. Scott Simms (Bonavista—Gander—Grand Falls—Windsor, Lib.): Thank you, folks, for coming.

I'm going to make this very quick. I'm going to open this with a comment of my own, and if I can get others to comment as well....

Here's what we've learned so far, at least from what I can see and hear.

It's an industry that is incredibly successful in this country, and other countries look to Canada as a leader in this. We have the expertise. Not only do we have the expertise, but it doesn't travel to other countries; it stays within our borders, supported by the right amount of infrastructure.

How do we help this out as a government? How do we invest, or how do we just aid it? We have training and education, which we've talked extensively about, and also getting good ideas—thank you, Mr. Peacock.

Tax credits seem to be king in this particular industry. Would I be right in saying that? A nod will do because I'm running out of time.

On direct funding, we're talking about the Canada Media Fund. As part of Heritage...the department we're concerned with has many agencies and many envelopes of funding, up front in many cases or immediately in the back end. Tax credits obviously take effect after the fact, so that requires you to put more up front. Despite that, though, the tax credits like SR and ED seem to be king at this time.

Essentially, if we're saying that Canada is a leader in many ways, what's the competitive advantage we have? I'll start here in Ottawa and I'll end with Mr. Lucas in Vancouver.

It's unfortunate that you're there because I could rub it in with my 18-year-old gamer son that I met you and had your autograph, but now that I've had a conversation, I'll have to settle for that.

Nonetheless, if you could comment, what is that competitive advantage that gives us the greatest success?

• (1625)

Mr. Scott Simpson: Sure. As I said earlier, there is an enormous level of talent coming through the colleges in Canada, in all parts of the creative and technical aspects that are there for video games.

As Victor said earlier, video games are a weird art, and I guess there's some debate as to whether it's actually an art or not, but I think it's pretty shortsighted not to look at it that way. But there's an enormous technology base that goes with it.

What's funny is...actually the thing that video game companies such as mine rely on, as far as funding goes, is less CMF and more going to the provincial side, and Victor spoke earlier about the infighting between provinces and whatever.

Mr. Scott Simms: Yes. I thought that was a very good point.

Mr. Scott Simpson: If I'm building a game, most of that building is things like art and sound and voice actors and lots of different things that are not SR and ED eligible. They are media credit eligible, but I can't do anything with that at the federal level. I need to do that provincially. I need to find the right place to stay—Saskatchewan, Ontario, Montreal, or wherever—to actually qualify for those things. There is no double dipping, but there are also not a lot of ways for those things to be married together.

In our dream world there would actually be a federal tax credit that would allow us to do media stuff, but that's not—

Mr. Scott Simms: As opposed to the Media Fund itself?

Mr. Scott Simpson: The Media Fund itself, again, is very project-focused, and it's also very regimented as to what we can do. In a lot of cases you're in the experimental stream, which is a smaller stream of doing things.

Mr. Scott Simms: So it's in the taxation stream.

Mr. Scott Simpson: Yes. Believe me, I'm not very clear on anything I say. I'm just saying if there were—

Mr. Scott Simms: I got elected on it, so there you go. I don't know what that means, but...

Mr. Scott Simpson: If there were an annualized SR and ED-like program, and I knew I could budget for it every year and say whatever dollar I put into somebody, I got the 40¢ back from what they're doing on the media side at the federal level, that's unbelievably easy to plan for. I can plan my growth. I can do everything I need to do. But that, frankly, doesn't exist.

Mr. Scott Simms: Okay. Thank you. I need to share the time.

Mr. Kelso, do you have any comments on competitive advantage?

Mr. Ian Kelso: Competitive advantage internationally is definitely, I think, the momentum and reputation we've built here. Internally, kids know about the Canadian games industry if they're interested in video games and they're interested in pursuing a career. They know there's a massive opportunity, and as I said before, there's that virtuous cycle.

When it comes to our own internal competitive advantage with things like the CMF, though, those funds work really well for de-risking projects that are either for emerging companies or for companies that want to experiment and try something new within their existing framework that they wouldn't otherwise do for the marketplace.

Mr. Scott Simms: Sorry, Mr. Kelso. I hope you finished your thoughts. I'm trying to move this along because five minutes is pretty short.

Mr. Waddell and Mr. Peacock.

Mr. Simon Peacock: For me, it's largely what's been said. Canada was lucky it got a headstart on the industry in many ways and has established itself as a leader already, which acts as a magnet for talent from overseas and also from within Canada. Because we have such a great reputation, most kids in Canada are aware of the fact that the games they're playing are made here, so they see that as a viable career.

Mr. Scott Simms: How much time do I have?

The Chair: You've got a minute and a half left.

Mr. Scott Simms: I've got a minute and a half. That's not bad.

Mr. Lucas, I'll go to you and then Mr. Acosta.

I took particular interest in what you talked about, the provincial infighting, because I notice that with this taxation regime it is siloed within the provinces, and that seems to be a problem.

Mr. Victor Lucas: Yes. I think the key thing we should take away from this meeting today is the why: Why does this matter? Why are we having this meeting? Why is this heritage? The reason we are is that Canadians are great at working together. The video game industry, probably more than any other medium, requires the realization of the impossible. There is nothing—nothing—no world, no actors, nothing at all until a bunch of people get together, combine their disciplines, push their egos aside, and work together. Canadians are the best in the world at that because we have a great empathetic education system, we have people who care about one another, we have a social structure that manufactures concern and care for one another, and that's really important.

So if we're looking at sustaining this and growing this across the country, I think it's imperative for every business owner in every province to stand up and talk about their team dynamic. That is the most delicate thing that each one of these companies create: that group of people who know how to work together to create something compelling.

I can tell you, as a business owner who's been doing this for 16 years now, it's so fragile. It's so profound to find people you can work with and build cool things with, and that's what Canada needs to support. That's what our federal government needs to support and work with these business owners and these teams. Video game teams are like movie directors. They've only got so many great projects in them, and you've got to protect them and nurture them and support them. The minute we see things like Radical being closed down by Activision....

Radical was one of the biggest independent production companies making games in Vancouver. They were acquired by Activision. Their last game, Prototype 2, didn't sell. Activision closed down the studio. They were a landmark company in this city, and so many offshoot divisions and companies were built off ex-Radical employees. I really feel passionately that the people who were running Radical should have done some kind of buyback to preserve the legacy.

I also think it's incumbent upon all the game creators across this country to start thinking of their own projects, not just become work-for-hire shops. The key to long-term success is creating new IP and new ideas out there. Federally, and across the country, we need to support that.

• (1630)

The Chair: Thank you, Mr. Simms.

Mr. Armstrong.

Mr. Scott Armstrong (Cumberland—Colchester—Musquodoboit Valley, CPC): Mr. Lucas, I'm going to start with you.

You're an infectious guy. You talk about video games like they are the railway uniting Canada from coast to coast to coast: it's the coolest, the most important thing that we do in the country. I think a lot of people in the older generation might question this, but when they look at the sales and the amount of jobs provided for Canadians, I think you do have a basis for that argument.

You talked about how we have to celebrate this and make it part of heritage. When I think about other areas—for instance, you have the Emmys and the Oscars and the Junos. Is there a video game awards night currently?

Mr. Victor Lucas: Yes. It's the Canadian Videogame Awards. I'm a co-founder of it. The next one will be the fourth annual and will be held in Vancouver on April 20, 2013. It's been growing every year, and we still have a long way to go. We're sort of in the infancy stage.

One of the coolest things for me is to have grown my TV show from a weekly sort of Saturday afternoon or morning video game show to now. I've been doing this for a while. So we've expanded this, and now we talk about everything. We'll have Brad Pitt talking about a movie and then we'll talk to an independent game developer, and we'll put those two segments side by side. That's the way consumers digest entertainment now. A video game is just as important as a Brad Pitt movie.

That's the show we make. Frankly, we're one of the only entertainment shows out there that talks about entertainment—we're not a gossip thing—and so much of that entertainment is built right here in this country.

Mr. Scott Armstrong: Is there an international equivalent, like the Oscars is for the movie industry?

Mr. Victor Lucas: There's a bunch of different ones. We're probably closest to the BAFTA Awards. There's a big film and television component in the U.K.; they also celebrate video games. There is an awards show called the D.I.C.E. Awards, in Las Vegas, which is run by the Academy of Interactive Arts and Sciences. A former colleague of mine runs that organization. It's terrific. Then there's also the Game Developers Choice awards.

There is no holistic sort of body representing the entire planet and all of the output out there, and hopefully that does start to happen. But I think the CVAs are uniquely positioned. We've been airing on Rogers, Citytv, and G4. Last year they went to the CRTC and got the accreditation for it to be a program of cultural significance, which was really great.

Mr. Scott Armstrong: Mr. Lucas, I encourage you to actually have one big awards night for the entire planet and have it

somewhere in Canada. You could host it. I think that would be a wonderful thing.

I'm going to move on to another question, to Mr. Kelso and Mr. Simpson.

Currently the corporate tax rate in Canada is 15%. I'm sure that aids this industry. That's a competitive advantage that we have compared to many other countries. Would you agree with that?

Mr. Ian Kelso: Absolutely.

Mr. Scott Simpson: Yes.

Mr. Scott Armstrong: What would happen if the corporate tax rate were increased in Canada, say it went to 20% or 25%? Is that one sure way to slow down this virgin industry in Canada?

Mr. Scott Simpson: Yes. As with anything, the more we're taxed, the less we can do to grow. We'd have to put a lot more into our overheads and do a lot more safeguarding as to how we grow out. The natural answer is yes, for sure.

Again, as I said earlier, we don't see that incentives actually drive our business, but we do look at them as a big offset for what we're doing corporate tax-wise.

• (1635)

Mr. Scott Armstrong: Mr. Lucas, would you agree with that?

Mr. Victor Lucas: I think there are so many interesting facets to that. I don't make video games, so I don't have the perspective that some of the other panellists do. But I can tell you that I didn't create my production company or my programming, which is purely from the heart...I just wanted to get this stuff out there. I didn't think of tax breaks or tax incentives. If I had, I may not have set up shop in Vancouver, but it turned out to be the perfect place to create my company.

I worry sometimes that Canadian companies think about taxation and the levels of employment they have to deal with first, rather than first thinking of the content they're going to send out into the world. I think we have matured enough as a culturally significant export industry, and that's where I want to see more game companies start. I want them to think about what they're presenting, what they're building, and what they're shipping to the world. It's not just goods; it's art. It's a culturally significant piece of art that they're delivering, and why do they want to build it?

Mr. Scott Armstrong: Thank you.

How much time do I have left?

The Chair: You have two minutes.

Mr. Scott Armstrong: I'd like to pass the floor to my colleague, Mr. Daniel.

Mr. Joe Daniel (Don Valley East, CPC): Thank you, Mr. Chair.

Thank you, witnesses.

I'm just going to take a slightly different angle in terms of the discussion here, and that is because I'm on the human resources committee, so I have some interesting things....

This industry is unlike most industries, in the sense that you are only limited by imagination, so your growth should be phenomenal. I think it isn't phenomenal, but in a minute maybe you can tell me what the growth is. What are the skill gaps that are preventing you from developing this into something ten times bigger than it is now?

Mr. Scott Simpson: Sure, the imagination is a big deal, but that's sort of the case for any business. You want to build creative products and you want to innovate and do different things.

The thing that holds us back is the same thing that holds every industry back, and that is that we need investment, we need talent, and we need everything to grow our businesses.

The thing that actually makes video games unique, as I was saying earlier, is the obvious creative aspect—when you see art and sound and voice actors and everybody doing things that you can see on the screen, more so than what a movie or music or any of the other arts, which most people would commonly associate with entertainment, would have—and video games have a very heavy tech component for what you need to do. You're either going to grow that stuff in-house and take advantage of programs like IRAP, or SR and ED, or something, to do that with your own technology, or you license and build that stuff outside. There is no one size that fits all for whatever you do.

One thing that probably hasn't been noted here is that games are changing a great deal. Games are moving from the larger-scale console games, such as *Assassin's Creed* or whatever, which Victor was talking about earlier.

And by the way, Mr. Armstrong, I meant to note earlier that I was at the Golden Joystick Awards, which are in the U.K., a couple of weeks ago. It's an awards thing. Canadian games are still well represented. *Assassin's Creed* was nominated, and *SSX* out of Vancouver, etc. It's not like it's a regional awards show. It just happened to be that way.

Anyway, that's beside the point. Pardon me. Where was I? Oh, yes, I was talking about technology.

To really try to get there quickly, the point is that the technology—the one-size licence—doesn't move, especially now that we're moving into mobile and social—

Mr. Joe Daniel: I'm going to cut you off there.

The focus is the skill gap. What are the skills that your industry is missing, and why aren't the colleges, etc., meeting that gap? Are you communicating with them well enough so that they can produce what you need?

The Chair: We'll have to have about a 10-second response, because Mr. Daniel is out of time.

Mr. Scott Simpson: Because the move is to mobile and social—which has a 19% CAGR as opposed to a 6% or 7% CAGR for console games—the skill gap is actually in these different kinds of games and how you monetize and create those.

I'm sorry I went over.

The Chair: Thank you, Mr. Simpson.

Mr. Dubé.

[*Translation*]

Mr. Matthew Dubé (Chambly—Borduas, NDP): Thank you very much, Mr. Chair.

I feel that the question of copyright in the video game industry is an interesting one. Take a series like *Assassin's Creed*. You can move units to consumers pretty easily. Unfortunately, we have not been able to hear from small companies so far. I suppose that is normal, given that there are so many amazing studios in Canada, as Mr. Cash was mentioning a little earlier. It is difficult to hear from everyone.

Perhaps I am going to reveal my age by referring to this, but small studios often have websites with Flash games like Newgrounds, for example. A lot of games are getting onto iPhones and iPads. That seems to be creating a kind of grey area for copyright. Is that a problem of modernization and the digital economy that needs to be fixed? Do we need a copyright system for the digital economy?

That question goes to you all. Does anyone want to comment?

[*English*]

Mr. Lucas.

• (1640)

Mr. Victor Lucas: There absolutely is a problem with copyright, and not only copyright but piracy as well. There is a lot of rampant stealing at the consumer level and at the developer level. But with the Internet there is a pretty sophisticated way that things get self-policed, and people are outed quite readily when assets or game systems are stolen.

The key to success in video games, when you're at a small stage, when you don't have vast sums for marketing, is to create an Internet community, and it's to create a really sophisticated structure of love around your product before you ship it. On games like *Sword & Sworcery*, *Superbrothers* did a fantastic job with that, and with *Sound Shapes*. It did a fantastic job.

I have to give a shout-out to the teams out of Toronto, the small indie developers out of Toronto. Really, it's as if they jumped on a surfboard, as we all shifted to iPads and iPhones and went to these smaller-scale things. They really saw that and they really embraced it, and they've created these really significant cultural works without huge budgets. I think the rest of Canada and the guys who made the *Super Stickman Golf* game in Saskatchewan also embraced the idea of a small team but found their own identity out there.

So yes, copyright is a problem. I don't know if we should be investing huge sums of money in infrastructure around that at this stage, but it is absolutely a problem.

Mr. Stephen Waddell: Mr. Chair, could I address Mr. Dubé's question?

Yes, intellectual property and strengthening intellectual property is critical in this industry, as it is in all of the content industries.

I would like to quickly make a pitch for the federal government signing the Beijing Treaty on Audio Visual Performances, which was just passed at WIPO in June this year. It would help very much to strengthen the intellectual property rights of both performers and producers of video games if the federal government would sign that treaty.

Thank you.

[Translation]

Mr. Matthew Dubé: Mr. Nantel asked you questions about the growing place for actors given that these things now look more and more like movies. You said that the need was not necessarily for Canadian content requirements, but for tax credits. This is a growing Canadian industry. Can something be done to increase the present of Canadian talent in the games?

[English]

Mr. Simon Peacock: I think that comes down to what we were talking about on training and education. We have the talent in Canada. The ACTRA community has 22,000 members throughout Canada, so we have the numbers. The problem is that most of them haven't had any experience working in games, so it's simply a matter of bringing them in, training them, and teaching them the techniques that are appropriate. It's something that is very attainable.

The Chair: Thank you, Mr. Dubé.

We'll go to Mr. Armstrong for about two minutes.

Mr. Scott Armstrong: I'll be very quick, Mr. Chair.

One of the themes we've heard about is speed. Your industry seems to move so quickly and government moves slowly. That's where the problem with tax credits and other things comes in. We also talked about the speed of bringing talent in from other countries when you need it. A few of you mentioned that.

Does anyone want to talk about the immigration aspect of this? I am one who believes that we should try to train our own people at home and try to hire our own people first. What we've heard from other witnesses is that we need to bring experts in as mid-level managers, as more experienced people, to train people on the job. I'm having trouble reconciling that.

Mr. Simpson, can you discuss that?

• (1645)

Mr. Scott Simpson: Sure.

As much as the industry is growing and as much as it has a very high compound annual growth rate, folks like Mr. Acosta are providing enough talent for us to actually keep up with demand. That will not be there for much longer. In fact, I think, depending on where the studies go, you'll find that there's a bit of a brain drain still happening. A lot of those graduates are going down to work in California and elsewhere to actually ply their trade, because until recently, we haven't had enough of an industry to actually employ them all. That is changing rapidly and greatly, and it's probably already passing. A couple of years ago, there would have been a much bigger problem than there is now.

We're now at a place where we're looking for talent to do different things, because the industry changes a lot, as we were saying earlier.

We're moving from consoles to the mobile and social side, and we need experts in those places. You need to bring in people from wherever who have the right experience. The good news for Canada is that we're finding most of those folks out of province as opposed to out of country. So we bring a lot of people from Montreal or B.C.—sorry, Lucas—to do whatever.

That is going to become a great problem as the industry grows. It's not as if we're plateauing or seeing a peak in what is happening. As was mentioned earlier, we are not bound by a lot of things. It is a software product. We're not trying to build bigger factories to do something. The limit depends on how much we can actually sell and on finding the right markets for what we do.

What's interesting is that what we find is that the biggest talent drain is not in the creative industries. It is actually more in marketing and sales and how we put our product out. We still need to import a couple of those guys.

The Chair: Great.

Sorry, Mr. Armstrong, we're out of time for this round.

I want to thank our panel for being here. You've been very helpful and informative.

We're going to take a three-minute recess to allow this panel to leave the table and the next panel to come up.

• (1645)

(Pause)

• (1650)

The Chair: We'll resume our meeting.

In our new panel from the Department of Foreign Affairs and International Trade, we have Grant Manuge, acting assistant deputy minister of international business development, innovation, Asia, and chief trade commissioner. That's quite something to have on your business card.

Also, we have Scott Fraser, director general, Global Business Opportunities Bureau; and David Hartman, acting director general, Invest in Canada Bureau.

From the Canada Media Fund, we have Stéphane Cardin, vice-president of industry and public affairs, and Nathalie Clermont, director of program management.

Welcome to all of you. We're looking forward to your testimony.

We'll first have our five to seven minutes of opening remarks, if you can keep it to that, and then we will have our time for questions and answers. This meeting will go until 5:30.

We will start with the Department of Foreign Affairs and International Trade. The floor is yours.

[Translation]

Mr. Grant Manuge (Acting Assistant Deputy Minister, International Business Development, Innovation, Asia and Chief Trade Commissioner, Department of Foreign Affairs and International Trade): Good afternoon.

Mr. Chair and members of the committee, today, I am acting on behalf of Peter McGovern, Assistant Deputy Minister for International Business Development, Innovation, Asia, and Chief Trade Commissioner, Department of Foreign Affairs and International Trade. I am accompanied by my colleagues Scott Fraser and David Hartman.

It is our pleasure to represent the Trade Commissioner Service and speak to how it helps Canadian firms of all sizes, including those in the Canadian entertainment software industry, to create and sustain jobs for workers in all regions of the country by engaging successfully in international business.

[English]

Let me begin by speaking briefly about the broader operating context for international business, since it continues to evolve rapidly and shape everything we do. Trade or integrative trade is now shorthand for a whole range of international business development activities, such as exporting and importing final or intermediate goods and services, attracting investment, making strategic investments abroad, licensing technology, partnering for research, and recruiting skilled workers.

The big battleground, of course, is firm-level knowledge: knowledge of where to go, who is buying, who to trust, how to build relationships in different cultures, and how to improve your ability to innovate, produce effectively and efficiently, and find new buyers in new markets. If competitors from other countries are better supported and can find the opportunities faster and manage risk better, then our firms face serious challenges.

This is why the government's global commerce strategy makes trade promotion one of its key thrusts. The Trade Commissioner Service, the TCS, working through its domestic network and 150 points of service around the world, seeks to bring real value to companies by supporting our firms wherever and however they most need us and making sure they're not at a disadvantage to their international competitors.

Though we work with all sizes of companies, we are particularly sensitive to the barriers faced by small and medium-sized enterprises, or SMEs, as they seek to grow through international business. Simply put, the costs of acquiring market intelligence and investing in relationship building are relatively higher for SMEs. In fact, many Canadian SMEs in the information and communications technology sector and the entertainment software sector are export driven and describe themselves as 5/95 firms, with 5% of their business in Canada and 95% abroad.

The TCS supports Canada's entertainment software industry in a number of different ways. To help illustrate how we do that, let me describe some of the activities we are involved with each year at the Game Developers Conference in San Francisco, the GDC. It's considered the key global event in the industry. Over 200 Canadian SMEs attend to access international market opportunities and pursue business with leading global firms, such as Nintendo, Disney, Google, Sony, Apple, and others. While the TCS helps to coordinate provincial and industry partners to position Canada as a leader in this industry, it also facilitates business-to-business meetings for Canadian companies, introducing them to key buyers and partners

in the global value chains. In 2012, over 300 such meetings were organized by the TCS.

We also use this venue, which is rich in business influencers and decision-makers, to promote the competitive advantages of establishing operations in Canada. It is important to say that we do not operate alone in this regard. We work with colleagues from Export Development Canada, Canadian Heritage, Telefilm Canada, and other departments and agencies, and we have excellent partnerships with the provinces, municipalities, and key industry clusters across Canada. Our work with centres of excellence, such as the Canadian Digital Media Network and the Graphics, Animation, and New Media Canada program, also helps to strengthen our messaging.

[Translation]

• (1655)

Of course, the beneficiary of our efforts is the TCS client. We tailor our service to the capacity and needs of each firm, whether it is introducing them to the possibilities opened up by our trade agreements, finding a reliable partner for licensing agreement, or facilitating introductions to key government decision-makers.

Canadian clients in the entertainment software industry tend to use the TCS most often to find credible distribution partners and gain exposure in international markets. The TCS has also helped many foreign-owned companies establish and expand their presence in Canada.

[English]

Last year we served about 14,000 Canadian firms, mostly SMEs. That was almost a 3% increase over the year before. Many have become repeat customers, as they see our services as saving them time, money, or risk. Companies from Canada's information and communications technology sector represent the largest group of these companies, over 2,300 last year. We're working hard to help Canadian businesses become more aware of our service, through our domestic network and our in-Canada partnerships, and we are reaching out to Canadian firms that are ready to use us and need to grow internationally in order to succeed.

How are we doing? Research demonstrates that every dollar spent on the Trade Commissioner Service generates \$27 in increased exports, and that firms accessing our services export 18% more than comparable firms that don't. Currently, our clients have indicated that they are 80% satisfied or very satisfied with our services, and as for outcomes, about 58% of our clients are actively pursuing business in markets where they obtained a TCS service.

At specific events such as the Game Developers Conference, 20 Canadian SMEs surveyed this year responded that they anticipate a combined total of \$25 million in sales over the next 12 months as a result of their participation in the conference.

[Translation]

Canadian clients in the entertainment software industry tend to use the TCS most often to find credible distribution partners and gain exposure in international markets. The TCS has also helped many foreign-owned companies to establish and expand their presence in Canada.

[English]

My colleagues and I would be pleased to respond to any questions you or members of the committee may have about how Canada's Trade Commissioner Service has supported, and will continue to support, the entertainment software industry.

Thank you.

The Chair: Thank you, sir.

Next, we have the Canada Media Fund.

Mr. Stéphane Cardin (Vice-President, Industry and Public Affairs, Canada Media Fund): Mr. Chairman, committee members, thank you for inviting us to appear before you today.

[Translation]

Mr. Chair, in closing, we in the TCS believe that there is no question that the growth of the entertainment software industry has helped to invigorate the economy economic health and dynamism of communities across the country, injected thousands of professional and high-paying jobs into local communities, and raised Canada's profile as a significant force in the gaming industry.

[English]

Our comments today will be focused on the CMF's role in the industry and how we currently support it, including a description of a few examples of successful projects we've funded to date.

The CMF's mandate is to champion the creation and promotion of successful, innovative Canadian content and software applications for current and emerging digital platforms. We do this, first and foremost, through our funding programs. With the continued support of our funding contributors, the Government of Canada and Canada's cable and satellite distributors, the CMF was able to contribute \$358 million to Canadian television and digital media projects in 2011–12, triggering no less than \$1.3 billion of industry activity across the country.

As such, we are pleased to be playing a pivotal role in supporting the growth and evolution of an industry that is an integral part of Canada's digital economy.

• (1700)

Ms. Nathalie Clermont (Director, Program Management, Canada Media Fund): Our support is delivered through two funding streams: the convergent stream and the experimental stream. Through the convergent stream, the CMF supports the creation of television programs and related digital media content for consumption by Canadians any time, anywhere, on the platform of their choice. By making content available on multiple platforms and

creating value-added digital content to further increase viewer engagement, the objective is to ensure that this content is seen by as many Canadians as possible.

In 2011–12, the CMF supported over 500 television and related digital media projects through this stream. As games are a natural extension of television properties, approximately 20% of the related digital media projects were in fact games—mobile games and social games.

[Translation]

For example, the digital media component of the popular VRAK. TV youth show *Mixmania* is an extraordinary example of the way to add value by adopting a transmedia strategy. Produced by Zone 3 and Turbulent Media in Montreal, the show is now in its third season. The website has had more than 1.3 million viewers and almost 14 million hits. The mobile game has been downloaded 100,000 times from the App Store. The songs in the musical section of the site have been heard 3.5 million times and *Mixmania's* Facebook page has more than 40,000 members.

[English]

Mr. Stéphane Cardin: Through the experimental stream, the CMF encourages the creation of leading-edge, interactive digital media content and software applications. The primary objective of this program is to drive innovation in terms of content, technology, or business models. Funding is allocated using a selective process, with the selection of projects determined by a committee composed of Canadian and international specialists with recognized expertise in the field of interactive digital media.

In 2011–12, the CMF supported 90 innovative and interactive digital media projects through this stream, including 15 games. The games sector being a leader in terms of creative and technological innovation, it stands to reason that many Canadian games, from console games to casual games, have been supported through this program.

Since its launch in April 2010, approximately 47% of projects funded through this stream have been games, and CMF funding support has triggered approximately \$50 million in production activity for independent Canadian-controlled game companies, for an average budget of approximately \$1 million per project.

Given typical production schedules, only a handful of projects supported through the program have made it to market, and although the primary objective of the program is not commercial success, we are pleased to report that some projects have already done rather well. For example, *Guacamelee*, produced by Toronto's DrinkBox Studios, is an action-packed downloadable video game for home consoles. It has won a number of awards, including best of show at the Penny Arcade Expo 2012 and best downloadable game at E3 2012. DrinkBox has recently signed a deal with Sony for a substantial guaranteed royalty payment for the game to be released on their PS3 and PS Vita platforms.

Another example is Big Win Soccer, produced by Vancouver's Hothead Games. It was one of the first freemium sports games built for iOS and Android. It reached number one sports title in 25 countries on iPhone. To date, over 200 million soccer matches have been simulated. The CMF anticipates fully recouping its investment in Big Win Soccer over the game's commercial lifetime.

In addition to providing financial support to projects, the CMF seeks to further enable the success of the projects it funds by disseminating industry intelligence to its stakeholders, entering into partnerships with industry events, and promoting Canadian content and talent at home and abroad.

With respect to industry intelligence, the CMF commissions research on emerging topics, often in partnerships with other Canadian or international organizations. For example, this year, the CMF partnered in a study that Mr. Kelso mentioned, *New Directions for the Financing of Interactive Digital Media in Canada*, which examined the financing landscape for Canadian-owned companies in the interactive digital media industry. The findings of this study may be of particular interest for the committee's examination of potential incentives for the growth of this industry.

In summary, the study found that the future growth of the sector relies on a supportive business environment, ensuring access to the right forms of financing at the different stages of corporate growth. Given the dominance of small and medium-sized companies in this sector, most of which achieve revenues of less than \$1 million annually, the study points to a generalized need for early-stage investment capital, particularly through venture capital and angel investment, as well as financing of operating cashflows.

Another priority for the CMF this year has been to partner in supporting the update of the *Canadian Interactive Industry Profile*, which Mr. Kelso also mentioned, which was last published in 2008. The study is now under way and should be completed in 2013.

• (1705)

Ms. Nathalie Clermont: In terms of partnerships, the CMF will partner this year with a total of 38 industry events across Canada and internationally. For example, the CMF partnered with the Canadian Videogame Awards and conference in Vancouver, the Digital Alberta Awards, Interactive Ontario's X-Summit, GameON and Inplay, the Montreal International Game Summit, and many others. Last month we showcased some of the best Canadian digital media projects, including games, to an international audience at Metcom, the world's largest audiovisual market, where positive feedback was received on the quality and innovation of Canadian digital production.

[Translation]

In closing, I will say a few words about our promotion initiatives.

Last June, we launched the Canada on Screen website. The goal of the site is to feature and celebrate Canadian creative talent and productions. They run the gamut from television productions to games, from web content to software and applications funded by the CMF. Visitors to the site can find a lot of information on the projects, including information on the producers, the prizes and distinctions they have received and their overseas sales. There is also a photo gallery, a video overview and a selection of media coverage.

As of today, the site has about 60 digital projects and we add new ones each month. The three projects that we mentioned a little earlier are on the site too and we invite you to view them.

[English]

Mr. Chairman, committee members, thank you for affording the Canada Media Fund this opportunity. We would be pleased now to answer your questions.

The Chair: Thank you.

We will start our question and answer time with Mr. Young.

Mr. Terence Young: Thank you, Mr. Chair.

Thank you, everyone, for coming here today. We really appreciate your giving your time to help us with the study.

Mr. Cardin, can you tell the committee about the experimental stream of the fund? In other words, how many companies might access that fund annually, and how many projects are funded? How much money might they get for a project?

Mr. Stéphane Cardin: Given that the program is designed to support innovation and projects that might be of a riskier nature, less of a commercial nature at first blush, the amount of funding that CMF provides can be up to 75% of eligible expenses, up to a maximum of a million dollars per project. We have two rounds per year. We support approximately 45 to 50 projects annually, and the program has been quite successful if we measure it in terms of demand, because since its launch in April 2010, on average, the level of demand to projects selected has been about 3:1, so there is substantial oversubscription.

Mr. Terence Young: So you're taking projects that are a little riskier because they're more innovative. How are they defined as more risky?

Mr. Stéphane Cardin: As I said, it's innovation in terms of the content itself—new narrative approaches—either in terms of technology that is being developed or in terms of business models. For example, if someone has come in with a franchise game and they're doing an update, something like that probably has more of a guarantee of commercial success. We're looking for things that haven't been tried before.

• (1710)

Mr. Terence Young: We've heard from a lot of people in the industry, and a number have mentioned what is termed as early-stage capital. For these little, tiny companies that have something really clever going on, but they don't have money to pay the rent and buy the equipment and all that kind of thing, does your organization fill that gap for early-stage financing?

Mr. Stéphane Cardin: We do to a certain extent. What we have found, especially after running the program for a few years and the research that we've conducted, is that there is a need for us to work hand in hand with the venture capital sector. That's something we've done starting this year. We're trying to create partnerships with venture capital organizations, accelerators, and incubators across the country in the hope that the CMF might assist in bringing companies to a stage where venture capital organizations might be interested in coming in at a later stage.

Mr. Terence Young: How many times does that happen? How is that working?

Mr. Stéphane Cardin: That's something we just started this year.

Mr. Terence Young: Is that the digital media performance measurement framework, or is that just a measurement tool?

Mr. Stéphane Cardin: The digital media performance framework has to do with measuring audiences for the content we support. That's an entirely different thing.

Mr. Terence Young: Would you mind telling the committee about that? Who was consulted on that, and how does the framework impact the experimental stream of the fund and the software entertainment industry?

Mr. Stéphane Cardin: Let me start with this. The CMF, for a number of years now, has documented the support of the projects it funds in terms of audiences, critical acclaim, and international sales. We've been doing this for a number of years on the television front using the standard in the industry, which is BBM Canada figures. That's how we measure the success of television programs.

In the digital space, there is yet to be a sort of industry standard. There are a number of companies operating in the country, such as comScore, for example. We created an industry advisory committee to try to come up with a framework to measure the audience success of the digital content we fund. That framework was launched last May, and results are just starting to come in during this fiscal...

Mr. Terence Young: Thank you.

I'd like to ask Mr. Manuge a question, please. How do you prepare businesses for future investment in and trade with companies in other countries at the first meeting or at the first couple of meetings?

Mr. Grant Manuge: At the heart of our service offering are four key services that are tailored to the interests and requirements of each client. Each client is unique. Each client has different requirements, so we offer four services.

The first one is called preparation for international markets. The second, closely related one is an assessment of market potential. The third and fourth, I'll mention in passing, are qualified local contacts and problem solving, which we hope in most cases our clients won't require.

I'll come back to preparation for international markets and assessing market potential. This is where companies are new to us or are new to a market. They may be active in one market but are looking at other markets. We will work with them to identify what their interests are. We'll identify a range of options we can bring to their attention in terms of potential business partners, potential business agents, potential clients, and business facilitators, such as lawyers, accountants, local chambers of commerce, and others. Essentially, we seek to understand their needs, and, based on their needs, as articulated to us, to identify a range of options, such as qualified contacts we can introduce them to and the programs and other services available to help them into a market.

Mr. Terence Young: What advice would you give somebody who had a video game and wanted to market it in Asia? What would you advise them that is specific to Asia?

Mr. Grant Manuge: Mr. Chair, the Asia market is very dear to our hearts in a branch that's also responsible for the Asia-Pacific.

It's difficult to offer general advice in terms of such a broad range of markets. I'm not trying to be cute here. We have very extensive consultations every year on developing our proactive promotional activities. We have very active consultations with stakeholders, with industry stakeholders, and, in addition, with our partners in other government agencies and departments.

Essentially what we try to identify are the key priorities that will give us the biggest bang for the resources we have available. We draw heavily on the input we receive from our stakeholders, especially industry, in terms of identifying where we should focus.

For a company that is new to us and is looking at Asia more generally, we would have a very in-depth discussion with that company to identify what their strengths are, what markets they've already been active in, in other parts of the world, and what type of support they're looking for. Then, drawing on that, we would try to drill down within our network to identify where we could make the introductions. It might be that China might not be the best market for them, but perhaps Taiwan, on the other hand, would be. Alternatively, Japan would be an interesting entry point, and India might be something for further down the road.

Given that each client is unique, I think that's probably the best summary I could give you on that account.

Perhaps I could ask my colleague, Mr. Fraser, who has just returned from an assignment in Asia, to speak to that one as well.

• (1715)

The Chair: I have to thank you, Mr. Manuge. We have to wait for that, because now it's someone else's turn to ask a question.

That might get included in her round, but now we have Ms. Sitsabaiesan.

Ms. Rathika Sitsabaiesan (Scarborough—Rouge River, NDP): Thank you, Mr. Chair.

You know when he says "her round" that it's me, the only female on this committee.

Thank you to all of you for joining us here.

My question is for Monsieur Cardin or Madame Clermont.

You mentioned earlier in your presentation about the small piece of the Canada Media Fund that is directed towards the gaming industry through their experimental stream. We had other witnesses who appeared before who mentioned the same thing. They also mentioned that it's not very much, considering the way the industry has boomed and grown, and maybe they would like to see it grow.

I'm curious to know what you think, if you think we should actually increase the fund in order to allow for more funding towards indie operations in the gaming industry, or maybe perhaps even create a new separate fund that would be available for the gaming industry. Would that be more useful? What would be the best way to expand the digital side of the Canada Media Fund?

Mr. Stéphane Cardin: Well, first, I'd just like to point out that, as we said in our presentation, we support games through both streams, both convergent and experimental. On the convergent side, it'll be more like casual games and social games that accompany the television properties that we also fund. But we do fund games in that stream, and we've provided over \$20 million in funding this year alone in terms of digital media content in the convergent stream.

The experimental stream, again, is one that is focused on innovation and applies to a very wide range of products, in fact, not just content, but even software applications. So we've funded web series, we've funded interactive web content, we've funded interactive books, we've funded apps, we've funded software—for example, Moment Factory's X-Agora software, which is used for interactive installations in different cities. So it's quite broad.

We have significantly increased the funding to that stream just over the few years that it's been in place, starting off from a standpoint of \$27 million in 2010, increasing it to \$33 million, and now to \$36 million in the current fiscal year. It's the area of the CMF, I would say, overall, that has experienced the largest growth. But as I mentioned before, with a 3:1 ratio of demand to available funding, clearly there is a demand for more funding, particularly in the games part of it, which, as we've said, has accounted for almost half of what we've supported so far since 2010.

• (1720)

Ms. Rathika Sitsabaiesan: Do you think the fund should be increased, or do you think it might be useful to create a separate one for the gaming or digital side of the CMF?

Mr. Stéphane Cardin: We revisit our program budget allocation on an annual basis, so it's something that may change again as of April of next year.

As to the creation of separate funds or separate funding mechanisms, tax credits and other means have been discussed so far in this committee. We may have views on that, but I think that's more up to Canadian Heritage. We've also received feedback in the studies we've done, where this sector is looking predominantly, as we've said, towards solutions in the venture capital section, whether that's government-backed or entirely private.

Ms. Rathika Sitsabaiesan: Thank you.

I'd like to pass the rest of my time to Mr. Cash.

Mr. Andrew Cash: Thank you.

Thank you all for being here.

I'm wondering if we could get a consensus on extending the study. I'd like to put a motion forward that we extend this study. We can discuss by how much, but we certainly have a number of people to still see, and I think there's been wide consensus among the witnesses that this is a very rich, broad topic. So I'd like to put that before the committee.

The Chair: You're moving a motion that we extend the study. Do you want to discuss your motion now or when we do committee business?

Mr. Andrew Cash: I want to discuss my motion.... We want to vote on it now for sure.

The Chair: Mr. Cash has a motion that we extend the study of the committee. It's a motion dealing with our study, so it is something that can be dealt with now.

Mr. Calandra, do you want to speak to the motion?

Mr. Paul Calandra (Oak Ridges—Markham, CPC): I'd actually rather speak to the witnesses, so I'd rather that we deal with this when committee business comes up.

Mr. Andrew Cash: I'd like to get a vote quickly now and then we can move on.

The Chair: Mr. Cash has—

Mr. Paul Calandra: Sorry, Mr. Chair, can we move in camera?

The Chair: There's a motion that we move in camera.

To our witnesses, we are moving in camera, so it can only be us here while we're in camera. Chances are we won't be out in time for you to come back, so I want to thank you for your time here with us and your testimony. We appreciate it.

[Proceedings continue in camera]

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