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**EVIDENCE**

**Thursday, November 1, 2012**



**Chair**

**The Honourable Rob Moore**



## Standing Committee on Canadian Heritage

Thursday, November 1, 2012

• (1530)

[English]

**The Chair (Hon. Rob Moore (Fundy Royal, CPC)):** I call the meeting to order.

Good afternoon, everybody. We'll get started.

Our committee welcomes the guests we have here as witnesses.

We have Denis Talbot, television producer and host from MusiquePlus Inc. From Sheridan Institute of Technology and Advanced Learning, we have Avrim Katzman, professor. From BlackCherry Digital Media Inc., we have John Mark Seck, president.

By way of video conference in Vancouver, British Columbia, we have Dennis Chenard, director of industry relations for the Centre for Digital Media, and Lance Davis, chief financial officer for Slant Six Games and chair of the BC Interactive Group.

From the other side of the country, from Halifax, Nova Scotia, also by way of video conference, we have Michael Johnston, president and chief executive officer of TeamSpace.

I know the clerk has spoken to most of you about your opening remarks. Because of the number of witnesses, we will try to keep them to around seven minutes. In no particular order, for your opening remarks we will just follow the order we have on this sheet, starting with MusiquePlus.

After all individual opening remarks, we'll have a period of questions and answers for the remainder of the meeting.

I will say to the committee that I'm going to be leaving in about 20 minutes and our vice-chair, Mr. Nantel, will capably take over.

With that I turn it over to you, Mr. Talbot.

[Translation]

**Mr. Denis Talbot (Television Producer and Host, Video Games and New Technologies Expert, MusiquePlus Inc.):** Thank you very much.

Thank you for having me today. It is a real honour.

I am going to share a little bit about myself. I have been working in communications for about 30 years, including 14 at MusiquePlus where I still work today. I host *M. Net*. Over the past 14 years, I've had the opportunity to witness the growth of the video game industry in my area of the country, Montreal. I've seen companies like Ubisoft be created. At the helm of that company, there were many very enthusiastic people who were ready to throw themselves into this new adventure on this side of the ocean.

What I most noticed were young people who finished school, who had practically no experience on the labour market, who had just finished a course and who, overnight, found themselves leading projects. At the time, we called them "Lego" projects because they were based on children's games. Fifteen years later, however, the same people are in charge of studios. I am thinking of Cédric Orvoine, who is now in Toronto and who is in charge of Ubisoft's studio. He started out working in media relations.

Unfortunately, most people don't know much about video games, perhaps even some people sitting around this table. We're not just talking about 35-year-old guys who live in their basement or living room and eat cheezies while playing video games. These are people who are passionately creative.

I often see this in action since I also make documentaries on the making of video games. My latest is *Deus Ex: Human Revolution*, for Eidos Montreal. During four years, I followed the development of this game. I saw dramatic situations where people faced technological dead ends, but finally found ways to get around them. It's all because people who were there 14 years ago are now in key positions. They face situations that can be difficult, but they manage to get around pitfalls thanks to their experience.

People with a lot of experience are few and far between. I realized that. The person who worked at Ubisoft three years ago now works on another project at Eidos. He will work there for three years, then when another position opens up at BioWare in Vancouver, he will apply there. The departure of these people leaves gaping holes. They are important positions to fill.

I went to Paris recently, and I met people from Ubisoft France. They told me they would really like to come work in Canada. They had the impression that things are happening here, that it is a sort of Mecca for development, Hollywood for video games. I told them to come, but they told me that the snag was that they would have to wait 16 or 18 weeks.

If I had one suggestion to make to you, ladies and gentlemen, it would be to reduce that wait time a bit to allow those brains to come here. Yes, Canada is Hollywood for video games, but there are other countries around. I am thinking of England, among others. Last year at the MIGS, the Montreal International Games Summit, representatives from that country distributed bags to promote gaming in England. Their message was the following: "Come and work with us in England; we have great conditions, great job offers."

It is not a well-known field and we should do more to introduce it to, among others, the parents of these kids. I speak on it. I did a tour involving 90 schools as part of a series called *Vigilance on the Net*. We talked about cyberbullying and the jobs of the future in the video game industry. I realized that parents were completely out of their depth. They are scared of video games because if their children are playing, they aren't studying. For my part, I explain to them that in this field, we need architects, engineers, actors, computer technicians and all kinds of other people. The jobs are pretty much the same as in the film industry. In fact, movies and video games are incredibly similar. The difference is that if we create a game starring Lara Croft, we don't have to pay her 20 million dollars.

It is a great field that I would like to promote more. I don't know if governments could help us do so. For my part, I do it daily on my show. I try to convince people — and especially young people — to go into this field. People who work in this area will have work for the rest of their lives.

• (1535)

[English]

**The Chair:** *Merci.*

Next we will hear from Avrim Katzman, from Sheridan College Institute of Technology and Advanced Learning.

**Professor Avrim Katzman (Professor, Sheridan College Institute of Technology and Advanced Learning):** Good afternoon. I'm Avrim Katzman. I'm a professor at Sheridan College, and I'm also the coordinator of our game design programs at the college.

I'll start with a little historical background.

Sheridan College was founded in 1967, as a result of Ontario legislation introduced in 1965 to create a post-secondary educational alternative to universities. Sheridan occupies campuses in the western greater Toronto area in Brampton, Mississauga, and Oakville.

From its inception, a key component of Sheridan was its art and design unit. The charter documents for Sheridan highlighted the role of art and design as central to its mission and stressed responsiveness to opportunity, flexibility, and integration with the economic growth of the region. This master vision well understood that applied arts encompassed many interrelated growing sectors, including animation.

The Sheridan animation program was launched in 1968 and, as a result of being targeted so early in the development of the college, has become renowned as a world leader. Locally and abroad, Sheridan and animation have become somewhat synonymous. Computer animation was added in 1985, and Sheridan's early recognition of the importance of investing in computer technology, both from an academic and enterprise perspective, was to have a major impact on the development of arts programming.

Sheridan animation graduates have gone on to great success in the fields of animation and special effects, having received industry recognition in the form of accolades and awards, including several Academy Awards and numerous nominations. In 2012, Animation Career Review named Sheridan's animation program as number one in the world.

In the last 10 to 15 years, we have witnessed a transition such that an increasing number of our graduates are finding employment in the games industry. Dramatically, in any given year, between 40% to 60% of our animation graduates may find themselves working for game companies. Recognition of the cultural significance of computer games and the talent requirement for industrial sustainability has motivated our development of a Bachelor of Applied Arts degree in game design, to be offered starting in September 2013.

As Canada's largest art school, Sheridan College carries a solid track record of innovation in applied learning and fundamental ties to industry. Sheridan is committed to developing strong industry and community partnerships that lead to social and economic growth within the region by offering vital solutions to industry problems through applied research and education.

Sheridan actively seeks opportunities for partnerships with industry leaders in Ontario, Canada, and North America. Sheridan's robust roster of programs, such as those that focus on digital media, gaming, and animation, provide many career pathways. Sheridan graduates are well known and sought after. For example, Corus Entertainment, based in Toronto, is one of Sheridan's largest benefactors, employers of graduates, and partners. Active participation from all levels of Corus employees and subsidiaries has made a significant difference to Sheridan's success as the number one school for animation education.

Corus was first in line to support Sheridan's expansion of our new animation centre, while at the same time renewing its commitment to support student mentoring, internships, and information sharing. They have endorsed many Sheridan initiatives and applications to the Natural Sciences and Engineering Research Council of Canada and the Ontario Media Development Corporation. Corus has contributed over \$400,000 in support to Sheridan.

Our relationship with long-time Sheridan industrial partner Walt Disney Animation Studios goes back to the inception of the program in 1968. In 1997, Disney established permanent scholarships for students in Sheridan's animation programs, and Disney continues to play an active role on program advisory committees and in supporting internships each summer.

Pixar Animation Studios, a division of Disney, supports software needs at Sheridan by contributing full licences to its proprietary software for animation students. As well, Pixar actively participates in mentoring Sheridan students, with many receiving coveted summer internships.

We've had a long-standing relationship with DreamWorks Animation. The DreamWorks Animation endowment, established in 2001, provides two annual scholarships for students in the Bachelor of Applied Arts in computer animation programs. Animators from DreamWorks take an active role in reviewing student portfolios and visit Sheridan regularly to mentor students. Annually, interns are placed at DreamWorks Studios in California.

Sheridan has identified digital media as a strategic priority for the college. Given its history of providing internationally renowned applied education in digital media and producing award-winning graduates in this field, the college has demonstrated its commitment to research and development in this area through its creation and support of the Screen Industries Research and Training Centre, known as SIRT.

● (1540)

Established in early 2010, SIRT is dedicated to fostering collaborative innovation with Ontario's film, digital game, and television industries. SIRT works with industry, academic, and government partners to conduct collaborative research and provide Canada's screen-based professionals with the training required to build this country's competitive advantage. SIRT is strategically located in the heart of Toronto's film district at Pinewood Toronto Studios, Canada's largest complex of sound stages. Using state-of-the-art technology, SIRT researchers work together with industry partners in a range of ways that are paramount to improving techniques and practices that reduce the time and cost of film, television, and game production.

In less than two years, SIRT has established itself as a significant contributor to screen-based sectors in Canada and has forged direct linkages between innovation in applied research and production practices. Continued sustainability requires support from industry partners to increase SIRT's research capacity and infrastructure. These partners include the 3D Camera Company, Panavision Canada, Vicon, the Directors Guild of Canada, Deluxe, and Side Effects Software, among others.

Several years ago, when we were first developing the curriculum for our Bachelor of Applied Arts in game design, Ubisoft Montreal announced that they were seeking to develop a presence in the Toronto area. We realized that having Ubisoft as a partner would be terrific for our program and for the industry in the Toronto area. We contacted Ubisoft in Montreal and arranged meetings there, and three of us from Sheridan flew up to Montreal to meet at Ubisoft headquarters. That started a relationship that continues and grows stronger to this day.

Ubisoft personnel have given talks and demonstrations to standing-room-only audiences at Sheridan College. Ubisoft has participated actively in our program advisory committees, and in September of this year, Sheridan and Ubisoft formally agreed to work together in defining joint research projects that will foster development of virtual production and performance capture techniques in Ontario and worldwide. This partnership provides a unique opportunity to collaborate and establish a global centre of excellence for research, curriculum, and training in interactive storytelling using virtual production practices.

Ubisoft Toronto will also work with Sheridan to maintain leading-edge curriculum in its Bachelor of Applied Arts in game design and graduate certificate in game level design programs, as well as programs for film, television, and animation that will benefit from performance capture and virtual production practices. This collaboration will help position Canada as a leading innovator in the development and adoption of new virtual production practices that are expected to become key to the future of interactive storytelling throughout the game, film, and television industries.

At Sheridan, we like to think of ourselves as being in the business of taking young peoples' dreams and turning them into careers, but of course we're only part of the equation. We can't do it on our own. We need strong participation from government and industry in order to accomplish this mission.

Thank you.

● (1545)

**The Chair:** Thank you, Professor Katzman.

Next, from BlackCherry Digital Media, we have John Mark Seck, president. The floor is yours.

**Mr. John Mark Seck (President, BlackCherry Digital Media Inc.):** BlackCherry was formed in 2004. We're located here in Ottawa. It started pretty humbly, with three employees doing service work in interactive media. Our initial work was largely web-based educational service interactive work. The clientele were mainly Canadian film and television production companies and government.

In the past five years, we've made a decision. As we had some experience in game production, we decided to focus strictly on game production. We've had a few quite notable projects over the past three years. One was Path of the Elders, in 2009-2010, which was produced in partnership with Carleton University and the Mushkegowuk Cree. We created that educational game and the website Explore Treaty 9.

We produced Virtual Safety Village in partnership with the Safe Communities Partnership in Sault Ste. Marie. It is an online virtual world experience that allows kids to learn about home and outdoor safety.

Over the last two years we've worked on another project in partnership with Carleton University, called First Encounters. It is a game and educational project focused on aboriginal themes that gives kids the experience of what it was like to be one of the first people to arrive in Canada from Europe.

Really, the core of our work has been educational and game-based.

In 2010, I was approached by an investor, Dan Yang, who was trying to create essentially an iPad for kids. What she needed for that device was content. She hired our company to create the initial content for that device and then asked me to form another company as a branch of our company and to build that company out. That company has grown over the past year and a half to 40 employees. It's a pretty good story. That product is now for sale at retailers throughout North America. It's called VINCI.

Over the past two years, our company has really focused more on game production. We're now at 15 employees. We're growing pretty quickly right now. We have representation in California. We're in discussions with Ubisoft, Slimstown, and EA on casual game work. We're just completing work now with Beeline, Capcom, and Jim Henson.

In the last few years we've made the transition pretty much to gaming while we still carry on some of our interactive work. Gaming has certainly been the growth business for us and is where we see the most opportunity. We expect that we'll double our numbers over the next year.

**The Chair:** Thank you, sir.

Next, from all the way out in beautiful Vancouver, British Columbia, at the Centre for Digital Media, we have Dennis Chenard and Lance Davis.

Go ahead, gentlemen.

**Mr. Dennis Chenard (Director, Industry Relations, Centre for Digital Media):** Hi, everyone.

I'm Dennis, with the Centre for Digital Media in Vancouver. It's a very interesting initiative. It's a 19-acre site that is shared among UBC, SFU, BCIT, and Emily Carr—four of our leading universities out in Vancouver—with a core focus on digital media. It's the Centre for Digital Media.

One of our main operations is a master's of digital media program, which was established in 2007 mainly to service the game industry. We had a program that came out of industry for industry. Industry leaders, in working with the premier's technology task force, identified that this sector was one that was growing at a pace that identified a significant demand in having trained leaders who understand digital media, can become great content producers, and work together. With the establishment of this program, we have managed to recruit talent from around the world. About 60% of the students who come into this program are from the international community, and about 90% of those students are choosing to stay in Vancouver when having the option.

Our gaming community has, over the years, changed its focus a little bit. This is going to look at it from a bit of a competitive standpoint.

Vancouver has seen a bit of a decline with a number of major studios, at least on the triple-A side, that have been doing business in Vancouver. That said, we have had a number of smaller companies within the casual and mobile space start up. However, we have also lost a number of our graduates back to the international community because they are choosing to pursue opportunities abroad. I have five students who just moved to Berlin last year.

One of the areas we are really interested in, at least from the B.C. perspective, is continued growth and support for the game industry, both at the triple-A level and with the emerging companies.

Another factor I have recognized at international events is that Canada seems to be very provincially represented, but not so much nationally. With that, we have a strong partnership with industry. One of my colleagues on the industry side, Lance, is with Slant Six Games, one of our larger game companies in town, and is also a representative of BCI. I will let him speak to that in a second.

The reason I am interested in this conversation today is that any time we can have a discussion as to what is going to better position Canada's digital media strategy and employment opportunities for young graduates and talent, I am all for that.

To speak to B.C.'s state of the industry, I will pass the microphone to Lance.

• (1550)

**Mr. Lance Davis (Chief Financial Officer, Slant Six Games, Chair of BC Interactive Group, Centre for Digital Media):** Thanks very much, Dennis.

It's a privilege to be here today and to be part of the interview and feedback process, so thanks very much for that.

Also, I'm quite pleased to see that the video game development industry—and the digital technology industry overall, the entertainment industry—is recognized as part of our Canadian heritage. It's definitely part of our culture.

I'll talk about the macro level for a second.

Last year, in 2011, globally the industry generated over \$55 billion in revenue. That is games sales, hardware sales, and all the peripheral services. That is a very serious number.

On a more micro level, here in British Columbia we have fallen off from being the number one video game development hub in the country. We are now hanging on tenuously to second place. Our friends, *nos amis* in Quebec, are now in the number one place, thanks very much to their tax credit program.

Certain of the provinces have reacted by implementing these tax credit programs and have created a very uneven competitive space. There has actually been an exodus of very well-qualified people from British Columbia, unfortunately, to other geographies to seek jobs, so at BC Interactive, working in conjunction with our friends at DigiBC and with the good help of people such as Dennis and the Centre for Digital Media, we're striving to hold our position now, to regain our position as number one, and also to cultivate the industry globally. BC Interactive represents the video game industry here in B.C. We're working to unify and then to “evangelize” our position.

Currently in the video game development industry here there are approximately 4,000 people. That number, unfortunately, is diminishing. Again, we need to take constructive steps to halt that from happening.

On a more constructive level, we feel that there is ample opportunity. I like to portray it as a perfect storm scenario. B.C. currently has all of the necessary ingredients not only to regenerate and to grow our hub back to its former status but also to remain a competitive force globally. We do deal with people all over the world. At Slant Six Games we've dealt with publishers in Asia, the U.S., Germany, and beyond, and that is the nature of our industry. It's a wonderful thing that in Canada we get to provide our services to those people.

If we could, we would like to see some constructive steps toward ironing out the uneven competitive environment in place now that has some provinces offering 40% in tax credits. We recently campaigned successfully for the implementation of a digital tax credit. Unfortunately, it's 17.5%, and it hasn't served to help us protect our workforce and to stop the erosion.

We would very much like to see the implementation of a federal digital tax credit. That would be extremely helpful and might take some of the pressure off provinces to try to implement ad hoc programs, if you will. I say that with all due respect.

It's more than ad hoc; Quebec has become number one in less than four years, and the contribution of our industry to the GDP in that province is absolutely staggering. At 4,000 people here in B.C., our GDP contribution to the province is well in excess of \$500 million annually.

I was a little bit chagrined to see the Jenkins report and the adoption of some of the recommendations from it whereby the SR and ED program was rolled back. I understand that some of the assets related to that will be going towards IRAP and perhaps some venture capital programs, but please understand that our people don't participate in those programs. We would perhaps need to see the SR and ED program get a bit more proactive that way.

My peer, Mr. Talbot, alluded to easing up some of the immigration policies, shortening the time for application and bringing good talent in, and perhaps offering a tax holiday to attract certain people from other geographies and other territories to our good country. We would also like to see prioritizing of training and education extend to the digital realm and video game design, art, audio, etc. Many great disciplines are involved in the typical evolution of a video game these days.

When you're looking at regulations for the CRTC, how about a more robust set of rules for our broadband? Games are very much going digital and online. That, in fact, is the new generation, so anything that could bolster that change would be very much appreciated.

On the timing of the LMO for people immigrating in, if we could do anything constructive to reduce that, it would be great.

I think our time is close to drawing to an end, so again, thanks very much for allowing us to be a part of this. We welcome any

questions whatsoever, and beyond today's event we remain very much available to you.

• (1555)

Thank you.

**The Vice-Chair (Mr. Pierre Nantel (Longueuil—Pierre-Boucher, NDP)):** Thank you very much, Mr. Davis.

[*Translation*]

We will now go to Mr. Johnston, from TeamSpace, in Halifax.

Mr. Johnston, you have the floor.

[*English*]

**Mr. Michael Johnston (President and Chief Executive Officer, TeamSpace):** Good afternoon to members of the committee and to the other invited guests.

Thank you very much for inviting me and allowing me to join you today from a very rainy Halifax via video conference.

I'm founder and president of TeamSpace. We're a development studio based here in Halifax. TeamSpace maintains a full-time staff of roughly 80 people, the majority of whom live here in Nova Scotia, with some staff in Toronto, the United States, and England. Roughly 12 years old, TeamSpace has grown steadily, having been recognized five times as one of the fastest-growing companies in Atlantic Canada.

A native Nova Scotian, I founded TeamSpace after returning from a degree at Harvard and an IT career in Boston. I'm very proud that we've been able to build a world-class business here in the Maritimes.

TeamSpace's core business is software engineering for interactive projects. Like many companies in this region, and I suspect across Canada, we've built our business on a mix of services contracts and original intellectual property game development.

We do very little work on the large, blockbuster-style console video games. Instead, we target and service the other huge and growing segments of the entertainment software industry: interactive websites, web-based casual games, online multiplayer virtual worlds, social games on platforms like Facebook, and mobile games on smart phones and tablets. That strategy of building many smaller games and projects has allowed us to better manage our human resources, I would say. It's helped us to retain a stable and steadily growing pool of talent rather than having an up-and-down flow of staffing for large projects.

Our work in the entertainment software industry primarily targets large media companies and broadcasters that own and license popular intellectual property and characters and that drive much of the online entertainment revenue through established advertising business models. International brands such as Nickelodeon, MTV, Sony Pictures, Fox, and NBC all buy software engineering services and games from us. Nearly 100% of our business comes from outside Nova Scotia, and most of it comes from outside Canada.

Our services and products are highly exportable around the world, which drives a direct benefit to our region. I would argue that the entertainment software industry is a key component of the shifting export economy in Canada. In support of that argument, I would note that TeamSpace was recognized as Nova Scotia's Exporter of the Year last year.

As an exporter, however, we are fully exposed to currency effects. The rising Canadian dollar has had a direct negative impact on our profitability and our ability to be competitive on the world stage. We have world-class talent here in Canada, but we have seen our traditional cost advantage erode dramatically due to our rising dollar.

I mentioned our world-class talent. While the large game development centres in Montreal, Vancouver, and Toronto have traditionally received much well-earned attention, other regions of the country, like Atlantic Canada, should not be overlooked.

The success of the film and animation industries here in Atlantic Canada over the past few decades has built a strong base of talent in art and design, sound production, and acting talent. Those industries, particularly animation and including a number of graduates I know locally from Sheridan College, have faced significant challenges in recent years in trying to remain vibrant and to reinvent themselves in the global economy. The rise of the game development industry has provided a new outlet to apply those skills and to keep that experienced talent employed here in the region.

At TeamSpace, we recognized early that software programming talent is often hard to find for many studios. We focused on building a concentration of programmers in Halifax for use on our game projects and to fulfill services projects for larger studios and for our media clients. For the life of the company, though, finding enough skilled programmers and project leads has always been our greatest challenge.

Nova Scotia is home to many outstanding colleges and universities, many of which are adjusting their curricula to graduate students with the skills needed in this industry. Their doors are open, but from my perspective, there aren't enough students enrolling or enough graduates staying here. I believe more work can be done by all of us to make Canada's youth better aware of the career prospects in this industry, to support them financially as they consider enrolling in post-secondary computer science and game-design programs, and to incent them to seek employment in all regions of Canada, including Atlantic Canada. A good mobile game can be built with a relatively small team. With the right incentives, we could see many more successful studios in all corners of the country.

Our ability to grow our staff has also been impacted by immigration challenges, some of which have already been spoken about by other members of the invited panel. Our industry moves at

a brisk pace. When we need to add skilled personnel to help us fulfill a new contract or to complete an existing game, we often need people in a matter of weeks or even days.

• (1600)

A few years ago, we were able to look to immigrants to help us fill that need, but over the past couple of years, changes to temporary foreign IT worker guidelines have slowed the work permit process to a pace that is, frankly, untenable for us. That is particularly unfortunate, because often the immigrants we tend to need bring critical experience as mid- to senior-level project leads and game designers. Those experienced workers are much harder to find in Canada—most of them are busy—and it can take years of investment to grow them in-house. Those people have a multiplier effect. One new senior staff member may open up an opportunity to hire an entire new team of junior-level graduates to work under their leadership.

As I sit within sight of the Irving shipyard, I would also like to suggest that investment in the entertainment software industry can have benefits in other sectors, beyond traditional game development. For our part at TeamSpace, we have found that our skills and experience in programming, art, and game design translate very well into fields that rely increasingly on complex training and simulation, such as aerospace, defence, and health care. Similarly, our investments in game-related technical R and D have yielded dividends beyond that sector.

Projects in both traditional gaming and interactive simulation benefit from the government's investments in tax credit programs. As a studio with a heavy focus on software engineering, many of our projects contain elements that qualify for the federal SR and ED tax credit, which has helped us further innovate and remain relevant in the global digital marketplace.

Tax credits focused more specifically on digital media and gaming, as we've already heard, have to date been administered provincially, with notable differences across the country. Because of that provincial silo effect, as it currently stands, we have a strong disincentive to hire people in other provinces or to engage partners in other parts of Canada, since we can only claim credits against labour resident in our home province. A national digital media tax credit strategy could help to unify the industry and incent us all to source talent from across Canada first, before looking abroad for potentially cheaper offshore resources.



I would close with a request, which echoes comments we heard earlier, that our government continue to invest in programs that support Canada's telecom infrastructure. The gaming and digital media industries are moving at a breakneck pace toward online and wireless usage models. The demand for stable, ubiquitously available wired and wireless bandwidth is only going to grow, and grow fast. Things like high definition mobile video, anywhere/anytime gaming, and wireless commerce are becoming our new normal. We as a country need to have an infrastructure and a digital ecosystem that aligns with those demands if we hope to remain relevant to our target customers of tomorrow.

Thank you very much. I welcome any questions.

• (1605)

[Translation]

**The Vice-Chair (Mr. Pierre Nantel):** Thank you very much, Mr. Johnston.

Thank you for having shared your experience with us. As Mr. Talbot said at the beginning of the meeting, we tend to know little about this industry. However, we learn a little more at each meeting.

I will give the floor to my colleagues soon, but I want to say our witnesses all seem to agree on some issues. We've heard about immigration-related problems for specialists in some fields, specialized education to ensure our young people have access to this area, and subsidy needs for research and development.

Mr. Talbot, you raised the fact that this industry has created a kind of Hollywood for video games. It is the critical mass of all the studios in Hollywood that has made it what it is, made it legendary.

I will now give the floor to Mr. Young.

[English]

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

Welcome, everyone. Thank you for joining us physically and online, as well.

I'd like to start with Mr. Katzman, from Sheridan College. Thank you for coming today. We've actually never met before, I don't think, but I'm so glad to meet you here.

**Prof. Avrim Katzman:** I've seen you at the college several times.

**Mr. Terence Young:** Yes, I've been at the college a lot, but we've never met. I would like to come and visit some time.

Can I ask you just a few quick questions?

First of all, how many graduates has Sheridan sent out to the industry so far who are ready to hit the road running and help it grow?

**Prof. Avrim Katzman:** So far, over 40 years.... I haven't counted heads. We graduate, in animation and computer animation, approximately 150 students a year. Our anticipated intake for our Bachelor of Applied Arts in game design will initially be 75 students a year, growing to 100 students a year, probably over a two-year period, so in a four-year program, at any one time we'll have over 600 animation students on campus.

We're doing our best.

**Mr. Terence Young:** They must be pretty thrilled when you come in and say, "I have what you need."

You mentioned partnerships, and I know Sheridan is superb with partnerships. I was glad to see you had a partnership with Ubisoft, with the growth they've had.

How do you make sure your students are graduating and meeting the current needs? Is that what you accomplish through partnerships? They come in and say, "Here's what we need", and...?

**Prof. Avrim Katzman:** Yes. Part of the ministerial mandate for all community college courses in Ontario is that they have a program advisory committee that's substantially made up of industry representatives. They report not to me or to the academic faculty but directly to our board of governors on the state of the program, its currency, and its relevance to them as an industry. That helps us stay sharp and keep current.

**Mr. Terence Young:** Does Sheridan call the students to follow up to see if they have jobs, or do you just know they do because they all talk?

**Prof. Avrim Katzman:** No. There is a formal process. There's the KPI process, instituted by the Ministry of Education in Ontario, that requires us to follow up.

**Mr. Terence Young:** We have 8% unemployment in Ontario, mostly because 50,000 manufacturing jobs have been lost. We're going to try to get some back, but some will never come back. This is an industry that's helping replace those opportunities for the young people.

You've heard some people say today, and in previous sessions we've heard companies say, that when they need a senior programmer, they need to bring them from China or Korea or Japan or somewhere and they need to get them here fast.

What can the federal government do to help Sheridan College and Centennial College train those people and get them out into the field so that Canadian students who are already here get the jobs?

**Prof. Avrim Katzman:** I think by definition senior people are people who have graduated and had at least several years of industry experience.

What we can do to grow these senior people domestically is to support the industry. A great number of our graduates leave the country for jobs.

• (1610)

**Mr. Terence Young:** Do you know what percentage leave the country?

**Prof. Avrim Katzman:** I couldn't tell you offhand.

**Mr. Terence Young:** Is that just because they great offers, or better offers than they could at home?

**Prof. Avrim Katzman:** Yes, they get better offers. Historically the animation industry is more robust in the U.S., and the weather's better in California.

**Mr. Terence Young:** Yet despite the size of our population, I think we're number three in the world in Canada.

**Prof. Avrim Katzman:** In terms of game development, yes, we are number three in the world.

**Mr. Terence Young:** Can you account for that? Can you summarize why that might be, other than the fact that Sheridan College is in Canada?

**Prof. Avrim Katzman:** I don't know. Perhaps it's because there's no hockey this winter, so there's nothing else to do but make games.

**Mr. Terence Young:** Maybe Mr. Davis can add.

Thank you, Mr. Davis. I thought your presentation was very interesting.

You mentioned five things that were on a list of things that might help the industry, so I'd like to ask you to amplify your comments on them.

First of all, you mentioned a federal digital tax credit. Do you have any comments—maybe I can give you a short list of things—on how such a thing might work?

You said that you don't use SR and ED. Maybe you can tell us why or how it could be improved, and how robust rules for broadband might work. Can you give us a summary of your thoughts on those three things?

**Mr. Lance Davis:** Thanks. Yes, I would be very pleased to talk to those issues.

Let me correct something. We do use SR and ED. It's very helpful for our industry. Most of our members do well qualify, as there is a high degree of experimentation as well as development in the course of video game manufacture.

What is wrong with some of the provincial programs that provide the digital tax credits, ours included, is that the provincial SR and ED element is offset. You may recall that I mentioned that the B.C. digital tax credit is 17.5%. We take the 10% for B.C.'s SR and ED credit off that, and with the fact that the qualified labour pool is different between the two—and I can speak to that in a minute—our effective tax credit digitally here in B.C. is just over 5.5% as calculated by PricewaterhouseCoopers.

What we have to watch for if we were to contemplate the creation of a federal digital tax credit... We don't mind that there are stacking provisions with SR and ED. It's okay that this does get deducted off; no one wants to double-dip. However, watch for the qualifying pool of labour. For instance, the B.C. digital tax credit doesn't allow for owner members of certain video game companies to be included in the calculation. I humbly submit that in a studio of five to 10 people—and that's very common in the social and casual gaming realm these days—half the people sitting in that office are owners. In fact, we give equity in our companies. We're very *pari passu* in our organizations, and flat. It's part of our culture. They should participate.

Contract labour is often excluded, and it's very common in our industry. Because of the project nature of the video game development industry, we parachute people in, if you will, to various projects at certain times, so the contract element is very common to us. Just watch for those things.

**Mr. Terence Young:** In the remaining time, maybe you could talk a bit about how to emphasize training and what we should do with broadband.

**Mr. Lance Davis:** It's important that in the educational system we need to prioritize training. We do it in the science, technology, engineering, and mathematics realm, the STEM, but disciplines such as animation, visual effects, game design, and sound design lead to high-value, high-paying jobs. By way of example there, our average salary here in British Columbia is \$79,000; the GDP element of that is over \$180,000, so you can see the import of these jobs. We should definitely focus on ways that we can train those people and foster a cross-disciplinary approach that includes soft skills such as communications, business, and marketing. I hope that elaborates a bit for you.

**The Vice-Chair (Mr. Pierre Nantel):** Thank you, Mr. Davis.

[*Translation*]

I will now give the floor to Mr. Andrew Cash.

**Mr. Andrew Cash (Davenport, NDP):** Thank you, Mr. Vice-Chair. I would like to share my time with my colleague, Mr. Dubé.

Good afternoon, Mr. Talbot. We are delighted to have you with us today. Since the beginning of this study, we have heard from many witnesses from the world of video game production. You are the first to represent the perspective of gamers.

Can you share your expertise with us on the state of video games in Canada and gamer culture? What do you expect for the future of this industry?

•(1615)

**Mr. Denis Talbot:** First of all, Mr. Davis is right: the typical gamer plays a lot.

I also consider my mother a gamer, because she plays on her iPad and online. She now realizes that her Internet accounts cost a lot. They are very, very expensive. God knows she spends a lot of time doing that. Everything goes into the cloud.

[*English*]

Everything is going to the cloud now, the famous cloud. In order to get access to the cloud, you need the Internet. This Internet costs a lot of money, so if we want to continue developing games that will be going in the cloud, the consumer has to have easier access to Internet and not pay a lot of money.

[*Translation*]

Gamers play a lot. Game creators watch players and wonder how many hours they play on average.

Did you know that the average gamer is about 35 years old?

[English]

They're 35 years old. It might be because I'm playing a lot and raising the average.

[Translation]

Thirty-five-year-olds spend a lot of time doing this. Not only do they spend their time playing for their gaming pleasure, but they also watch movies and make purchases online. This becomes extremely expensive by the end of the month. Therefore, we need to find a way to regulate or standardize prices. It would be difficult to convince the bandwidth providers to do so.

Furthermore, gamers are always up to date on the latest technologies. They show interest as soon as a new game arrives on the market. I see this happening every night. For 14 years, I've been doing live TV shows. You can see it happening on Twitter and Facebook. The amount of time these people spend gaming, studying or playing a little game here or there is incredible. The industry is bustling with activity.

Something we haven't talked about is kickstarters. These are individuals who have good ideas.

[English]

They have great ideas. They want to work. They want to produce their game, but it's hard to get access to the funding sometimes. What they do is they go to the States, find a buddy who lives there, join up, team up, make

[Translation]

an independent game

[English]

and get the funding.

[Translation]

This is called crowd funding.

Once again, these are losses in revenue for Canada, but it still translates into good games that we can get here via bandwidth.

In short, I think we need to reconsider the way in which the gaming industry is designed. It's constantly evolving. Five years in this industry is too long. A new technology arrives on the market every two years. Take the Apple company, for example. It comes out with new phones every six months, new gadgets or new products.

Gamers try to follow these trends and to purchase the new technology. However, all this goes into the famous cloud, and you need money to access the cloud.

I think it's really important to adapt to this new technology and this new reality that didn't exist 5 or 10 years ago.

**Mr. Matthew Dubé (Chambly—Borduas, NDP):** Thank you Mr. Cash.

Thank you to our witnesses for being here. I would like to continue the conversation with you, Mr. Talbot.

My generation had the good fortune to watch your show for a good part of their lives. I have several points of interest, so I will try to be brief.

Let's start with Internet access. We hear about the importance of games for the iPad and the iPhone, but these require access to the Internet. The same goes for game consoles. More and more, updates are mandatory to play new games that arrive on the market, even if you have the DVD.

I represent a riding that is 20 minutes away from Montreal. It is not a rural area, it is an urban suburb, yet some people still have a hard time getting Internet access, sometimes due to the price.

Could you expand a little on what you said earlier about this and on these other concerns?

**Mr. Denis Talbot:** It's a sad reality. When I do my show, people can watch me on cable from Vancouver, Manitoba, from all over. I often hear that people can't access games anymore, because now they automatically need Internet access, which they don't have. Therefore, they can't play with their friends online because they don't have Internet access.

That's why developing a plan for countrywide Internet access should be a priority. Otherwise, these people without access are going to be missing out later on, because everything is going online. It's crazy! There are refrigerators that can be hooked up to the Internet now. It's really incredible.

There's another aspect to consider. Why do you have to confirm your identity every time you play online? The game designers could tell you the answer: piracy. Huge amounts of money are lost to unscrupulous thieves who take their products and distribute them free. Some even sell them in flea markets. This is why companies protect themselves by requiring the purchaser to identify him or herself to ensure that a genuine and legal copy is being sold.

It's a vicious circle. The company wants more people to play their game, but if they make it available to more people, some will exploit this and rob them of sales revenue. This revenue can be very fragile. When a small company of eight people launches their first game and 300,000 illegal copies are distributed, they're hit hard.

• (1620)

**Mr. Matthew Dubé:** So it's important to find a balanced solution to this.

**Mr. Denis Talbot:** If I may, I'd like to come back to one point.

One subject often comes up when I talk with young people in the schools. They leave school with their training and a firm grounding in their skills. It's like trying to learn to swim by reading online. The best way to learn how to swim is to jump in the water.

A good solution to train people faster is paid internships. Students just out of school would work for the company while being paid to learn. They would learn to swim in the wonderful world of gaming.

**Mr. Matthew Dubé:** Absolutely.

**The Vice-Chair (Mr. Pierre Nantel):** Thank you Mr. Dubé. Thank you very much, Mr. Talbot.

Mr. Scott Simms now has the floor.

**Mr. Scott Simms (Bonavista—Gander—Grand Falls—Windsor, Lib.):** Thank you Mr. Chair.

[English]

I like your points about the proliferation of the Internet. It's not just money that's the barrier, but geography. I have 200 towns in my riding, and 36 towns do not have access to any type of Internet. It's so behind the times; it's like highways and railways.

I want to get to Sheridan first, and I have a question for our folks on the coast.

I was reading the other day, and I brought it up at committee, about how Germany is now using a model for its technical colleges to create schools, and to heavily subsidize them, to put them into clusters over certain industries.

It sounds to me like you've gone the other way. You've managed to put yourselves in towards a certain industry, which is great, and it seems to me that you're adapting to this new type of industry, but when it comes to the government, I think you did say "government participation" near the end of your speech. To what extent...?

Now, when I say "government", I say "federal government". Obviously provincial government does have a role to play jurisdictionally, but then you get into that silo thing that our other guests have been talking about.

**Prof. Avrim Katzman:** The federal government plays a role in terms of federal grants for research support. The Canada Foundation for Innovation, the Natural Sciences and Engineering Research Council, and the Social Sciences and Humanities Research Council all provide us with support to engage in research that involves students and trains them to be what the research councils refer to as HQPs, or high-quality personnel.

**Mr. Scott Simms:** I'm sorry to interrupt. I don't have a lot of time.

In order to attract this type of money, do you first go to the industry and ask what they need so that you can qualify for this money from the government to proceed?

**Prof. Avrim Katzman:** For many of these grants, virtually all the granting agencies require that you have an industrial partner, and the industrial partner commits to a proportion that is sometimes as high as 50% of the value of the project.

**Mr. Scott Simms:** Right.

**Prof. Avrim Katzman:** We're always both at the behest of the government and of our industrial partners. Certainly we seek ideally suited industrial partners.

**Mr. Scott Simms:** When at the end of your speech you said "government participation", is this what you're talking about?

• (1625)

**Prof. Avrim Katzman:** Yes.

**Mr. Scott Simms:** Okay. I wanted to get this down for the sake of our analyst.

For the second part of my questioning, I want to go to Mr. Johnston and also to the west coast, to Mr. Davis and Mr. Chenard in Vancouver. Vancouver, you mentioned that the SR and ED program is being rolled back and that it needs to be more proactive.

Quite frankly, over the past two days we've heard a lot about the tax breaks and less about direct investment by governments. It seems to me that's where you want to go or you want to stay, or maybe not, but you've never really been exposed to a lot of government direct investment in this industry. It has all been about the tax credits.

Mr. Johnston on the east coast, you mentioned the provincial silo effect. You have two levels of government involved and you think there should be more of a national strategy—I don't know what the word is—to make this work for tax credits so that it's not siloed in any particular province.

Mr. Johnston, I'll start with you for a comment.

**Mr. Michael Johnston:** Nova Scotia is one of the provinces with a more lucrative digital media tax credit. I probably shouldn't complain too loudly, but we do leverage both tax credits.

As I mentioned, we're a fairly software development-intensive company. You're right. It's a model that we understand in terms of the SR and ED program. It's something that has worked. We've learned how to leverage that to grow our innovative software base and to then sell that more broadly on international markets.

You're right that we don't really yet quite understand the nature of the direct government investment in this field. We're certainly interested in where that may go, but we know what works and we know this is potentially being rolled back, so it certainly gives us pause.

On the provincial digital media side, I think a number of other guests talked about parachuting in specialized labour from other regions. At different times we'll need acting talent or vocal talent or engineers or graphic designers or something that we simply can't find in the Maritimes. This isn't a huge labour pool.

We're not able to leverage any of those resources in terms of tax credit filings on the digital media side. Therefore, if we can't leverage them—if we can't get a reasonable break, I suppose, on the cost of that labour—we're incented to look anywhere in the world for that labour, not primarily in Canada, which would be awfully nice. It would be nice to be able to look to Vancouver to find skill for the game that we're building, versus going to another country and having that money leave our borders.

**Mr. Scott Simms:** Thank you for that.

Could I go to the Centre for Digital Media to react to that as well?

**Mr. Dennis Chenard:** From our perspective, the students coming into the program at the Centre for Digital Media are also looking at opportunities around....

I think Lance is in a better position to speak to it from a studio perspective. I'll pass it to Lance.

**Mr. Lance Davis:** First of all, let me say that if our Vancouver resource could be made available to our friend in Halifax, we'd be happy to fill that need. The affordability of this workforce is integral to its success.

It's interesting that some people portray the tax credit programs as a race to the bottom and a giveaway of taxpayers' money, but irrefutable, substantive evidence shows that the evolution of the industry in Quebec over these few short years to become the number one hub in Canada is directly attributable to the tax credit.

In B.C. our animation hub has grown over only two to three years to become almost number one in the world, thanks in large part to the tax credits that are available to our contemporaries in the film and animation industry. It's interesting to note there's a huge distinction between the credits applied to them and to us. I'm not sure why that differentiation occurs, so if you're thinking in that realm going forward, please give effect to that. It's a very large digital environment.

[Translation]

**The Vice-Chair (Mr. Pierre Nantel):** Thank you very much, Mr. Davis.

We will now move on to Mr. Scott Armstrong.

[English]

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

My first questions are going to go to Mr. Johnston in Halifax.

You talked about your experience working in the States, and now you've come to Canada. What advantages does Canada provide over the United States for your company? Why couldn't you have set up in the United States and run your company there? What advantages do we have in Canada currently?

We have lower corporate tax rates and other advantages—

**Mr. Michael Johnston:** That's a fair question. The corporate and personal tax rates probably aren't competitive. If you stack us up against Atlanta, which has been at every digital media conference I've ever attended to talk about their outstanding programs, it is difficult to be directly competitive with some of those incentives.

We have a few intangibles here. Certainly in Atlantic Canada we have the highest number of universities per capita in North America, or so I've heard. We have an outstanding labour pool. We have, for our part, a lucrative—or, at least, it has been lucrative—R and D tax program that has certainly helped us be innovative in the innovative software work we do for global media brands.

We have, as I said, excellent educational institutions and a lifestyle that keeps people here. Everywhere I sell, there is a perception that Canada is a place of integrity with which to do business. I think that goes a long way. I think people understand our regulatory system, our legal system, and our tax system. They know that they can do good business with Canadian companies and get good value.

For my part, personally it's been better to be back home in Canada. I don't have to deal with visa issues and U.S. immigration. I came home shortly before 9/11. It was nice to be able to avoid the visa situation during those dark days of history.

I've been impressed by the quality of the labour here and by the support programs at all levels of government here in Nova Scotia. On the trade side, there is support from some of the ACOA trade programs and certainly from some of the provincial trade programs as well, and there is the federal R and D program.

• (1630)

**Mr. Scott Armstrong:** Thanks.

Mr. Johnston, we heard at the last meeting that everything is moving to digital download for distributing product. Would you agree that the future of your industry is going to be all digital downloads of products?

**Mr. Michael Johnston:** That's 99% of what we do.

As I mentioned in my remarks, we really don't build a lot of stamped-on DVDs or large blockbuster console games.

Everything I do, everything I export, is bits and bytes. Every game we build is either available online in a web browser, has been optimized for a mobile web browser, or is a mobile application built to be installed on your iPhone or Android device. At this point I probably can't speak to anything we've done in a dozen years that hasn't been accessed almost exclusively online or downloaded to mobile.

**Mr. Scott Armstrong:** That allows you to set up and operate your business in a more rural area. You could operate your business maybe not just in Halifax. You could go outside into a more rural area or a more rural part of the country, because the way you distribute your product, you wouldn't lose an advantage, because you don't have to pay for gasoline and other transportation costs. Is that accurate?

**Mr. Michael Johnston:** That's absolutely true. I grew up an hour north of here, close to your neck of the woods. We've been exploring setting up satellite teams in more rural parts of the province, partly because some of the tax credit regimes we have here in Nova Scotia have rural incentives to encourage companies to look outside the urban cores, which I think is a great idea. As long as we have a good connection and stable infrastructure, it doesn't matter where we sit.

**Mr. Scott Armstrong:** We've heard a couple of people say that when they're trying to bring in foreign workers, they are mid-level or project managers. I think you mentioned the same thing.

Is this going to be a situation that exists forever, or is this group of young workers we're now training in the industry going to be able to fill those roles in five, 10, or 15 years so we won't have this pressure to bring immigrants in to fill these mid-level and project manager roles?

**Mr. Michael Johnston:** Your comment is a fair one. We certainly see that the entry-level folks grow into mid- and senior-level resources, but that's always been the case. I've been doing this for 12 years, and this has always been a problem. It seems that we have a voracious need for more talent in this industry. As soon as we invest in growing a mid-level resource, we've tended to grow our business and need more of them.

There is a dramatic shortage of people with experience in this part of Canada, and honestly, there are a lot of great growing companies that need those people, so we're seeing a lot of cross-hiring, which really just drives up salaries. It's great for the resources but it is challenging for companies.

We need a deeper pool. It would be nice to be able to post a job ad and get more than one or two applicants to pick from.

**Mr. Scott Armstrong:** Does anybody else have any comments on the training aspect or building internal capacity within your operations?

No? Okay.

Thank you, Mr. Chair.

[Translation]

**The Vice-Chair (Mr. Pierre Nantel):** Thank you, Mr. Armstrong.

Before giving Mr. Dubé the floor, I want to mention the following.  
[English]

We'll now have five-minute rounds. They're a little shorter, so everybody gets to speak.

[Translation]

**Mr. Matthew Dubé:** I hope the other witnesses will forgive me because I have another question for Mr. Talbot. I am interested to hear what our witness from Quebec has to say, because there are people from the South Shore of Montreal, from my riding and neighbouring ridings, who work in this industry.

You mentioned actors, engineers, architects and all of those who are involved in creating video games. I don't think people realize that to create a product that costs 99¢, such as *Angry Birds* for example, there are people who have to create the characters, decide what colours to use, and so on.

I put this question to representatives of Canada's Alliance numérique based in Quebec. How much of an advantage is it to be in a region such as Montreal, where there is a lot of artistic talent in all these fields? I talked about this at the last meeting. *L'actualité* magazine, for example, mentioned people with history degrees who contribute to the game *Assassin's Creed*, which is the Canadian game that probably makes the most money.

What I would like to know is how much of an advantage it is in the video game industry to be in an environment where there are many artists and content creators.

•(1635)

**Mr. Denis Talbot:** It's an incredible advantage. Artists work alongside very pragmatic people who deal with zeroes and numbers. The artists are in their own world and draft images. It's fantastic to be able to combine that with a voice for a character and bring it to life.

In Canada, in Vancouver, in Toronto and in Quebec, we are very lucky. We can have a lot of exchanges. It is important to know that the young people who are currently doing this kind of work are very talented. To answer Mr. Armstrong's question, it can take 5, 10 or 15 years before these young people have the maturity to manage teams of younger people and pass on the torch, for example.

Being able to work in a stimulating environment is great. I have been at recording sessions where the actors completely become their character as they say their lines. It's very similar to what is done in film. There are more and more international actors coming to Montreal to do voice-overs, to develop the voices, and so on. In *Splinter Cell*, I actually saw Quebec talent at work. For example, the young princess is voiced by a Quebec woman. Of course, it's important. These actors portray the characters with a lot of emotion and that is integrated into the video game characters by people who know what they are doing.

One day a young man came to see me with a character he had created. It was a knight and it was fantastic. This young man was finishing school. The knight he had created was excellent and included a lot of details. I believe we were at Eidos, which was holding an open house. The young man showed us his creation and said he wanted a job. One of the experienced employees told him that the picture was very nice but that, to integrate it into a game, so many polygrams would be required that there would be no more room to make the game work.

You have to be able to play tricks with technology and exchange ideas with people who were there before you, people from other provinces and even other countries, to be able to find ways to make the animation very realistic and close to what you get in film. You want the people playing the game to be completely immersed in it. You want them to feel as though they are, in a sense, participating in a movie as the hero.

**Mr. Matthew Dubé:** Is there a way to reconcile these two realities? For example, on Tuesday we heard from representatives of the Writers Guild of Canada. They explained that the script for a video game was three times longer than for a film because there are peripheral characters. There are also those small voices you hear in the background when you are walking around a digital world.

Should training be adapted to this new situation? For example, there are an increasing number of people who did not study in a field traditionally associated with video games who will go on to work in that sector, correct?

**Mr. Denis Talbot:** People studying acting can easily find work in the video game industry because there is an increasing use of voice-overs and character portrayal. Engineers can also work in this sector.

When you are reconstructing part of 17th or 18th century Italy, you obviously can't use pictures. You have to look through books and work with historians. A few years ago, it would have been surprising to see a historian working on a video game. Let's look at the example of the game *Assassin's Creed*. It is set in Italy. You can see the bridges, the structures, and you can recognize the buildings. People will go out and do reconnaissance work and will very skilfully take this artistic vision and make it realistic in the digital world, in a video game. These are people who would usually draw real bridges and structures. It is beautiful to see all this come together.

• (1640)

**The Vice-Chair (Mr. Pierre Nantel):** Thank you, Mr. Talbot. Thank you, Mr. Dubé.

Mr. Parm Gill, you have the floor.

[*English*]

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

My question is for Mr. Johnston, but others are free to also weigh in and give their thoughts.

Some people have suggested that a high-dollar lack of talent pool and few R and D incentives have impeded the industry, yet we see the industry continues to grow at a high rate.

Can you please tell the committee if you anticipate continual job creation and overall growth within the industry as a whole?

**Mr. Michael Johnston:** Yes, but I would offer that our growth has certainly slowed in the last 12 to 18 months, largely related to the dollar. Two to three years ago, when the dollar was stronger, we had tools available to help us win new work and to be competitive. We have some major contracts with Nickelodeon and MTV that renew every year. We've been traditionally very, very competitive with offshore teams in Belarus, India, and China in competing for those same projects.

Two years ago we were able to do creative things with currency forwards, to lock in money at favourable rates and offer rate reductions to clients to help sign long-term contracts and to grow those contracts. All of those tools are gone from our tool kit at this point.

As I mentioned, we've been the fastest growing business in Atlantic Canada for several of our 12 years. This past year we've grown a tiny bit. This has been the year of slowest growth that we've seen in the life of the company. We have a lot of opportunities, we have a lot of proposals, but we lack some of the tools we used to have to clinch the work on the finance side.

So yes, I see as much opportunity, if not more, in the global market, but, as I say, there are fewer tools to help us lock those in and bring them home.

**Mr. Parm Gill:** Is there anyone else who would like to add to that?

**Mr. Lance Davis:** Yes. If I may, I'll give a brief commentary.

You might recall the annual revenue number of \$55 billion that I mentioned. By the way, that number is forecast to grow globally at

8% for each of the next three years, which is not an insignificant number. Our friends at the Entertainment Software Association of Canada predict that the entertainment software industry will grow 17% annually over the next few years.

There's ample opportunity for continued growth, and we do see that happening. However, we do need the right incentives and friendly legislation to help us capture our fair portion of that here in Canada.

**Mr. Parm Gill:** Perfect. Thank you.

My second question is regarding the entertainment software industry's skilled workforce.

What challenges do you face in recruiting and retaining programmers, game designers, and artists? Is it beneficial to have more timely access to temporary foreign workers?

**Mr. Michael Johnston:** Yes, I suppose it is. As I mentioned, the temporary foreign workers we've tended to engage have been people with specialized skills—more senior and experienced skills.

We have a fairly diverse portfolio of clients across a number of media sectors and a number of different specialized technologies. We're doing work with a lot of adaptive video, for example. Most of the video you would watch on MTV's website is delivered through technologies that we have engineered and built. We do a lot of work with adaptive mobile technologies and augmented reality tools, such as interface technologies and game control mechanisms.

A lot of these things are emerging technologies. We're able to invest in some of that work here in Canada. We have people who are capable of leading that charge, but often our clients need help quickly. Opportunities come up very quickly, and they leave just as quickly. Being able to look globally for the very specialized skills, sometimes a skill that may only be available in a handful of places the world over, helps us to win an opportunity we may not otherwise be able to take advantage of.

Being able to at least go back to looking at immigrant labour, temporary foreign workers, I think would be essential. Realistically, that door has essentially been closed to us. Opportunities come up and disappear too quickly. We usually have, at most, one month to turn an RFP response to most of our large media clients, and it can take two to three months to even engage a foreign resource any more than on a sort of consulting basis.

• (1645)

[*Translation*]

**The Vice-Chair (Mr. Pierre Nantel):** Thank you, Mr. Johnston.

Mr. Andrew Cash now has the floor.

[*English*]

**Mr. Andrew Cash:** Thank you.

We've heard in this committee three broad themes. One is that the access to broadband is not where it needs to be in our country. We've heard that in the labour gap that exists in this industry, it's taking too long, and therefore opportunities are being lost. We've also heard that the one-two punch of a high Canadian dollar and the reduction in the availability of SR and ED dollars has also impacted this industry.

My friend across the way has also suggested that we've lost a number of manufacturing jobs. His number, though, is woefully under the mark. As we know, 300,000 to 500,000 manufacturing jobs have been lost.

We need to support an industry like this that's creating jobs, that's growing, so it's very important that we hear this testimony. This is a multi-faceted, complex industry. I'm curious to know if there are voices that we're not hearing at this committee yet that we need to be hearing. I'm just curious.

Our witnesses have all delivered some very helpful testimony. Do you think we should hear from other groups or individuals or stakeholders that we may not have heard from? I'm opening that question up to anybody.

**Mr. Dennis Chenard:** I might be able to jump in on that.

Here in Vancouver, with the Centre for Digital Media and the masters program, we were originally thinking that the traditional triple-A studios in the gaming industry were going to be the industry that we were serving by producing talent and helping them with R and D work, which is another thing we do here.

We also found that there's a strong start-up culture that's really come out of Vancouver. We're seeing a lot of student-initiated companies, as well as initiatives in partnership with some of the recently laid-off employees in town, who have formed companies. Any incentives that can recognize that these small one- to five-member teams are being formed that may become the next Flickr or Club Penguin or HOOPS suite.... We've had a number of big successes come out of small teams. Everything grows that way; our industry did, too. Don Mattrick's EA Canada started off as an indie. There's a strong start-up culture.

I think any programs we can have in place that help at the studio level, the larger studios.... We're just seeing that effect here in Vancouver with some of the larger studios that have pulled out of Vancouver. We had a strong relationship with Ubisoft in Vancouver, but they pulled their studio out of Vancouver and relocated it to Ontario. Rockstar had done business in Vancouver for a number of years, and they've relocated to Ontario. Slant Six was a larger studio that has dropped in size recently as well.

The small and mid-sized companies haven't made up that entire gap yet, but there's a lot of opportunity there and I think across Canada. A lot of studios have done work-for-hire, working on non-original IP, meaning licensed content, but I think if we can incentivize small businesses to create original IP, Canadian-owned and Canadian-controlled assets, we'll be doing the economy a favour.

Thank you.

[*Translation*]

**The Vice-Chair (Mr. Pierre Nantel):** Thank you, Mr. Chenard.

I believe Mr. Talbot wanted to add something.

**Mr. Denis Talbot:** I have a suggestion for future meetings for your committee. I think it would be interesting for you to hear from people working in independent gaming. It would be good to hear their perspective and know how they feel about the industry in general, and to hear what they have to say and know a little bit more about where things are going.

As Mr. Chenard said, it's a trend that will likely keep on growing.

**The Vice-Chair (Mr. Pierre Nantel):** You have 30 more seconds.

[*English*]

**Mr. Michael Johnston:** May I, from Halifax, respond as well?

• (1650)

**The Vice-Chair (Mr. Pierre Nantel):** Yes, go ahead.

**Mr. Michael Johnston:** I'll make two quick points.

One that may be worth looking at is companies that provide cloud infrastructure. Much of our technology delivery, as Mr. Armstrong alluded to, is moving to the cloud for digital download. We've seen a number of clients who want to use cloud infrastructure not move forward with projects, particularly Canadian-based projects, because most of the large cloud hosting environments tend to be based out of the U.S., and folks here in Canada are worried about exposing themselves to Patriot Act things in the U.S. that mandate the release of personal and private information. More infrastructure in Canada to allow us to support the large domestic cloud-based projects might be interesting.

Another thing that I alluded to quickly in my remarks is that it may be worth thinking about gaming not just for entertainment but for serious gaming purposes. I think we're all familiar with serious games in things that I mentioned, such as aerospace and defence, health care, and manufacturing simulation. As we lose manufacturing jobs, a lot of times jobs like that are moving toward more automated processes, and having simulations and trainers may be a way to leverage some of the subject matter expertise in some of those personnel who maybe have lost their traditional jobs.

**The Vice-Chair (Mr. Pierre Nantel):** Thank you, Mr. Johnston.

[*Translation*]

Mr. Scott Armstrong has the floor.

[*English*]

**Mr. Scott Armstrong:** Thank you again, Mr. Chair.

I'm going to spread the questions around this time.

Mr. Katzman, in Sheridan College, are you expanding the seats in the programs you're offering, or are you serving just who applies? How does your selection of students work?



**Prof. Avrim Katzman:** We're far oversubscribed in terms of applications. Our applications-to-accepts ratio is probably on the order of 7:1, but we are continuously expanding. This year we're doing an additional section intake of 25 students in animation. Our Bachelor of Applied Arts in game design is a brand new degree, which will start off with an intake of 75 students per year and grow to 100 over the next two years. We're increasing our intake year by year.

**Mr. Scott Armstrong:** So you have actually allocated a whole program based on this industry to support the human resources need in this industry.

**Prof. Avrim Katzman:** Absolutely. It's a bachelor's degree, plus another graduate certificate as well.

**Mr. Scott Armstrong:** At Sheridan obviously you're trying to fill a niche ahead of other people. Education is like any other business in some ways. Are other institutions across the country also trying to add seats and add programs to support this industry?

**Prof. Avrim Katzman:** I would suspect that virtually every community college in Ontario is addressing this issue and has some sort of program. Some of the universities are migrating towards providing training in this area. I know Brock University is contemplating a degree in game design as well.

**Mr. Scott Armstrong:** What type of support do you give the students to connect them with jobs when they graduate? Is that a role you work on at Sheridan College quite heavily?

**Prof. Avrim Katzman:** One of the main features of our program is that annually we have a showcase of talent, which draws employers from all over the world. That's when the Pixars and the Disneys and the Ubisofts and the Rockstars come to Toronto. They'll hire students on the spot, so it's virtually a job fair that we have annually. We bring in representatives of companies as mentors to students. They have a chance to observe talented young people, and often hire them in the middle of their education, which we find a little irritating, but in some ways gratifying as well.

**Mr. Scott Armstrong:** It's almost like they're early graduates, in a good way.

**Prof. Avrim Katzman :** Yes, in a good way.

**Mr. Scott Armstrong:** Mr. Seck, you talked about this company that found you and asked you to engage in a project to build an iPod for children because of your background experience in developing products for younger people. What was it about your company that attracted this innovation? Are you one of the few companies in Canada that directly targets young people for this type of development, or were you just lucky to have this person find you?

**Mr. John Mark Seck:** It was a combination of both. We had the focus that she required. Our focus has long been on interactive software for young people, so I think it was a good fit at that point, and a good choice for her. It's proven to be a good choice, because her company is quite successful right now with her initial product release.

**Mr. Scott Armstrong:** That leads to my next question, which is maybe more of a recommendation.

Is there a need for support of marketing of what the industry does? Could government have a role in helping you market what you can

do to help other companies connect and develop products? I'm not really talking about marketing your products. I think you do a very good job of marketing your products the way they are, but in marketing your services, is there a role for government in supporting your industry to market their services not only domestically but internationally? I'll open that for everybody.

You can go first, Mr. Seck.

• (1655)

**Mr. John Mark Seck:** For sure, additional government support in marketing on the service side would be worthwhile, just because it would broaden the base and would require fewer resources from us to do that work. Our company in particular is in transition to a product model right now. I think we will maintain a service actively through our business, but it has proven after a long period of time to be a difficult row to hoe for sustainability.

**Mr. Scott Armstrong:** Does anyone else have something to say on the marketing of services to other companies? Is there a role for government in that?

**Mr. Michael Johnston:** For my part in Halifax, I would give you a resounding "yes" to that, Mr. Armstrong. My business is largely export-driven. The more help I can get that drives dollars across the border into this region, the better it is for Canada. I would also argue that those efforts would pay doubly in that they help us with recruiting. The more people know about the good work happening here, the more people will be attracted, not only people willing to spend dollars but also people looking for great jobs.

[Translation]

**The Vice-Chair (Mr. Pierre Nantel):** Thank you, Mr. Johnston. Thank you, Mr. Armstrong.

Mr. Scott Simms has the floor.

[English]

**Mr. Scott Simms:** Thank you.

Mr. Johnston—and I will get reaction from others as well—do you deal with EDC, Export Development Canada?

**Mr. Michael Johnston:** I do, but not very much, I will confess. We are actually in conversations with EDC now, exploring receivables insurance. We are familiar with a couple of the other programs. It is not been an organization we've had deep involvement with yet over the lifetime of our company.

**Mr. Scott Simms:** To the west coast, would you agree with that?

**Mr. Lance Davis:** Absolutely. I echo Mr. Johnston's comments. We at Slant Six are working with EDC and have had a great rapport with them over the past two years. I find them to be massively proactive. They have actually set aside a specific fund for Asian video game developers. They are very large over there, you must understand, with Nintendo and Capcom being major players. EDC can very much facilitate their investment into our game projects. DFAIT has also been involved. We keep in touch with them. We are talking very confidentially with people from Russia right. It's cool that DFAIT can jump into that program.

**Mr. Scott Simms:** I'm going to go into a line of questioning I took with the guests from our first meeting.

Since we are the committee for Canadian heritage, a lot of what we deal with has to do with tools like the Canada Media Fund, which many people use, many clients use, in the production of movies, television shows, and so on and so forth, and to a lesser degree in your industry as well.

When it comes to Canadian heritage, it's a mechanism that mostly requires investment up front within the industry, including by the CBC, all the departments, and even the museums. All this stuff comes up before you endeavour to grow your industry. We're hearing that the vast majority of benefits are coming on the back end. In other words, you have to make that investment first. Then you get your federal benefits, such as the SR and ED tax credits and so on.

Is there any way the federal government could play a role in being more upfront, meaning being on the front end of an investment into a project?

I will go bicoastal again. I am from the east coast, but I will go to the west coast this time.

**Mr. Lance Davis:** I'd like to think there is a way for government to be proactive. For instance, if a federal digital tax program were implemented—and again, I'll bring up our good friends at EDC, who work in conjunction with our bank, the Royal Bank—although those credits might be off in the distance prospectively, perhaps triggered by the end of a fiscal period, through EDC's guarantee program we're able to access some of those funds today. That's a very proactive program. Something of that ilk would be very beneficial.

**Mr. Scott Simms:** Would you comment, Mr. Johnston?

**Mr. Michael Johnston:** I would loudly echo that. That was exactly the comment I wanted to make as well. Banks in this end of the country are familiar with the R and D programs and the SR and ED tax credit programs. They are familiar enough that they are comfortable financing against some of those projects with the right other government partnerships in place.

The digital media tax credit is fairly new. It's only provincially administered and is not well understood by the banks, so while it

could be lucrative, there really is no upfront financing possibility against it. It really is something that we need to either go find third-party financiers for or float ourselves, with the hope that maybe we will recover some of that downstream 18 months after our fiscal year end. Something that is a bit more transparent and more universally applied, which financial institutions in Canada can get comfortable with, would certainly help open up opportunities to finance projects earlier in their life cycle.

• (1700)

**Mr. Scott Simms:** Yes, something that's more up front obviously would give you better footing for achieving financing in the future, I would assume. It's just a comment on my part.

Mr. Seck, would you like to comment on that as well?

**Mr. John Mark Seck:** I'd agree with that, yes.

**Mr. Scott Simms:** All right.

How much time do I have?

**The Vice-Chair (Mr. Pierre Nantel):** You're almost done, actually.

Does somebody else here want to comment? After that, we will be done.

[*Translation*]

I would like to thank all of you for participating in this study today. Mr. Seck, thank you very much, and thank you also to Mr. Talbot, Mr. Katzman, Mr. Johnston, Mr. Davis and Mr. Chenard.

By the way,

[*English*]

was “Slant Six” a reference to that famous Chrysler engine that never died?

**A voice:** Yes.

**The Vice-Chair (Mr. Pierre Nantel):** I think it's an AMC engine.

Anyway, thank you very much, guys.

[*Translation*]

We will interrupt the session for a moment because we will be dealing with internal business.

We will resume our meeting as soon as our guests have had the opportunity to leave the room.

Thank you very much.

[*Proceedings continue in camera.*]







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