
Reinventing Canada's Cultural Policy

Public Consultation

Canadian Content in a Digital World

Submission prepared by Communications MDR

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I. Reinventing Canada's Cultural Policy in Changing Times

The Digital Transformation: “We Live in a New Golden Age of New Mediums”

The Minister's review of Canadian content in a digital world is timely. The digital transformation of culture and society continues unabated, with the amount of electronic data generated around the world doubling every 18 months.¹ The changes affecting how we as Canadians engage with content, in particular screen-based content, are sweeping and profound. Big data, and major platforms like Google, Youtube, Apple and Netflix, have permanently changed we create, distribute, and consume content. More content is produced, remixed and shared by people today than ever before.

Amidst this rising tide of user-generated videos, photos, games and mashups, professionally produced and distributed content is here to stay. Innovation, creativity and the acceleration of digital capacity are driving the growth of a huge new economic sector, the global creative economy. Media genres are converging and morphing into new genres. *Wired* co-founder, Kevin Kelly, recently declared that “we live in a golden age of new mediums,” where all that is content is available to be remixed into new content. Sony's CEO has said that virtual reality (VR) platforms will “entirely change the vocabulary of film and television making,” in ways as yet impossible to predict.² The Internet of things and artificial intelligence will bring even more change to how content is created and consumed.

At the same time, just as in media revolutions past, old media are also here to stay.

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¹ “Understanding the Future of Culture in the Digital Age,” Opening remarks by Bernd Fesel, Head of the Board of the European Cultural Business Network, on the occasion of SmartCulture Week, November 5, 2015, retrieved from <http://ecbnetwork.eu/understanding-the-future-of-digital-culture/>.

² Matt Pressberg, “Why Snapchat, Not Twitter Or ESPN, Could Be The Future Of Media,” International Business Times, February 19, 2016. retrieved from <http://www.ibtimes.com/why-snapchat-not-twitter-or-espn-could-be-future-media-2315610>.

Traditional media will continue to entertain us even as new genres of content emerge. Fictional films will continue to exist alongside serialized TV drama and video games will continue to be played in the age of virtual reality.

The challenge for Canadian content will be to compete on a global level as never before. Digital transformation affords audiences the possibility to consume cultural productions from around the world. As reported by the CRTC's 2016 Monitoring Report, Canadians are consuming more video content over the Internet than ever before, a trend that is more pronounced for younger Canadians. Overall, 57% of Anglophones and 49% of Francophones are streaming online TV. Canadians are also making greater use of their mobile devices to access content. According to the CRTC, 73% of Canadians own a smartphone, while 52% own a tablet. In 2016, Internet access revenues are said to have surpassed broadcasting distribution revenues for the first time.³ As stated by PWC, consumers today “see no significant divide between digital and traditional media.”⁴ In a world where users control their TV, film, mobile and VR experiences, engagement will continue to be key to capturing and retaining audiences.

With the right supports and environment, Canadians have the potential to invent and harness new digital technologies to create new forms of digital expression, new modes of content production and distribution, highly skilled jobs and globally successful businesses.

A Far Reaching Policy to Address Industrial and Cultural Outcomes

Simply tweaking current tools and approaches will not go far enough to meet the challenges and seize the opportunities afforded by digital transformation. A far-reaching, agile policy with clearly differentiated cultural and industrial goals and strategies will support the development of an even more prosperous and globally successful Canadian cultural sector and content that resonates with audiences in Canada and abroad.

With the present review, the Government of Canada has an historic opportunity to chart a new course for the creation, discovery and export of cultural content aligned to the realities of the digital age and sufficiently agile to adapt to a rapidly changing environment. Ensuring the Canadian content landscape is fit

³ Canadian Radio-Television and Telecommunications Commission (CRTC), 2016 Communications Monitoring Report, October 2016.

⁴ PWC, Beyond Digital: The Global Entertainment and Media Outlook 2015 to 2019, retrieved from <http://www.pwc.com/ca/en/industries/entertainment-media/publications/global-em-outlook-2015-2019-canadian-highlights.html>.

for purpose for the digital age requires a bold vision and bold actions expressed in a new and far-reaching Canadian cultural policy. Simply tweaking current tools and approaches will not go far enough to meet the challenges and seize the opportunities afforded by digital transformation. A far-reaching, agile policy with clearly differentiated cultural and industrial goals and strategies will support the development of an even more prosperous and globally successful Canadian cultural sector and content that resonates with audiences in Canada and abroad.

The federal government should take a holistic approach that ensures the many government programs and strategic interventions are working together for maximum impact. We note that jurisdictions that have been successful in ensuring a thriving domestic entertainment sector have undertaken similar comprehensive cultural policy reviews and development of far-reaching strategies. Notable examples include the UK, France and Australia. For more than a decade these jurisdictions have implemented comprehensive digital strategies, periodically reviewing and updating their approaches to keep pace with digital change.

II. Considerations for the Screen Based Sector

With support from the federal government and private sector investment, Canada has built a successful screen-based production sector employing thousands of highly skilled Canadians in the production and distribution of award-winning film, television and digital media content. Canadian creators feature among the world's most celebrated directors, writers, actors and game designers. As digital transformation accelerates, Canada's leadership position will depend on the ability of Canadian companies to seize emerging market opportunities and remain competitive amidst a staggering volume of global cultural production.

1. The Market Place is Global

Succeeding in the global marketplace is of greater importance than ever to sustain Canadian production and distribution companies.

Over the past two decades, economic globalization coupled with rapid technological change have transformed the ways in which cinema and television productions are created, produced, distributed and consumed. New digital platforms, players and products have permanently altered the cultural landscape, deeply disrupting established business models. While affording significant new opportunities to monetize content and reach audiences, the global digital cultural landscape today is also far more fiercely competitive than the "walled

garden” of Canadian content of decades past. This is particularly true for Canadian dramatic production.

In today’s television environment, audiences are being won by high-budget, serialized dramatic productions featuring top global talent. Competition for exclusive access to high-value content has intensified between major broadcasters and “over-the-top” unregulated services led by Netflix and Amazon. To draw international audiences, successful feature films also rely on popular underlying properties, “marquee” actors, writers and directors.

Opportunities in the global market are significant. The US is currently the largest market in the world for cinema, television and OTT streaming. China has the world’s fastest growing entertainment sector. Chinese box office sales are expected to overtake the US in 2017. OTT streaming revenues in China are expected to be the second most important after the US by 2020.⁵ The latest innovation in screen-based content, virtual reality (VR) is expected to grow to almost US\$30 billion by 2020.⁶ While markets do exist for French-language content, it is clear that English-language content has a broader international reach.

To compete globally, Canadian productions must attract interest from the international market, including foreign distributors, broadcasters and investors. High-value, higher budget dramatic productions, based on compelling scripts, with marquee elements such as internationally recognized directors, writers and actors attached, are key to attracting international financing and sales.

At the same time, distributors and producers must be innovative. Traditional models of exploitation based on the licensing of discrete exploitation “windows”, geographically defined, and limited to specific platforms, are collapsing in response to audience demand for content anywhere and anytime. Some companies are having success monetizing branded legacy content through online platforms. Many films today are being released simultaneously in theatres and online.

Canada’s international coproduction treaties are critical to enabling Canadian companies to attract international financing and distribution and compete globally. Canada’s expertise in international coproduction and its access to skilled technical, creative and business professionals are critical factor for the future success of the sector. International coproductions are one way that Canadian television producers are successfully selling their formats abroad.

⁵ PWC, *The Global Media and Entertainment Outlook: 2016 to 2020*.

⁶ *Elevado*, *Study for the Potential Creation of a Quebec Centre of Excellence in Augmented Reality (AR) and Virtual Reality (VR)*, prepared for the Quebec Film and Television Council, January 2016.

2. Bigger Companies for Bigger Impact

To succeed in the global market, Canadian production companies need to increase their capacity, with better access to financing for larger, riskier projects. Distributors and sales agents need access to catalogues of branded properties and high-value content. Not surprisingly, we are seeing greater consolidation of the production and distribution sectors in Canada. DHX Media, Blue Ant Media, Marble Media, eOne and Thunderbird Entertainment are some examples of leading Canadian content companies focused on both production and distribution. Canadian distributor Elevation Pictures also recently announced its expansion into production.⁷ We note that consolidation in the production sector has supported the recent success of the UK entertainment sector.⁸

Interactive digital media companies too are increasingly developing their products for global markets, localizing them through language, names, and other culture-specific features to take advantage of the multi-billion dollar opportunity afforded by the global market. However, two key studies conducted by Communications MDR in recent years point to the significant financing challenges that exist for these companies, compromising development cycles and holding back their growth.⁹

3. Greater Participation by the Private Sector

There is a need for incentives to spur greater investment from the private sector in Canadian content companies. For most Canadian companies, loan and venture capital financing are difficult to obtain, with some companies turning to the US for early-stage financing. Cash flow is the single most important impediment to growth, hindering the ability of Canadian interactive digital media companies to seize opportunities.¹⁰

In Canada there is a need for innovative measures that can incite greater private investment in creative businesses and projects. The range of financing instruments and incentives being

⁷ Regan Reid, “Elevation Pictures launches production arm,” Playback, November 15, 2016.

⁸ *Oliver and Ohlbaum Associates Ltd.*, TV producer consolidation, globalisation and vertical integration – myths and realities, prepared for PACT, March 2015.

⁹ *Communications MDR*, New Directions for the Financing of Interactive Digital Media in Canada, prepared for the Canadian Interactive Alliance, June 2012; *Communications MDR*, Monetizing Digital Media: Trends, Key Insights and Strategies that Work, prepared for the Canadian Interactive Alliance, November 2014.

¹⁰ *Communications MDR*, New Directions for the Financing of Interactive Digital Media in Canada, Op. Cit.

used in other jurisdictions to harness private investment is instructive for the Canadian context. Innovative measures exist such as a loan guarantee facility recently introduced by Creative Europe to ease the problem of cash flow in creative businesses. Tax incentives are also being used successfully to attract greater private investment in creative businesses and projects, such as the UK's Enterprise Investment Scheme, France's SOFICAs, and American tax-shelters that encourage ordinary citizens to invest in production companies.

In Canada, there is a lack of a national approach to incentivising investments in the interactive digital media production sector. As a result, companies are unevenly served by provincial tax credit programs.

III. Refreshing the Toolkit for a Renewed Cultural Policy

With the articulation of a new cultural policy also comes a reinvention of the toolkit for implementation. By refashioning Canada's cultural policy toolkit the government could encourage greater creative innovation, stimulate greater risk taking with new forms of content and ensure a more robust, sustainable Canadian content sector.

In this period of major transition, the cultural sector must adapt. Creativity and innovation must be embraced. This forms the foundation for new business models.

Potential changes include structural modifications to how public support programs are delivered, expansion or clarification of roles and responsibilities of the national agencies involved in the implementation of a new policy, and federal government policy direction.

In this period of major transition, the cultural sector must adapt. Creativity and innovation must be embraced. This forms the foundation for new business models.

1. A Single National Agency for the Screen-based Sector

Recommendation 1: Create a single national agency dedicated to the success of the Canadian screen-based production and distribution sectors.

Jurisdictions that are having success at home and abroad with their screen-based industries are taking a holistic approach to supporting the full spectrum of screen-based companies and projects working, all along the value chain from content development and production to distribution and exports. Successful models include the CNC, the BFI, Screen Australia and Creative Europe. These agencies provide support through an array of financing instruments, from production and distribution grants and investments, corporate loans and loan

guarantee facilities, strategic research, financing for national festivals and for export activities, and certification services for the obtaining of tax credits. This approach favours the creation of agile, versatile structures able to respond to changing industry needs in a timely manner.

A single agency would be more efficient and easier for Canadian companies to navigate than the current funding system. Built over many decades, Canada's support to the screen-based sector is complex and delivered through a multitude of agencies and funds. A single agency would have the distinct benefit of consolidating services and expertise, simplifying processes for companies, and rationalizing administrative expenditures. A single dedicated agency in Canada could potentially also achieve greater impact as it would be better equipped to encourage the sustainability of the Canadian screen-based sector.

We note that some provincial jurisdictions have already taken this approach. In 2013 the Government of British Columbia merged the B.C. Film Commission with B.C. Film + Media to create a single agency. Creative BC provides a single access point to industry programs as well as providing production support services, tax credit administration, international marketing and policy development. In Quebec and Ontario, respectively, the SODEC and the OMDC have industrial mandates through which they provide support across the value chain to the ensemble of cultural industries, including a mix of financing from grants and equity investments to tax credits.

The government could draw inspiration from models in other jurisdictions and bring together under one agency the delivery of instruments intended to support the sustainability and growth of Canadian screen-based entertainment companies, including project financing, corporate support, promoting Canada's screen-based sector internationally, providing financial and logistical support to companies for international sales, and the administration of tax credits, including certification of Canadian productions and of international treaty co-productions.

Recommendation 2: Conduct timely research and gather market intelligence to monitor the success of the new policy and support decision-making.

A new single agency for Canada would be responsible for conducting researching into trends, tracking the success of Canada's screen-based sector, advising the government on policy and sharing its insights with industry. Canada has made great strides in improving the cultural data collected through Statistics Canada. However, what is missing is more granular and timely information that could support policy direction and decision-making.

Recommendation 3: Develop incentives to encourage greater private sector investment.

A single agency could be responsible for proposing incentives to stimulate greater private sector investment in Canadian companies and projects, for example, to ensure that companies in all provinces have access to production incentives and to debt financing to strengthen cash flow. It could also educate Canada's financial sector to better understand the risks and potential rewards of investing in the most innovative companies.

2. A Renewed Role for the CBC and Greater Collaboration with the NFB**Recommendation 4: Renew the role of the CBC/SRC as a key partner to the screen-based independent production sector with increased resources and fair Terms of Trade.**

Canada's national public broadcaster, the CBC/SRC, has a critical role to play in encouraging a sustainable Canadian production sector that cannot be over-emphasized. Nationally, Canada lacks the large vertically integrated players having the greatest success in countries like the US and the UK. To succeed the sector requires a mix of vertically integrated companies able to successfully take projects to the international marketplace as well as smaller independent producers, where the greatest innovations happen.

Investment by the UK's public service broadcasters, supported by measures such as the Terms of Trade for independent television producers has been a significant driver of growth in the UK's media sectors.

With renewed resources, a stronger CBC/SRC with a responsibility to produce more Canadian content would play a critical role in Canada's production sector by commissioning world-class content from independent producers, encouraging their growth and success. In the words of the CBC itself, "a strong public broadcaster is at the heart of a strong cultural ecosystem."¹¹

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Negotiated Terms of Trade between the CBC/SRC and independent producers are critical to encourage growth and sustainable Canadian companies and should a foundational pillar of a new Canadian cultural policy. Terms of Trade between public service broadcasters (PSBs) and independent production companies in the UK are

¹¹ Remarks for Hubert T. Lacroix at the Standing Committee on Canadian Heritage (CHPC), *October 25, 2016, Ottawa.*

said to have catalyzed the growth and success of its independent production sector.¹² They are said to have saved both sides money by streamlining negotiations between producers and broadcasters and empowering producers to exploit their IP rights in other markets. Trade terms between the CBC/SRC and Canadian producers should have as their goal to streamline negotiations, encourage producers to exploit their IP in other markets and facilitate exports.

The NFB has played an historic role in supporting Canadian education and dialogue, and developing the media skills of talented Indigenous Canadians. Today the NFB is playing a key role in developing digital film preservation techniques. In this regard the NFB is a precious resource for Canadians. The government should encourage collaboration between CBC/Radio Canada and the NFB to ensure that Canadians have access to innovative documentaries and digital productions on the platforms of their choice.

3. Policy Direction to Facilitate Exports, Support Creativity and Spur Innovation

Recommendation 5: Develop and implement a comprehensive export strategy with the goal of increasing the value of film, television and digital media exports.

The federal government has announced its intention to develop an export strategy for Canadian culture and should develop a targeted strategy for exporting Canadian film, television and digital media. Export strategies are critical to succeeding in today's highly competitive global entertainment landscape. Leading exporting countries such as the UK, France and Germany have developed comprehensive export strategies. Through their strategies, these jurisdictions promote their national industries and artists, they encourage international coproduction, provide strategic support to producers, distributors and sales agents, track international sales and identify trends, and systematically gather market intelligence for sharing with their industries.

A national strategy should promote the Canadian screen-based sector, provide strategic sales support in key international markets, encourage international coproduction, set export goals and measure progress, and gather strategic market intelligence to drive better decisions by the federal government and private sector companies. While Canadian content is generating foreign sales, greater sales could be achieved with dedicated resources for promotion and sales, encouraging more coproduction, as well as greater flexibility as regards definitions of Canadian content and greater investment in creators and development discussed above.

¹² Oliver & Ohlbaum Associates Ltd, A Decade of Success, prepared for Pact, July 2013; Oliver and Ohlbaum Associates Ltd., The Evolution of the TV Content Production Sector, prepared for Ofcom, September 2014.

Creative and financial collaboration from successful exporting countries with access to global markets should also be encouraged.

Canada must do more to promote its talented creators and its home-grown productions. Studies show that audiences tend to seek out culturally familiar content, for which internationally recognized talent and festival buzz are key.¹³ A national export strategy should provide resources to brand Canadian productions and promote Canadian talent at festivals and markets, with the goal of increasing domestic and international awareness of Canadian films, television and digital media programs, and raising the marquee value of Canadian writers, directors, and performers.

The federal government should work in concert with provincial authorities to ensure maximum value and impact of its support, ideally developing a shared strategy with the provinces. As noted above, it may be more challenging to export French-language content and a specific strategy should be articulated to boost sales of French-language content.

A national export strategy should be supported by the gathering of timely market intelligence that would provide guidance on the strategic targeting of support to Canadian companies at targeted festivals and markets around the world, strategic support to distributors and sales agents for such activities as versioning, or providing subsidies to foreign buyers for the promotion of Canadian exports abroad.

Recommendation 6: Expand Canadian content rules to ensure that Canadian companies can compete on a level footing with other jurisdictions for international financing, distribution and sales.

To allow Canadian content to shine internationally, funders and legislators must ensure that Canadian content requirements are competitive with other jurisdictions, namely, that Canadian productions can attract world-class marquee talent that can attract the significant levels of financing needed to deliver outstanding content able to compete on the world stage.

A recent study conducted by Communications MDR found that as compared to the European Union, Australia and New Zealand, Canadian production companies have more stringent requirements that may be limiting their success in the international market place. For example, it was found that other jurisdictions provide more opportunities to attach national personnel in key positions, provide more opportunities to spend production resources in jurisdictions and territories necessary to the success of projects, and allow a greater range of

¹³ Martin Kanzler, European Audiovisual Observatory, Ticket to Ride! What Makes European Films Travel, Presentation, Cannes 2016.

possibilities as regards distribution, the involvement of production companies and copyright ownership arrangements.¹⁴

The federal government should review its policies to ensure that Canadian production companies are not unduly disadvantaged by current Canadian content requirements for the purpose of accessing federal funding. Attaching competitive, internationally recognized marquee writers and directors to the development of new projects is critical to attracting international financing and distribution. Higher production budgets also allow Canadian companies to attract world-class Canadian talent. More competitive rules could enable up-and-coming Canadian creators to hone their skills by working alongside the best in the world.

Recommendation 7: Ensure that funding “triggers” (eligibility requirements) are platform agnostic to ensure that Canadian productions are available to Canadians as distribution channels evolve.

It is clear that distribution channels are continuing to evolve and Canadian companies should be encouraged to seize emerging opportunities. Through its policy, the Canadian government should ensure that Canadian productions are not unfairly disadvantaged by antiquated policies based on an old media system.

Recommendation 8: Encourage innovation by funding writers and directors and rewarding their successes with new opportunities to pursue projects.

Successful screen-based productions are most dependent on creative innovation, typically at the start of the value chain. Creators are at the heart of content creation and compelling, expertly executed stories are at the heart of successful film, television and video productions. To succeed, Canada must invest more heavily in developing and retaining Canadian writers and directors. Through its programs the federal government should ensure that Canadians have the opportunity to develop into world-class talents able to compete with the best and attract global audiences. Inspiration can be drawn from successful jurisdictions.

Canada should ensure that its programs are competitive with those of successful jurisdictions such as the UK, France and Australia that provide direct funding to writers and directors to support innovative new project development. The British Film Institute (BFI) extends predictable financing to writers and directors. The Centre national du cinéma et de l’image animée (CNC) provides direct funding for writers and writer/directors. Screen

¹⁴ *Maria De Rosa and Marilyn Burgess, Communications MDR, An International Comparative Study: How National Content is Defined in Canada and Selected Countries for the Purpose of Providing Access to Public Support, prepared for the Canadian Media Producers Association (CMPA), December 2015.*

Australia provides script development funding to experienced writers and writer/director teams. Similar support to writers and directors in Canada would provide the necessary incentives to develop and retain talented writers and directors in Canada and support the career development of the most talented Canadian creators.

In examining its support for writers and directors the government should remember that cultural diversity is a recognized, important driver of the creative economy.¹⁵ Truly outstanding talent can come from anywhere and that its policies must be inclusive and reflect the diversity of the Canadian population. The wider is cast the net of talent development, the more innovative and successful will be the creative sector.

Recommendation 9: Provide support to innovative artists working at the crossroads of art and entertainment.

Supported by the Canada Council for the Arts, Canadian media artists and their organizations play a critical role in fostering interest and innovation in artistic expression through media technologies. With support and encouragement from the Canada Council for the Arts, funding from provincial and municipal bodies, and countless hours of volunteer efforts, a national network of visual and media art production and exhibition centres stands today as a model of artistic creation, production and dissemination that is the envy of the world. As the lines between art and commerce blur, the Canada Council for the Arts could adapt its policies to support writers and directors working in commercial entertainment contexts and other entrepreneurial projects led by media artists.

Conclusion

The ideas put forward by Communications MDR in this submission are not new, but they are, we would argue, timely. The Internet is approaching its third decade of global disruption but the revolution is not over. As the web's inventor, Sir Tim Berners-Lee noted "the Web as I envisaged it, we have not seen it yet. The future is still so much bigger than the past."

We encourage the government to be bold in its thinking as it charts the policy framework that will guide and encourage Canada's screen-based cultural success for the decades to come.

¹⁵ *Communications MDR, The Shape of Things to Come – Approaches to Funding Multidisciplinary Arts in Canada, prepared for Canadian Public Arts Funders, 2008.*

Summary of Recommendations

Recommendation 1: Create a single national agency dedicated to the success of the Canadian screen-based production and distribution sectors.

Recommendation 2: Conduct timely research and gather market intelligence to monitor the success of the new policy and support decision-making.

Recommendation 3: Develop incentives to encourage greater private sector investment.

Recommendation 4: Renew the role of the CBC/SRC as a key partner to the screen-based independent production sector with increased resources and fair Terms of Trade.

Recommendation 5: Develop and implement a comprehensive export strategy with the goal of increasing the value of film, television and digital media exports.

Recommendation 6: Expand Canadian content rules to ensure that Canadian companies can compete on a level footing with other jurisdictions for international financing, distribution and sales.

Recommendation 7: Ensure that funding “triggers” (eligibility requirements) are platform agnostic to ensure that Canadian productions are available to Canadians as distribution channels evolve.

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