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Ontario
Ontario Media Development Corporation
Société de développement de l'industrie des médias de l'Ontario

The Honourable Melanie Joly, Minister of Canadian Heritage
15 Eddy Street
Gatineau, Quebec K1A 0M5

November 25, 2016

Dear Minister Joly:

Re: "Strengthening Canadian Content Creation, Discovery and Export in a Digital World"

Ontario Media Development Corporation (OMDC) is pleased to file the attached comments in support of the Department of Canadian Heritage's consultation regarding *Strengthening Canadian Content Creation, Discovery and Export in a Digital World.*

Ontario's creative industries are an important driver of growth and employment and contribute to Ontario's vibrant culture and economic prosperity. We would like to thank you for the opportunity to provide comments and we would welcome further opportunity for continued dialogue about the future of supporting and promoting Canadian content in a digital world.

Sincerely,

Karen Thorne-Stone
President and Chief Executive Officer
Ontario Media Development Corporation

Introduction

This submission is made by the Ontario Media Development Corporation (OMDC) to the Department of Canadian Heritage's cultural policy review, entitled "Strengthening Canadian Content Creation, Discovery and Export in a Digital World".

OMDC is an agency of the Ministry of Tourism, Culture and Sport, in the Government of Ontario (MTCS). The MTCS will itself be making a detailed submission to the Department of Canadian Heritage (DCH) review, from the perspective of the Government of Ontario.

In this submission, we focus on the role of OMDC and the views of its stakeholders. Accordingly, this submission does not include any OMDC policy recommendations. In this area, we defer to the views expressed by the Government of Ontario.

The Role of OMDC

OMDC serves as the central catalyst for the province's cultural media cluster. The Agency is committed to delivering high impact support to drive growth and productivity and to build the capacity and competitiveness of Ontario's creative media industries. Through a targeted toolkit of tax credits and programs and services for the film and television, book publishing, magazine media, interactive digital media, and music industries, OMDC advances the Government of Ontario's strategic objectives of fostering a sustainable and prosperous creative economy; supporting innovation, investment, and job creation; helping Ontario's companies to compete in the domestic and international marketplace; and enabling Ontario to become a leader in the knowledge-based economy.

Specifically, OMDC's mission seeks to:

- Provide key funding support in order to stimulate cultural industry activity and investment in the province, including the administration of Ontario's media tax credits as well as several grant programs for the film and television, book publishing, magazine media, interactive digital media and music industries;
- Invest in the creation of world-class, award-winning, original content;
- Facilitate collaboration across Ontario's creative industries to incent new ideas, new projects, and increased productivity;
- Encourage and share the risk of business innovation and digital transformation with content creator companies;
- Assist companies to enter new markets and forge critical relationships with international buyers to help them succeed in the global and online marketplaces;
- Support the development of new business models and the diversification of revenue streams;
- Promote and market Ontario's cultural media industries as world-class leaders;
- Stimulate inward investment, market Ontario to the screen production industry, and ensure a superior business experience through location scouting and facilitation services;
- Ensure effective industry development through partnerships, events and activities that stimulate the growth of strong and stable cultural media sectors; and
- Support the development of market intelligence and trend analysis through data collection and other targeted activities.

Creative projects are difficult to finance, particularly at the outset, when a company's sole major asset may be intellectual property. Our funds and tax credits support business growth for the music, film, television, interactive digital media, magazine media and book publishing industries, and provide support for collaborative and international business activities.

As part of its mandate, OMDC offers a number of programs and services to support the creative sector in Ontario. Core funds include the Ontario Music Fund, the Interactive Digital Media Fund, the Film Fund, the Magazine Fund, the Book Fund, the Export Fund, and the Industry Development Fund. Each of these funds is described in the OMDC *Year in Review*, which is published annually and is available on the OMDC website[1].

The OMDC also manages six tax credits in co-operation with the Canada Revenue Agency, providing a stable and reliable source of financial support that is crucial to the cultural media industry. In 2014-15, the OMDC certified an estimated $577.6 million in tax credits to Ontario's music, film, television, interactive digital media, and book sectors to support 2,923 projects with budgets totalling $6.1 billion. The tax credits are described in Table 1 below.

Table 1

Tax Credits Administered by the OMDC

Ontario Book Publishing Tax Credit (OBPTC)

A 30 per cent refundable tax credit on eligible expenditures to publish and market books by Canadian authors, available to Ontario-based Canadian corporations.

Ontario Film and Television Tax Credit (OFTTC)

A 35 per cent refundable tax credit on Ontario labour expenditures for film and television productions produced by Ontario-based Canadian corporations.

Ontario Production Services Tax Credit (OPSTC)

A 21.5 per cent refundable tax credit on Ontario production expenditures (both labour and non-labour costs as well as all post-production) for film and television productions by Canadian or foreign-controlled corporations.

Ontario Computer Animation and Special Effects Tax Credit (OCASE)

An 18 per cent refundable tax credit on Ontario labour expenditures for digital animation and visual effects created in Ontario for film and television productions by Canadian or foreign-controlled corporations.

Ontario Interactive Digital Media Tax Credit (OIDMTC)

A 40 per cent refundable tax credit (35 per cent for development under fee-for-service) on eligible expenditures to develop IDM products in Ontario, available to Canadian and foreign controlled corporations.

Ontario Sound Recording Tax Credit (OSRTC)

A 20 per cent refundable tax credit on eligible expenditures to produce and market sound recordings by Canadian artists, available to Ontario-based Canadian corporations. The 2015 Ontario Budget announced that the OSRTC will be phased out. A qualifying corporation may still claim an OSRTC for eligible sound recordings that commenced before April 23, 2015.

The Ontario Film Commission division of OMDC markets Ontario to the film and television production industry and provides location scouting and facilitation services at no charge to producers considering shooting in Ontario. Its marketing consultants help take a film or television project from script to screen through tailored location packages using one of the most comprehensive digital photo libraries in the business, featuring over 11,000 digital location files representing more than 225,000 images – all available online. The Film Commission also has an office in Los Angeles, in partnership with the City of Toronto and FilmOntario. It seeks to provide a seamless location experience to both domestic and foreign producers, meeting every filmmaker's needs**.**

The Ontario Creative Cluster

Ontario's entertainment and creative industries contributed over $17B to the provincial economy and generated nearly 215,000 jobs in 2010.[2]

Statistics on the size of the cultural sector in the Canadian economy and that of Ontario are available from a number of sources. Some key statistics relating to the size of Ontario's industries are described in Table 2. Many of these statistics are also summarized in the MTCS submission referred to above. Reference can also be made to a recent study carried out by Nordicity Group Limited that was published in January 2016. Entitled "Canadian Media in a Digital Universe", the study gathered publicly available audience, usage and financial data on changing revenue trends in the creative industries in Canada.[3]

Table 2

The Size of the Creative Industries in Canada

Entertainment and Creative Cluster

- Ontario's entertainment and creative industries contributed over $17B to the provincial economy and generated nearly 215,000 jobs in 2010.[4]

Film & television:

- Film & television production supported by the Province contributed $1.5 billion to the provincial economy in 2015, which marked the fifth year in a row that this figure was over the $1 billion mark.[5]
- The film and television production supported by the province provided 32,489 direct and spin-off FTEs.[6]
- According to the latest edition of the Canadian Media Producers Association's *Profile 2015: Economic Report on the Screen-based Media Production Industry in Canada*: Ontario's total 2014-15 film and television production contributed $2.7 billion in expenditures to Ontario's economy, accounting for 38% of the Canadian total. [7] Furthermore, Ontario's film and television production generated 46,250 direct and spin-off FTEs.[8]

Books:

- Ontario is home to the largest book publishing industry in Canada, accounting for $1.12 billion in operating revenues in 2014, which is 66.7% of the national share.[9]
- Ontario's publishing industry accounted for $226.3 million (65.5%) of national wages, salaries and benefits in 2014.[10]
- The Ontario book publishing sector contributed nearly $500 million to Ontario's GDP and employed almost 5,500 people in 2010.[11]

Magazines:

- Ontario's magazine media industry is the largest in the country, generating $1.13 billion in operating revenues in 2013.[12] This accounts for 56.7% of the country's revenues.[13]
- Ontario's magazine media industry contributed $371.6 million in salaries, wages, commissions and benefits in 2013, accounting for 62.3% of the Canadian total.[14]
- Ontario's magazine industry contributed $739 million to Ontario's GDP and employed over 8,500 people in 2010.[15]

Interactive Digital Media:

- Ontario's interactive digital media industry had $1.1 billion in revenues and employed 17,000 individuals in 2011.[16]
- In 2014, there were 108 videogame companies in Ontario, employing 2,500 full-time employees . Ontario video game industry expenditures nearly doubled in the last two years, from $134 million in 2013 to $265 million in 2014.[17]

Music:

- Ontario's record production and integrated recording production and distribution sector is the largest in Canada, accounting for 78.3% of record production and distribution revenues in 2013.[18] In 2013, operating revenues for Ontario's record production and distribution were valued at $372.7 million, and generated 45.6$ million in salaries, wages, commissions and benefits. [19]
- The Ontario sound recording and music publishing industry contributed $275 million to Ontario's GDP and employed nearly 5,300 people in 2010.[20]

These creative industries sustain hundreds of thousands of jobs and constitute a significant driver of the Canadian economy. These industries are economic engines that continue to attract Canadians into related educational and training programs each year. The stakes are high, both in economic terms and beyond, as the economic significance of these industries only partially reflects their importance - their contribution also comprises their enrichment of lives and reflection and celebration of Canadian culture.

It is also important to note that the success of the creative clusters in Canada is closely tied to effective government policy measures and support from agencies like the OMDC. Absent these measures, creative activity would inevitably tend to flow to the United States with its far larger market size.

Impact of Recent Developments in the Digital World

Given the extraordinary changes that are happening to the cultural industries in Canada as they deal with the digital transformation, the DCH consultation is very timely.

In preparing this submission, the OMDC consulted a number of its stakeholders to evaluate and understand their situation. A summary of these consultations is set forth in the next section of this submission.

However, a general conclusion can be made. Based on overarching trends in distribution and consumption of content via digital platforms globally and in Canada, there is concern about the effectiveness and responsiveness of policy measures to safeguard the creation and distribution of Canadian content. As noted in the Nordicity report,

> “In many of the creative industries, the historical business and policy model for supporting Canadian media and creative industries is via regulation, foreign ownership review, and tax legislation as restrictions. These measures, along with financial incentives, have been designed to ensure there is private as well as public investment in Canadian content creation and distribution. As such, a portion of advertising and subscription revenue accruing to broadcasters, publishers, distributors and retailers has generally been reinvested in Canadian content creation and distribution.
>
> “Increasingly, however, much of the growth in revenue across the value chain is derived through digital infrastructure and foreign entities and is thus largely happening outside the purview of government regulation, statute, and other mechanisms of intervention. These trends present a serious threat to the ways in which public interventions support Canadian creative industries.
>
> “Even in creative industries where reinvestment is not regulated in the same direct manner that it is in broadcasting, it may be argued that foreign monopolization of distribution channels and consumption platforms negatively impacts the competitiveness of Canadian content and therefore weakens the industry's ability to produce new content. The new landscape is one in which consumers are flooded with a high volume of content, amplifying the challenge of discovery, whereas the traditional value chains inherently contributed to the discovery of Canadian content by consumers…
>
> “Aside from the diversion of revenue and the corresponding decline in commitment to source or invest in Canadian content, other consequences of these changing dynamics include the following:

- **Discoverability** is an increasingly significant challenge for Canadian content creators as new platforms, foreign distributors and retail services dominate access to audiences.

- In a globalized marketplace, domestic products, services and platforms face increased **international competition** for audiences.

- In industries where investment in Canadian content is regulated, new (digital) platforms are **exempt from reinvestment** in content production (and in some cases, taxes), and so have a competitive upper hand.

- The creative industries, at risk from increased competition, have less revenue from traditional channels to reinvest in Canadian content production, and private distributors will likely continue to make a case for **decreasing existing commitments** to Canadian content.

> "The consequences of these consumer and advertising trends are the result of technology, and the natural rise of enormous powerful media organizations — at present, none of which are in Canada. One could argue that the cultural toolkit, which has well served this country thus far, has fewer options in these circumstances. Clearly, reflection on this trend and the future potential of policy will challenge industry stakeholders for years to come."

More recently, OMDC commissioned Nordicity Group Limited to carry out a review of content distribution in the cultural media industries. This report, entitled "The State of Content Distribution", is expected to be released shortly.

As part of its work, Nordicity analysed the challenges arising from digital distribution that are particular to Ontario. Four particular challenges were identified, which are summarized below:

1. **Scale and Market Power:** Many of the issues facing cultural media companies seem to relate to their relative lack of scale, as compared to their global competitors. As many distribution models are global in nature, Ontario-based, Canadian-owned companies are competing with ever-larger counterparts. In some sectors, like magazines, there are very large media companies with many magazine and other IP properties. However, they are generally domestically focused, and they do exert market power over the creative talent.

   These larger companies have the resources to effectively market their products, and to strike beneficial agreements with other participants in a given value chain. For example, a major music label can more effectively promote its artists both through traditional channels and by exerting market power with platforms (like Spotify) and retailers (like iTunes) to ensure that its content receives favourable treatment.

   Due to a lack of scale, many content owners in Ontario often find it difficult to command a large audience, access some platforms directly, or make advantageous deals with distributors. Rather, the success route for some companies lies in mastering the business of content development and its exploitation through many channels.

   The emergence of digital distribution has not altered the basic challenge of generating a global brand and scale from a Canadian base. Yet, there are hybrid Canadian-foreign examples which benefit Canada – whether it is the contribution of a Harper Collins, Ubisoft Toronto, or Universal

Music Canada to Ontario's cultural media sector – or even the new content producer/broadcaster investment between Rogers Communications and Vice Media.

2. **Discoverability:** Related to the lack of market scale in Ontario is the persistent challenge of discoverability. Put succinctly, in a media market where there is more content available to more people than ever in history, having one's product "cut through the noise" is critical.

   In the distribution models presented, some (typically) pass the responsibility for discoverability to parties other than the content owner, where the distributor tends to be principally responsible for discoverability. However, in other models, the direct relationship that the content owner has with the end-user, retailer or platform means that they are (typically) charged with making their content "discoverable". The global nature of many retailers, platforms, and even audiences further exacerbates this challenge, and increases the costs associated with discoverability.

3. **Access to Information:** As is the case with most businesses, Ontario's cultural media industries require access to good, timely information to make good business decisions. A persistent issue common to several of the distribution models detailed in this report is access to that information.

   More precisely, in models where the end-user deals with an intermediary, it falls to that intermediary to determine how much (if any) user data they wish to pass on. For example, digital storefronts provide variable access to data. Apple's AppStore provides certain data to developers using that platform, whereas different data is provided by Google. This challenge is also true where platforms can pass on different amounts of data to their content providers. YouTube, for example, always provides a certain amount of user statistics, but will work with more successful creators to give them even more granular, detailed data on their viewers. On the other hand, Netflix does not communicate any audience metrics.

   In a number of situations, the distributor acts as another filter through which data (provided by retailers and/or platforms) must pass. Distributors can opt to keep as much data to themselves as they desire. Without significant market power, Ontario-based companies are seldom in a position to argue. This challenge presents a kind of "chicken-and-egg" problem: having never had access to all the product or market information that exists, content owners might not know how to use it, or what data they could be aspiring to use.

4. **Access to Platforms:** Platforms range from the very open (e.g., YouTube) to the more selective (e.g., Netflix). As such, it is not always a challenge for cultural media companies to get their content on the platforms. Instead, the challenge on the more open platforms is discoverability.

   At the same time, however, there are some barriers to Ontario-based companies accessing some platforms. Some dominant platforms (such as Spotify for music or iTunes for film and television content) require the use of distributors, unless one is a company (like a major label or leading studio) with a large catalogue. And when there are more intermediaries, the content owner receives a smaller share of the revenue.

As the distribution models continue to evolve, the Nordicity report has identified four issues that are likely to become even more challenging. These are as follows:

1. **Increased Importance of Brand:** As more content continues to be created, "brands" (i.e., known IP) will continue to grow in importance. Using brands (e.g., by licensing a well-known property) may help content owners use distribution models that require discoverability.

2. **Growing Digital Channels:** As distribution channels become more digital in nature, they will erode revenue for those companies that had relied on physical sales (e.g., magazine subscriptions). At the same time, features being introduced by some e-tailers may help products become more discoverable – if content owners can learn how to effectively utilize them.
3. **Increasing Number of Monetization Tools:** As many digital platforms (e.g., YouTube) mature, they are creating more tools to help content owners generate revenue (on their platforms). While these tools may help make such platforms more significant sources of revenue for cultural media companies, there must be sufficient training and access to professional development in the industries so that they can be effectively used.
4. **More Niche Audiences:** Some distribution models already promote niche, global audiences. In turn, some of those niche audiences are resulting in niche platforms. The proliferation of such platforms will make the distribution environment even more complex than it already is.

The Nordicity report also examined trends in public intervention by public funders outside of Ontario. Based on its review, it identified three main levers which could be used, either independently or at the same time:

1. **Extended triggers** allow original content creation to be supported whether it is primarily intended for the platforms that have been traditionally included in these mechanisms, or for online platforms.
2. **Extended eligible activities***,* especially around digital marketing, empowers content owners to engage in activities that have not been historically part of their focus - but that are increasingly necessary for them to execute. Such activities can include analyzing data to engage niche audiences throughout the project lifecycle. This objective can also be achieved through providing more resources or supporting programs targeting skills development.
3. **Extended intervention** demonstrates possible interventions that go further than has been traditionally the case – including financing and banking services, and providing a needed service directly in the market's value chain. These examples illustrate some possible longer term involvement that can complement other programs like grants, tax credits and events.

OMDC encourages the Department of Canadian Heritage to review the measures taken in other jurisdictions, as identified in the Nordicity report, to see if the approaches taken may be relevant for Canada.

As noted earlier, this submission does not include any OMDC policy recommendations. In this area, we defer to the views expressed by the Government of Ontario. However, we have described below some of the positions expressed by our stakeholders.

Views of OMDC Stakeholders on Strengthening the System

In preparing this submission, OMDC contacted a number of its stakeholders to review their circumstances and to ascertain their position in regard to the Department of Canadian Heritage consultation. Many of these stakeholders will be filing comments directly to the Department of Canadian Heritage. However, the following summarizes the positions of eleven stakeholders with which we communicated.

Book Publishing and Magazine Media

In the publishing sector, we contacted three organizations, the Association of Canadian Publishers, the Ontario Book Publishers Organization and Magazines Canada.

The **Association of Canadian Publishers (ACP)** describes itself as the "national collective voice of English-language, Canadian-owned book publishers". It represents 115 members, of which approximately 60% are Ontario-based. In 2014, its members sold 52 million units with a value of $934 million.[21] While current statistics are not available, it is anticipated that the number of units would have remained stable in 2015 while the revenues would have increased modestly for print books. More than 90% of the books published by ACP's members are by Canadian authors.

The Canada Book Fund (CFB) provides approximately $39 million annually to the book industry. Funding is provided across two streams: Support for Publishers (funding is distributed to publishing companies based on past sales to support the ongoing production and marketing of Canadian authored books and to build company capacity); and Support for Organizations (funding to assist industry associations and related organizations develop the book industry and market). CBF's Support for Publishers stream has two components: Business Development and Publishing Support." The Canada Council for the Arts, for its part, provides grants for translation and for block funding for publishers. The Canada Council's grants are based on the number of titles of a publisher with bonuses for literary merit. Other funding is available from Livre/Canada/Books (LCB) which administers travel support budget for publishers. It is administered by LCB and funded by the Department of Canadian Heritage.

While much of the focus of the current Department of Canadian Heritage consultation relates to the switch to digital (and hence, for example, to ebooks), publishers have all switched to digital already and yet the dominant force in publishing remains print. While BookNet estimates that ebooks may have captured 17% of the Canadian market, ACP estimates that for books published by Canadian-owned publishers, the figure is closer to 10%. One of ACP's ongoing challenges is to increase the discoverability of its members' publications in order to expose readers to new authors. Another challenge is posed by industry consolidation by multinational enterprises of the retail channels to market.

With respect to educational works, there are also copyright issues that will require a legislative review of the *Copyright Act*. Cash-strapped school boards are reluctant to pay for works that they can obtain for "free", whether these are text books or other books used for educational purposes. The same issue applies to post-secondary institutions. The solution, according to ACP, may lie in amending/clarifying what is meant by "fair dealing".

The **Ontario Book Publishers Organization (OBPO)** is an organization representing the interests of 39 Ontario-based Canadian-owned book publishers. The OBPO facilitates group marketing projects at a reduced cost for its members, shares information, and advocates on behalf of its members with governments and arts organizations. A number of its members also belong to the national organization of Canadian publishers, the ACP (described above). Its core funding comes from its own members with small amounts from Ontario Arts Council (OAC). The latter are always project-based.

OBPO members occasionally receive federal support from the Canada Council and/or the Department of Canadian Heritage. These funds are only made available every few years and those funds are always project-based. OMDC sponsors some projects and the members also benefit from book funds and tax credits. In terms of quantifying the funds which are available from Ontario Government agencies to

OBPO's members, the OAC's annual block grant budget is slightly over $1,000,000 while the OMDC's supports are as follows:

> Book Fund - $2,224,800
> Export Fund - $282,900
> Ontario Author Tour Support - $97,900
> Industry Development - $306,000
> Ontario Book Publishing Tax Credit - a 30% refundable tax credit on eligible expenditures to publish and market books by Canadian authors, available to Ontario-based Canadian corporations.

The most pressing problems faced by OBPO's members are largely the result of the impact of digitization on the book publishing industry as ebooks are changing the market. Copyright is an important consideration for OBPO's membership, and they share ACP's concerns with the impact of fair dealing provisions on the educational publishing segment. The impact of these copyright concerns can be felt with the closure of educational book publishers like the Oxford University Press Canada, in 2014, for example. Moreover, the introduction of more Canadian books into the secondary school system is a priority for the organization and its members.

Magazines Canada is a national trade association and represents both French- and English-language Canadian-owned, Canadian content magazines of all types (consumer, cultural, specialty, professional and business media). It is in the final stages of absorbing the Canadian Business Media Association and has three constituencies, namely Arts and Letters (cultural), Consumer (newsstands) and Business (trades, B2B). It represents approximately 370 members and about 2,000 Canadian magazines. This in turn represents about 90% of the magazine industry in Canada by volume and by revenues.

There has been tremendous disruption in the magazine sector in recent years. Rogers, TVA Group and others have announced major cutbacks in personnel in their magazine divisions (although Magazines Canada attracted 18 new members this past year) and advertising revenues overall for the sector are down. While readership remains strong and while newsstand sales are up slightly, advertising revenues are down 40%-50% from two years ago. Print remains a key segment for the magazine media sector and a majority of magazine readers still prefer to consume in print-only (57%) or a mix of print and digital (35%), over digital-only (8%). Many firms are also making significant inroads into the digital market and offering digital editions alongside their print editions (or replacing them altogether) and as such it is important that support to the magazine industry be platform agnostic.

The magazine sector receives subsidies from the Canadian Periodical Fund (CPF), a $75 million fund administered by the Department of Canadian Heritage. Of that amount, approximately 80% goes to magazines with the balance to small community newspapers. Within the magazine portion, the Aid to Publishers (ATP) envelope is critical. It provides Canadian-owned, Canadian content publishers with a direct transfer of funds to small magazines based on "wantedness". (This subsidy was originally a Canada Post subsidy, but once it was found to be offside the WTO Agreements, the CPF was born.) Many of Magazines Canada's members are dependent on the ATP which provided a stabilizing factor while they went through the transformation to digital. The "wantedness" is demonstrated by paid, print circulation.

There is also a "collective outcomes" portfolio and a pilot project fund for digital startups administered by the Department of Canadian Heritage. Digital magazine media in Ontario can be eligible for support via the IDM Fund, though they do not currently have access to a provincial tax credit (nor are similar supports replicated on a national level), and both the Canada Council and the Ontario Arts Council assist Arts and Letters magazines.

Magazines Canada's central message to the Department of Canadian Heritage's consultation process is that digital is just a platform and they want to be platform agnostic. In other words, while digital is becoming an increasingly important revenue source for the magazine media industry, it is still just one of the many options available to magazine media publishers.

Music

In this submission, the interests of Ontario's music industry was represented by the Canadian Independent Music Association, Music Canada, and Music Canada Live.

The **Canadian Independent Music Association (CIMA)** represents the English-language Canadian-owned segment of the domestic music industry. Established in 1975, it represents over 260 Canadian-owned companies and professionals in every province and the Yukon Territory, though 63% of its membership is based in Ontario. Its membership employs more than 2,400 people and represents more than 6,200 Canadian artists.

The music industry generated approximately $430 million for the Canadian economy in 2015, up 8.3% from 2014. Independent music companies accounted for 21% of this total, while only 7.6% of sales by multinational record labels operating in Canada were by Canadian artists, evidencing that Canada's economy relies on a prosperous, Canadian-owned music sector to discover, develop, support and promote local talent in commercial markets at home and abroad.

CIMA notes that the cost of breaking an artist into a major market ranges between US$200K-$500K which is why the support of the Government of Canada is so critical to the success of the Canadian music industry. As a result of the support of the Canada Music Fund, independent music companies have been able to generate over $300 million in annual GDP for the Canadian economy.

CIMA commissioned a major study in 2015, *Over the Border and into the Clubs,* which reported on the border-crossing issues facing Canadian musicians when they tour the United States and a new soon-to-be-released study will review the issues involved when exporting Canadian music around the world. CIMA has been directly facilitating Canadian music companies' global exporting activities for more than a decade with help from the federal government, the Ontario government, Canada's private broadcasters and other private sector partners. CIMA's trade missions have resulted in deals worth more than $120 million between 2007-2015.

CIMA has put forward a number of policy suggestions to the Department of Canadian Heritage, including the following:

1. Increasing the Canada Music Fund to $30 million, with annualized staged increases over the next five years. This will compensate for prior program cutbacks to the CMF as well as for envisaged decreases in contributions from FACTOR, Musicaction, and the Radio Starmaker Fund; and

2. Creating a dedicated $10 million Music Export Fund for Canadian-owned music companies and their artists. While the CMF and the prior incarnation of the Trade Routes program

> offered support to artists primarily in the earliest phases of their careers, the new Trade Routes program should be tailored to address the export goals of established artists on the verge of major global success. In CIMA's view, the significance of finding and commercially exploiting new, global markets cannot be overstated. Accordingly, CIMA recommends ensuring that an updated version of Trade Routes (i.e. the Showcasing Canada's Cultural Industries to the World initiative) contains $10 million of dedicated annual funding for Canadian musical exports, with the flexibility to address the export needs of both emerging artists, as well as those who are more advanced in their careers.

While **Music Canada** has approximately a dozen associates, its actual members are the three Canadian subsidiaries of the foreign-owned multinational record labels, namely Sony Music Entertainment Canada Inc., Universal Music Canada Inc. and Warner Music Canada Co. Music Canada also works with agents, managers, and artists. Music Canada is one of the founding members of, and provides back-end services to, Music Canada Live (described in more detail below).

In April 2012, PwC produced a major analysis for Music Canada which demonstrated that the changing structure of the recording industry, and in particular the move to digital distribution, was having a negative impact on revenues and jobs in the sector. The decreased revenues have led to decreased expenditures and investments by the recording industry. In 2010, including the indirect impacts, the recording industry contributed approximately $240 million to Canada's GDP as well as 3,322 jobs with an average of $58,400 in direct wages.

One of the first cultural industries to experience the digital shift in the early 2000s, the key business models in the music industry appear to be undergoing another shift. While physical revenues have been declining rapidly over the long-term (a decline of 21% over the period of 2013-14 alone), the revenues associated with digital downloads have also begun to rapidly shrink. Notably, however, the revenue stream associated with streaming, both ad-supported and subscription-based, continue to grow in importance.

Music Canada has previously noted that the Federal Government has four levers in its toolkit: legislation, policies and treaties, program funding, and institutions, and it has made a number of recommendations.

> *Legislation:* The federal government should end all cross-subsidies paid by creators.
>
> *Policies and Treaties:* The federal government should enter into more treaties that encourage the creation and protection of intellectual property. It should design policies to attract foreign direct investment in the domestic music economy. The federal government should also emphasize the importance of music as a core component of tourism, and actively market Canada as one of the greatest live music scenes in the world.
>
> *Program Funding:* The federal government should spend money on the Trade Routes program and make sure to earmark some of it for music. Cultural infrastructure should be part of the government's infrastructure spending. Establish a program to fund skills and entrepreneurial training for musicians.
>
> *Institutions:* The federal government should reconnect our young people with the importance of a liberal arts education, with the importance of creativity. The Department of Canadian Heritage

should convene an expert panel to consider this issue and to establish a permanent National Humanities Council.

Music Canada Live is Canada's industry association representing the live music sector (concert promoters, venues, festivals, clubs and others whose core business is live music). According to a comprehensive 2015 report by Nordicity, live music generated $628 million in revenue from live music activities in 2013 and profits of $144 million. In 2013, 558 festivals in Ontario sold 15.7 million tickets, representing 7 million unique visitors. The total economic impact of live music on Ontario's economy is $1.2 billion and includes 10,500 full-time equivalent jobs, with tourism activity accounting for an additional 9,520 or close to 20,000 jobs in total.[22]

In October, Music Canada Live made a written submission to the Department of Canadian Heritage's cultural policy review and made the following recommendations:

1. Create a national live music strategy in partnership with the industry (like that of the Province of Ontario which is currently creating a provincial live music strategy as a result of a recommendation from the recently released Culture Strategy);

2. Conduct a national economic impact analysis to fully understand the impact of Canada's live music sector;

3. Implement a national investment strategy for the concert sector to leverage the economic benefits that the industry delivers. Included is a recommendation that the Department of Canadian Heritage revise the guidelines for current programs like the Canada Music Fund to include the commercial concert sector directly. The budget for the Canada Arts Presentation Fund should continue to grow and support non-profit clients;

4. The Department of Canadian Heritage should convene a government-industry led task force, to include the provinces, property development companies, and the tourism sector. The task force should make and act on recommendations addressing needs, issues and challenges facing Canada's clubs, venues and concert halls.

5. The Department of Canadian Heritage should work with Statistics Canada to extract "live music" events and activities from the "Performing Arts" and "Festivals and Celebrations" sub-domains in order to measure the true economic impact of all live music activity in Canada.

Film and Television

The film and television sector is particularly active in Ontario. Here we contacted four organizations: FilmOntario, the Canadian Media Producers Association (CMPA), the Documentary Organization of Canada (DOC) and the Computer Animation Studios of Ontario (CASO).

FilmOntario is an industry-based consortium representing over 30,000 individuals working in the film, television and digital media sector in Ontario. Its membership includes unions and guilds, production companies, studios and equipment suppliers. Productions of the film and television industry supported by the province generated $1.5 billion in spending in 2015, and resulted in employment for over 32,000 Ontarians. Revenues of its members appear to be stable for this year and they are hoping for an increase next year. This will depend largely on buying trends, especially by the over-the-top (OTT) players.

FilmOntario estimates that approximately 50% of the productions that its members worked on (including post-production and animation) were Canadian content, although exact figures are difficult to track. This is down from an estimated 60% the year before (a figure that included the tentpole production, the superhero film *Suicide Squad*). Moreover, the importance of Ontario as an attractive jurisdiction for foreign-service production remains a key component of Ontario's screen-based production ecosystem.

Given that the success of the screen-based industries is based, in large part, on the business environment created by federal and provincial financial and regulatory support, FilmOntario has urged that the Department of Canadian Heritage consultation proceed with extreme caution when proceeding with any wholesale changes. FilmOntario proposes that the current support mechanisms be adapted to meet the demands of a changing cultural industry environment. To grow international audiences for Canadian content, the starting point has to be to support content that appeals to audiences at home. And to do that, stability in the tax credits, the Canada Media Fund, the Canada Feature Film Fund and other key financing tools is critical.

FilmOntario has suggested that federal support programs for innovation and business development should include the cultural industries and intellectual property development in their programs. While there is a message that the cultural industries must move away from protection to promotion, FilmOntario advises that without the support for the development and production of Canadian content by Canadian producers, actors, writers and directors, there will be no Canadian content to promote. Moreover, focusing on discoverability, if it is at the expense of development and production, it is in direct contradiction to the idea that a new policy should focus on Canadian talent and creators.

FilmOntario suggests that the OMDC's IP Fund (a program that rebated early stage development expenditures) and Export Fund (which provides funding for companies to sustain a slate of activities including market event attendance and targeted sales trips) could be replicated federally, as could the Advisory Panel on Film and Television that was established through the Ontario Culture Strategy. This panel is considering ways in which the provincial tax credit scheme could be modernized and aligned with the federal tax credit scheme.

The **Canadian Media Producers Association (CMPA)** is Canada's leading trade association for independent producers, representing more than 350 companies engaged in the development, production and distribution of English-language television programs, feature films and digital media. Its goal is to ensure the continued success of Canada's independent production sector and a future for content that is made by Canadians for both Canadian and international audiences.

Together with industry partners, it produces "Profile" which provides a comprehensive analysis of the Canadian production sector. The 2015 edition indicates that total film and television production in Canada (excluding convergent digital media production[23]) jumped to an all-time high of $7.1 billion in production volume, a 20% increase over 2013-2014. Fuelled in part by a lower Canadian dollar, about two thirds of the increase originated from the foreign location shoot (FLS) sector. The increase resulted in the creation of 148,500 full-time equivalent jobs, a 17% increase with $3.2 billion in export value, a 32% increase. Canadian film and television production, for its part was up 9% to $2.96 billion and included 700 television series, 103 theatrical feature films and 62,100 FTEs. Meanwhile, convergent digital media production was flat at $70.1 million in production volume.

The CMPA has commissioned a number of papers which identify trends and issues for independent producers. Last year's "Content Everywhere (2)" concluded by noting that the over-the-top (OTT)'s appetite for risk is dropping as they are moving away from lower budget series to celebrity-driven properties. Google/YouTube has abandoned the direct investment in original content in favour of providing more marketing support to its most successful existing channel partners. Meanwhile producers are expected to deliver not only programming but also to bring with them their existing audiences and fan bases. Talent with a digital footprint (e.g., Twitter and Facebook followers) has significant value. Producers are also supposed to deliver a marketing plan and analytical support for their concept (i.e., traffic stats, keyword traffic, relevant comps etc.). The world of digital-first content has evolved and short digital series are struggling to find a viable revenue model. Another reality is that traditional television producers have to learn new production skills and do more, more often, on a lower budget; and in particular, while financing for digital-first content in Canada remains challenging. The case studies provided in Content Everywhere (2) demonstrated the following common characteristics of digital-first content in Canada, the US and the UK.

1. Global, universal stories
2. Pre-existing and demonstrable digital audience
3. Underserved audiences (in traditional media)
4. Unique creative, perhaps unsuited to traditional media
5. Creative appealing to younger digital audiences
6. Premium talent or "event" programming
7. "Digital Native" skills (social media, community building experience)
8. Transmedia competency to market and support content

The **Documentary Organization of Canada (DOC)** is the collective voice of independent documentary makers in Canada. It represents over 700 members across Canada and has six regional chapters.

The sources of financing available to independent documentary filmmakers has become increasingly stratified and diversified. DOC's members can receive funding through broadcasters and the CMF (if they have a broadcast licence), and through provincial and federal tax credits, the Canadian Independent Production Funds, and to a somewhat lesser extent in terms of frequency, HotDocs, Shaw Rocket Fund, etc. New mechanisms like crowdfunding have proven to be elusive, while limited opportunities exist through local provincial arts grants and Canada Council for the Arts grants. Changing broadcaster preferences have also compounded the issue and the recent closure of Superchannel, the largest buyer of Canadian documentaries, has further reduced licensing opportunities for documentaries. Funds flowing from the Canada Media Fund and from private broadcasters used to be the main funding sources for documentaries but they are no longer fulfilling that role. The result is that most small independent documentary filmmakers have very budgets and make their livings doing other types of work.

Most documentary producers are involved in small operations, often just one or two people, although there are a few medium and large companies that specialize in documentary production. The larger ones are generally not involved in auteur or one-off documentaries but rather in documentary "series", which is the preference of broadcasters. As marketing of "one-off" documentaries requires more time and money, broadcasters more frequently license more reality TV than documentaries. This is having a devastating impact on long-form documentaries. In addition, the loss of major broadcaster support for the production of in-house documentaries (like CBC) may have implications for social and/or justicerelated documentaries, where legal protections afforded by a large organization may be both necessary and expensive to finance and secure independently.

The **Computer Animation Studios of Ontario (CASO)** is a non-profit association representing Computer Animation (CA) and Digital Visual Effects (VFX) companies located in Ontario. Its mandate is to promote the interests of its members and to enlist the support of government and private sector partners to grow the computer animation and visual effects industry in Ontario.

A June 2016 Nordicity report commissioned by CASO indicates strong growth in the sector since 2010 in each of employment, revenue and GDP impact. Many of CASO's members receive tax credits under Ontario's OCASE (Ontario Computer Animation and Special Effect) system. Only 9% of the firms in the CA/DFX industry in Ontario are public companies, with the vast majority being private corporations (65%) or sole proprietorship/partnerships (26%). They are also predominantly (91%) Canadian controlled. About half of them have been in operation for 11-20 years with another 22% for more than 20 years. Nine percent are fewer than five years old, indicating a healthy start-up culture for the industry.

In 2014, the last year for which statistics are available, the combined CA and VFX industries earned $398 million in revenue. This can be contrasted with the 2009 figure of $99 million. Almost 60% of that revenue was from VFX with 37% being from CA and the balance from "other". That resulted in profits of $69 million and a gross profit margin of 17%.

The main sources of public funding for CA/VFX industries are the following:

- The Ontario Computer Animation & Special Effects Tax Credit, the Ontario Production Services Tax Credit, and the Ontario Film and Television Tax Credit;
- The Canadian Film or Video Production Services Tax Credit and the Canadian Film or Video Production Tax Credit; and
- The Scientific Research and Experimental Development Tax Credit (SR&ED) (administered by the Canada Revenue Agency).

The OCASE is by far the most commonly used source of public funds with companies indicating that an average of 89% of their projects each year make use of that tax credit. The SR&ED and OIDMTC credits are used in a far smaller percentage of projects (8% and 1% respectively). This funding is crucial, as it is used for retraining, for infrastructure rebuilding etc.

The direct economic impact of the CA/VFX industry in 2014 was approximately $291 million and leads to the employment of approximately 6,750 full-time equivalent jobs in Ontario each year. The industry indirectly generated $60 million of provincial GDP and, combined with the direct impact, yielded a total economic impact of $450 million in 2014.

The CA/VFX industry's biggest problem is that it cannot keep up with demand. They are so busy that they are turning business away. They desperately need infrastructure: namely studio space and, critically, human capital. In the Nordicity study, the availability of skilled labour was the number one factor by a wide margin that is limiting the growth of CA/VFX firms in Ontario. The extensive time required for the immigration process is also a growth limiting factor. Additionally, if a CA/VFX firm is able to repatriate a Canadian to work in the industry in Canada, they cannot claim tax credits until after a year because that person lived outside Canada.

As well, the high interest costs of gap funding while waiting for tax credits to flow through the system are burdensome. This is being looked at, but progress is slow and elusive.

Approximately 20% of CASO's members are also members of Interactive Ontario (see below).

Interactive Digital Media

Interactive Ontario (IO) is a not-for-profit industry trade association committed to the growth of the Ontario interactive digital content industry. It represents about 330 member organizations in various sectors including e-Learning, video/online games, mobile, television and social media. It supports Ontario's Interactive Digital Media (IDM) sector through advocacy, events, connections, trade missions and business development opportunities. IO is also a member of the Canadian Interactive Alliance/Alliance Interactive Canadienne (CIAIC) which is comprised of Canada's seven provincial interactive digital media trade organizations.

The IDM sector's members receive tax credits through a variety of programs including OIDMTC and SR&ED, and are also able to tap into Canadian Independent Production Funds (CIPF) although the CRTC's recent August 2016 policy framework for CIPFs capped CIPF support of *all* non-digital program content at 10% CIAIC has indicated that this decision will have a very significant negative impact on the interactive digital media industry in Canada.

The IDM sector generates in excess of $4 billion in revenue in Canada and creates over 27,000 full time equivalent jobs. Over 70% of core IDM firms are small to medium-sized enterprises and are internationally-focused with 57% of revenues being derived from export sales. Furthermore, there is a clear gap in information available on the sector as a whole, with the currently collected Statistics Canada data not counting the interactive digital media industry's contribution from the industry perspective.

As noted in the CASO section noted above, the biggest issue for IDM firms is the shortage of talent in Canada. The industry is growing too quickly for the existing talent pool to meet the demand. This is occurring notwithstanding that Canada's universities and colleges are working with the IDM sector to train a new generation of skilled workers for these well-paid knowledge economy jobs. By way of example, the Virtual Reality and Augmented Reality areas have been rapidly expanding, so quickly in fact, that CIAIC only has anecdotal evidence of its business growth and job growth to-date.

According to CIAIC, all qualified Canadians are being hired and still there are significant shortfalls. The industry is just growing too fast for the existing talent pool. CIAIC has made a number of recommendations in the past respecting amendments to the Temporary Foreign Workers Program (TFWP) and on Canada's Innovation Agenda. Among its "innovation" recommendations are the following:

1. Broaden the mandate of the CMF to allow projects that combine cultural and non-cultural goals to be eligible for funding;

2. Implement an Activity Tax Credit for IDM based on qualified labour over the year;

3. Explore tax policy that would encourage a more risk-friendly private sector;

4. Establish an Enterprise Fund that would target one or both of start-up and mid-stage companies;

5. Adapt the CMF to include a “slate” development program which would fund companies to develop a “slate” of projects;

6. Improve the TFWP to make it easier and faster to bring in skilled IDM employees on short term contracts and for those already here to become landed immigrants;

7. Fund mid-career training both on the job and through partnerships with academic institutions for new graduates and those in other sectors;

8. Initiate public-private partnerships to create internship jobs for IDM-trained new graduates;

9. Implement coding and computer literacy skills within the K-12 curriculum; and

10. Teach entrepreneurialism and innovation from an early age.

Conclusion: Some Common Themes

The discussion above showcases some of the differences, as well as common themes, challenges and opportunities facing Ontario’s creative cluster as they navigate an increasingly competitive global environment fueled by changing technologies and rapidly evolving business models. While many of the industry organizations that have been featured earlier have expressed their own individual industry-level concerns, there are several common areas of priority that have emerged.

Reviewing the effectiveness and responsiveness of Canada’s federal cultural toolkit

A common theme across all of Ontario’s creative media industries was a recognition that reviewing the effectiveness and responsiveness of Canada’s current toolkit was of prime importance. Individually, each sector representative may have had different conceptualization of how their sector is changing and adapting to the current environment, but as a collective, there was a broad consensus that a review of this nature was overdue.

In addition, this need for review was rooted in the reality that each of the sectors recognized the key role that government policy measures play in the success of their cultural products at home and abroad, and that the role of this policy in the digital era must adapt.

The Importance of Copyright

While the contribution from the music and book publishing stakeholders in this submission may have explicitly linked their copyright concerns to this review, it is important to note that copyright and protection of intellectual property is an important concern for each of Ontario’s creative media industries, particularly in light of the upcoming Copyright Review in 2017.

Public Funding and Tax Credits Remain Important Tools

There was also a broad consensus across this diverse group of stakeholders about the importance of retaining and ultimately strengthening support mechanisms like direct funding support via grants, or through modernized tax credits. As such, many stakeholders suggested different ways in which to modernize these supports so that their effectiveness continues going forward.

OMDC thanks the Department for its consideration of this submission.

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[1] http://www.omdc.on.ca/news_publications/OMDC_Year_in_Review.htm
[2] Statistics Canada, Provincial and Territorial Satellite Account, 2010, released June 2015. Custom calculations by MTCS, Figures from industry perspective
[3] The study is available at the DM@X website at http://www.digitalmediaatthecrossroads.ca/pdfs/CanadianMediaDigitalUniverse.pdf

[4] Statistics Canada, Provincial and Territorial Satellite Account, 2010, released June 2015. Custom calculations by MTCS, Figures from industry perspective
[5] Ontario Film and Television Production in the calendar years 2013-2015, sorted by format. Data represents expenditures of all productions using OMDC-administered incentives and services. Does not include: television commercial, corporate video music videos, or broadcaster in-house production. Figures do include live action and animated production. http://www.omdc.on.ca/collaboration/research_and_industry_information/production_statistics/Ontario_Film_and_Television_Production_in_the_calendar_years_2013_2015_sorted_by_format.htm
[6] Ibid.
[7] Canadian Media Producers Association (CMPA), *Profile 2015: Economic Report on the Screen-based Media Production Industry in Canada*, p. 11 Note: the CMPA figures include broadcast in-house production).
[8] CMPA, p. 12
[9] Statistics Canada, “Book Publishing Industry, 2014 and Table 361-0088, Book Publishers, summary statistics, every 2 years, (dollars unless otherwise noted)”
[10] Ibid.
[11] StatsCan, “Provincial Territorial Culture Satellite Account, 2010,” Table 7: GDP of culture and sport industries at basic prices, by domain and sub-domain, Ontario, 2010; Table 7: Jobs of culture and sport industries, by domain and subdomain, Ontario, 2010 (industry perspective). – Actual numbers (499 million and 5,435 jobs in 2010) (Actual numbers are $499 million and 5,345 jobs. They have been rounded respectively to “nearly $500 million and almost 5,500”).These figures are from the industry perspective and are based on supplementary data provided by Statistics Canada.
[12] Statistics Canada, “Periodical Publishing 2013, Table 361-0032 – Periodical Publishers, summary statistics, every 2 years (dollars unless otherwise noted)”
[13] Ibid.
[14] Ibid.
[15] StatsCan, “Provincial Territorial Culture Satellite Account, 2010,” Table 7: GDP of culture and sport industries at basic prices, by domain and sub-domain, Ontario, 2010; Table 7: Jobs of culture and sport industries, by domain and subdomain, Ontario, 2010 (industry perspective – representative for periodical publishing) (Actual jobs figure is 8,516 it has been rounded to “over 8,500). These figures are from the industry perspective and are based on supplementary data provided by Statistics Canada.
[16] Source: Supplementary Ontario Regional Data Revision requested by OMDC and Interactive Ontario (IO) from Nordicity as part as of the 2012 Canadian Interactive Industry Profile.
[17] Entertainment Software Association of Canada (ESAC), 2015 Essential Facts about the Canadian Video Game Industry, August 2015. [Note ”Canada’s Video Game Industry in 2015 prepared for ESAC by Nordicity. The report gathered quantitative and qualitative data from 123 video game companies in Canada for 2014.”]
[18] Statistics Canada, Sound recording and music publishing, summary statistics, Table 361-0034.

[19] Ibid.

[20] StatsCan, “Provincial Territorial Culture Satellite Account, 2010,” Table 7: GDP of culture and sport industries at basic prices, by domain and sub-domain, Ontario, 2010; Table 7: Jobs of culture and sport industries, by domain and subdomain, Ontario, 2010 (industry perspective) (Actual job figure is 5,296, it has been rounded to “nearly 5,300”). These figures are from the industry perspective and are based on supplementary data provided by Statistics Canada.

[21] Publishers Weekly, “Canadian Book Sales Dipped in 2014”, April 6, 2015

[22] Music Canada, Live Music Measures Up: An Economic Impact Analysis of Live Music in Ontario

[23] This subsector comprises screen-based content and applications for digital media platforms, e.g. video games, interactive web content, on-demand content, webisodes, and mobisodes, which are associated with films and television programs, and receive financial support from digital media funding sources in Canada.