



canadian interactive alliance
alliance interactive canadienne

November 25, 2016

CIAIC – #DigiCanCon Submission

Mélanie Joly
Minister of Canadian Heritage
House of Commons
Ottawa, On
K1A 0A6

Filed via www.canadiancontentconsultations.ca

Re: Canadian Content in a Digital World Consultations (“#DigiCanCon”)

Introduction

1. On behalf of the Board of the Canadian Interactive Alliance/Alliance Interactive Canadienne (“CIAIC”) and Canada’s Interactive Digital Media (“IDM”) sector, we are pleased to have this opportunity to share with you the thoughts of our members on the Canadian Content in a Digital World Consultations being conducted by the Department of Canadian Heritage and commonly known as #DigiCanCon.
2. The CIAIC is a bilingual not-for-profit trade association formed in 2005 to serve as the voice of Canada’s IDM industry. CIAIC’s membership is comprised of Canada’s seven existing provincial interactive digital media trade organizations and this submission has been endorsed by its members: Alliance Numérique, Interactive Ontario, New Media Manitoba, Digital Nova Scotia and SaskInteractive.
3. Canada’s digital media companies create a wide variety of interactive digital media products and services including video games, Augmented Reality (AR), Virtual Reality (VR) and Mixed Reality (MR) products, cross-platform content, e-Learning, web series and mobile content. Canada has become one of the global leaders in high quality IDM content, exporting titles such as mobile game “My Singing Monsters”, cross-platform children’s property “Napkin Man”, winning awards with cutting edge technology like “Time Machine VR” and touch dance action game “Floor Kids” and exploring new business models with games like “The Long Dark”.
4. The IDM sector is a new content form and relatively new business sector. Its rapidly evolving nature has spurred a culture of innovation that is now renowned worldwide. Each IDM company experiments continuously as they try to reach new audiences with new forms of content and find new ways to make money, drive down costs and

grow their companies to be able to take on bigger and more complex projects. The result has been a growing sector, employing more and more skilled Canadians as they deliver high quality content to Canadians and to markets around the world.

5. Given the rapid growth and development of new content platforms, distribution methods and audience behaviours which has been exemplified by Canada's IDM sector, the Department of Heritage announced with this consultation that it was time to 'build a new model that reflects a broad consensus – a social contract – of how we support the creation, discovery and export of Canadian content in the digital world and asked Canadians for input on what that new model would look like.
6. For the Canadian IDM industry, there are two problems that now require a re-think of the model for both the IDM industry and the rest of the cultural industries. The first is that there are new forms of Canadian content, chief among them being IDM, that have been either underserved by Heritage or cross more than one silo, and therefore do not fit in well in the current funding structures. The second problem is that it has never been an effective strategy to just produce content and assume that Canadians will be able to find it, but now discoverability is an even greater challenge.
7. Accordingly, CIAIC is pleased to provide you with our ideas on how the government could re-think that model by strengthening current supports and revising other supports, and with the assistance of the IDM sector, foster the creation, discovery and export of a wide variety of forms of Canadian content in this digital world. In addition to the following ideas, CIAIC is also pleased to share with you a summary of a Twitter Chat conducted by CIAIC-member Interactive Ontario on November 7th on the subject of this consultation. Members and non-members shared several insights which might be particularly useful in crafting any proposals further to this consultation.

IDM Sector in Canada

8. For context, it is important to know that the growing IDM sector now generates more than \$3.8 billion in gross annual revenue and includes over 3,000 businesses in Canada¹. The entire sector supports and creates an estimated over 26,700 high value full time equivalent jobs². The industry is internationally-focused with 57% of the revenue of IDM companies derived from exports.
9. The video game industry alone adds over \$3 billion to Canada's GDP each year and in 2015 that represented a 31% growth over the previous year³.

¹ 2012 Canadian Interactive Industry Profile, October 2013

² 2012 Canadian Interactive Industry Profile, ibid

³ Essential Facts About the Canadian Video Game Industry, 2015, Entertainment Software Association of Canada

10. IDM companies have projected 10% to 25% growth, a rate significantly higher than even the average GDP growth rate in Canada⁴. Canada's IDM sector is growing because it is innovative and globally competitive.

Towards a New Model

Discoverability

Q.1: How can we reflect the expectations of citizens and enable Canadians to choose the content they want to see, hear and experience?

11. This is a question that the IDM industry has been grappling with as long as it has existed. How do Canadian creators of IDM ensure that their work is discoverable in a very crowded universe? Heritage is of course looking at that question more broadly, as it impacts all forms of Canadian content and the needs of Canadians as citizens. How can the Canadian audience find the content that they want, which will of course include great Canadian content?
12. A lot of content choices are the result of referrals. You hear about a mobile game, television program or book (for example) because a friend told you about it, you saw a tweet or a Facebook post. You enjoy it and you want to find more like that. Netflix has spent a lot of money on its recommendation engine and the App stores also make recommendations for 'related' content. With a proliferation of platforms, technologies and genres, though, it gets harder and harder for consumers to wade through the crowded market to find just the content that they want. Having played your first narrative video game (i.e. "Life is Strange") and enjoyed it, the consumer will go looking for another one. How do they find it?
13. CIAIC does not have an easy answer to this question. From the industry side, Canadian IDM creators work hard to get their content in front of audiences, Canadian and globally, so that it is one of the possible choices. They buy online and digital ads, conduct search engine optimization, conduct social media campaigns and research consumer behaviour to drive audiences to their content and engage them once they arrive. All this digital marketing is a necessary side of the equation, but it is only one side. CIAIC would love to work with Heritage and the other cultural industries to try to solve this problem.
14. In the meantime, with additional support, Canadian IDM can stand out within the crowded market at home and around the world and increase its chances at success. Support from the federal government will ensure that Canadian IDM creators will be able to produce innovative and cutting edge content that audiences at home and around the world will want to engage with. With enhanced promotion and marketing support, that IDM content will not only be discoverable but will enhance the brand of

⁴ 2012 Canadian Interactive Industry Profile, op. cit.

Canada in IDM and all forms of content. Other forms of content can learn from the skills and expertise that Canadian IDM creators have developed in digital marketing and distribution to increase the chances of being discovered.

Recommendation 1: Heritage to host round table meetings between various content creator organizations, technology solution providers and policy makers to brainstorm possible options to support consumer choice of content.

Recommendation 2: A marketing fund that would encourage Canadian content creators (both IDM and non-IDM) to use digital strategies such as online and mobile ad buys, social media campaigns, analytics tracking and search engine optimization for promoting content and finding audiences.

Q. 2: How can we fairly support creators in the creation and production of content that stands out? What partnerships will be needed to achieve this? How can we help creators have successful and viable careers in a digital world?

15. Unlike visual arts or books, but like film and television, most IDM is a collaborative medium that requires many creators to participate from the idea stage through production and up to delivery. IDM creators include programmers, graphic designers, usability experts, writers, directors, producers and many more. Fair compensation of these creators depends on there being sufficient budget for the production of the content. Government assistance such as the Canada Media Fund (“CMF”) and/or IDM Tax Credits helps to ensure that there is sufficient budget for production for all creators involved to be paid fairly.
16. The CMF funds both convergent and standalone digital media through the combination of CRTC-mandated contributions from the cable and satellite companies (“BDUs”) and contributions from Heritage. The CMF has been a great resource for the creation of IDM and we are hopeful that it will continue to be, despite the decline in BDU contributions due to cord-cutting. On the convergent side, the CMF has been supplemented by Certified Independent Production Funds (“CIPFs”) which have funded the digital media components to support television broadcasting (e.g. the Bell Fund, Shaw Rocket Fund and Québecor Fund). Unfortunately, this funding is now being threatened by the new CRTC framework for CIPFs⁵, which purports to limit funding for ‘non-programming’ to 10% of BDU contributions where previously there had been no cap. There currently is an open proceeding at the CRTC where the Bell Fund is asking for an increase in the cap as well as transition time. If the cap is not substantially increased, digital media that supports television programming and helps to ensure that it finds and keeps its audience, will have great difficulty being financed in Canada. Canadian television will lose a key export sales tool and digital media companies in Canada will lose a

⁵ CRTC 2016-343, A Policy Framework for Certified Independent Production Funds.

key source of work and revenue. The CIAIC encourages Heritage to monitor this situation and take steps to minimize the impact on the Canadian screen industries should the CRTC maintain the cap.

17. An objective labour-based tax credit would ensure that a wide range of IDM projects were supported. However, the existing audio-visual tax credits were developed when IDM did not exist and therefore only support film and video productions. CIAIC cautions against just extending the existing Canadian Film or Video Production Tax Credit to IDM as they are produced and managed very differently. For example, many IDM projects are released over time with continuous work over the life of the project. Without a clear end of production or one specific release date, an annualized or 'Activity' tax credit would be more appropriate. Tax credits would support the industry as both a content creation sector but also a job creation sector, and would foster risk and innovation if not tied to the completion of a project. CIAIC would be happy to sit down with Heritage and the Department of Finance to review the specific needs of the IDM industry and how they could be supported by tax credits.
18. As we have been discussing, Canadians are now looking for their content in digital forms. They are playing video games, experiencing VR, playing mobile games and interacting with entertainment websites. This provides Canadian content creators with opportunities to reach new audiences using IDM. Collaboration between traditional content creators such as performing arts companies, visual artists, books, magazines and IDM companies can provide new opportunities to entertain audiences. Television and IDM has provided a model both for collaboration and for funding that can be used for these other content creators.
19. Barriers to content creation have dropped with new technologies so that it is easier for one individual or a handful of people to create IDM content in their own time for no compensation. This is an established path for new content creators to demonstrate their skills and gain an audience with the hope of generating revenue and funding for the next project, or for a larger version of the project. IDM is often an iterative content model with creators regularly updating and improving in response to audience demand and available funding. Government funding should also support this form of 'startup' content creation by not creating barriers with any definition of 'professional' content and allowing for ongoing content creation without a clear delivery date. Funding should support talent that has the required expertise but may not yet have the corporate track record.
20. Partnerships between traditional content creators and IDM companies as mentioned above would help traditional content creators to understand the possibilities of IDM and develop their skills. A collaboration fund as described in Recommendation 5 would support that learning development.

21. Traditional content creators should have opportunities to enhance their digital skills so that if they choose they can develop their own IDM content rather than partner with IDM creators. Mid-career skills training would allow content creators to develop digital skills while still working in their traditional careers. This kind of training would also help the IDM industry, which is growing too fast for the available talent pool. The IDM industry is looking towards both other cultural sectors and sectors with shrinking employment, such as manufacturing and natural resources, as sources of highly skilled talent, provided that transitional training can be provided.
22. K-12 education should include coding skills in a way that allows students to learn that basic digital skills are essential to everyone's career and not just those going into computer science. IDM draws on a wide variety of skills in different job categories but all require some knowledge of what coding is and can do. As well, more traditional content creators will need digital skills to create new forms of culture and distribute their content to a wider audience.
23. As mentioned above, the CRTC does have an impact on the IDM industries, though on some sub-sectors (i.e. convergent, digital linear video) more than others (i.e. video games, e-learning, VR etc.). The CIAIC is reluctant to provide specific proposals on the future of the CRTC and the *Broadcasting Act* and leaves that to sectors more directly affected. However, we do urge Heritage to ensure that any changes to the governing legislation or the CRTC's mandate support a platform agnostic world with fewer barriers between forms of content rather than more. Increasingly Canadians find no distinction between what is now the unregulated and regulated universes but just want access to excellent content.

Recommendation 3: Create an IDM Tax Credit and/or an Activity Tax Credit, that provides a credit for labour-based activity aimed at creating Canadian owned and created IDM. See below in Paragraph 24 for a definition of Canadian IDM. The IDM Tax Credit would support projects with a distinct production phase and launch and would also support the marketing and promotion of those projects. The Activity Tax Credit would be based on qualified labour expenditures of the past fiscal year to encourage employment in IDM that may not be linked to a completed project but to ongoing content creation. This would operate like the Ontario Interactive Digital Media Tax Credit available for Specialized Digital Game Companies based upon annual Ontario labour expenditures aimed at developing video games, but with a lower threshold to make it more attainable for small to medium sized enterprises.⁶

⁶ Currently Specialized Digital Game Companies can access a 35% tax credit under the OI DMTC if they spend \$1million or more in annual Ontario labour expenditures on digital games, or Qualifying Digital Game Companies can be eligible by spending \$1million in Ontario labour expenditures over 3 years on one game.

Recommendation 4: Monitor the CRTC decision on CIPF Framework and ensure that digital media affiliated with television programming continues to have sufficient financing to create digital media that supports television programming and broadcasters at home and around the world.

Recommendation 5: Expand the mandate of the CMF, with additional funding, OR create another fund to support collaboration between content creators other than television and IDM, like the CMF Convergent Fund. Consider a fund that does not define the platform of Canadian content, to allow for the funding of platforms that do not currently exist.

Recommendation 6: Fund mid-career training, both on the job and through partnerships with academic institutions for new graduates and those in other sectors, to help meet the demand short term and long term for a skilled talent pool.

Recommendation 7: Work with the provincial governments to implement coding and computer literacy skills within the K-12 curriculum so that all have a basic understanding of coding and computer literacy, regardless of the field that they are going into, so that students learn that both computer scientists and artists need digital skills. Extend government support to existing organizations that are working with K-12 students to advance digital skills (e.g. Ladies Learning Code, Techsdale).

Recommendation 8: Ensure that any changes to the CRTC or its governing legislation breaks down barriers between content platforms rather than creating walls, to provide Canadian audiences with a wide variety of choice of content and platform.

Definition of Canadian

Q. 3: With so much online content available today and given Canada's diverse and multicultural makeup, does the concept of "Canadian content" resonate with you? What does "Canadian" mean to you? Do we need to be more flexible in how we support the production of content by Canadians?

24. The meaning of "Canadian content" depends on how it has been defined for funding purposes. Existing IDM funding, such as the CMF, the Bell Fund and OMD's IDM Fund, defines Canadian content as content that is owned and controlled and significantly and meaningfully developed by Canadians with at least 75% of the budget being Canadian costs. This threshold allows for a production to include highly skilled talent from around the world to fill skills gaps without diluting the 'Canadian-ness' of a project. It also avoids any attempt to subjectively define what Canadian means since that definition depends on the Canadian creator(s) (i.e.

citizen or permanent resident) creating the content. It is a simple yet flexible definition, in contrast to the more rigid definitions for film and television based on CAVCO's key creative point system⁷. A more flexible set of criteria for Canadian content works particularly well for the IDM sector as each IDM project is likely to have different key creative roles depending on its particular format or platform. It would be impossible to identify a limited number of job categories required to ensure that a project was Canadian.

25. As a result, it is easy for the IDM industry to say that Canadian content is content created by Canadians. CIAIC suggests that as content forms become more complex and more difficult to silo, a simple yet flexible definition such as that used by the IDM industry could be used effectively for other content forms. This definition has the benefit of giving Canadian content creators room to create the content of their choice without worrying about whether it is 'Canadian' enough. The content that they create automatically reflects the diverse and multicultural society that Canada is and will continue to be. The resulting content is very diverse and multicultural, which to some degree is why Canadian content performs well in global markets.
26. Canadians are competing in a global market but there still needs to be rules to ensure that Canadians are benefiting from taxpayer-supported government funding. Canadians benefit when federal funding creates Canadian content that they have the choice to enjoy and when it creates growing Canadian companies that create highly skilled and well-paid jobs for Canadians. Therefore, there continues to be a need to define what is Canadian and should be supported, but a flexible definition that can encompass innovation while still limiting non-Canadian participation to a reasonable level is appropriate. There should continue to be a minimum threshold of what is Canadian for industrial support such as tax credits, with the ability for selective funding mechanisms to set higher standards when they are investing in content for Canadians.
27. Collaborations with companies in other countries that will help Canadian companies enter foreign markets, fill gaps in expertise or attract foreign financing can also be supported in such a framework. In the absence of a government treaty co-production framework that contemplates IDM, Canadian production funders such as CMF and Bell Fund signed the Framework for International Digital Media Co-Production to set out the conditions for IDM co-production eligibility for funding. However, without a government treaty co-production framework, those co-productions cannot receive reciprocal treatment in the non-Canadian partner's country. As with film and television, a treaty co-production framework would attract foreign investment and make it easier for Canadian companies to enter foreign markets.

⁷ i.e. minimum 6 out of 10 points, one of writer or director and one of 2 highest paid actors must be Canadian, Canadian owned and controlled

Recommendation 9: Maintain the minimum IDM definition of Canadian as owned and controlled and significantly and meaningfully developed by Canadians and 75% of budget consisting of Canadian costs and consider how such a simple, flexible and less restrictive definition might work in other content forms.

Recommendation 10: Include IDM in the government’s treaty co-production framework as treaty co-production agreements are negotiated.

Private Sector Support

Q.4: In an ultra-competitive, global market, how can the private sector support the production of content made by Canadians? What is the role of Canada’s national cultural institutions, such as CBC/Radio-Canada and the National Film Board?

28. The CMF is one very effective model of a private-public partnership to fund television and IDM. It is funded through a contribution from the Department of Heritage and a mandated percentage of revenues from cable and satellite companies. As mentioned above, as cable and satellite revenues drop due to cord-cutting however, its budget is starting to shrink. The Department of Heritage needs to work with the CMF to ensure that it stays relevant and can continue to support television and convergent IDM through the Convergent Fund and standalone IDM through the Experimental Fund.
29. Canada has a risk-averse investment community and the screen-based industries are risky investments due to impossible to predict variables such as audience demand. Canadian companies therefore end up relying on their own limited resources while both the government and the private sector wait for the ‘sure thing’ before getting involved. Meanwhile, unlike in the U.S. where there is a culture of serial entrepreneurship, experienced Canadian entrepreneurs who have exited their companies after an acquisition are failing to share their experience and their funds with the next generation of cultural entrepreneurs.
30. As the market matures, there are more and more companies and individuals with experience in being creative entrepreneurs. There should be a formal way to incent experienced entrepreneurs to give back to less experienced entrepreneurs and mentor them. Each new creative entrepreneur should not have to reinvent the wheel when there are highly successful individuals who can and should be giving guidance. These successful individuals all benefitted from government assistance in the past and should now be giving back as a thank you for that assistance.
31. The National Film Board is a good example of a national cultural institution that takes risks and encourages experimentation in its production of IDM content. Its public funding allows it to innovate in a way that the private sector generally cannot. The CBC should also be encouraged to take risks in its support of Canadian content and particularly IDM content.

Recommendation 11: Work with the CMF to ensure that it stays relevant and continues to support both convergent IDM and standalone IDM.

Recommendation 12: The federal government should explore tax policy that would encourage a more risk-friendly private sector through, for example, incentives for existing entrepreneurs to invest their funds in new start-ups, to allow the younger companies to take advantage of both the experience and the investment from the more experienced entrepreneurs.

Recommendation 13: Formal mentorship program operated by the private sector but supported by government to ensure that successful creative entrepreneurs share the knowledge that they gained with the assistance of federal government funding. Executives specific to the IDM industry (though the program would work well in other cultural industries) would work with up and coming entrepreneurs to offer advice and contacts based on their years of experience.

[Q. 5 re local news intentionally omitted]

Innovation

Q. 6: Canadians make great content; how can we build our exceptional cultural industries and support the growth of new creative enterprises as part of Canada's innovation agenda? What tools do the government and the Private sector already have at their disposal? What new tools could we consider?

32. CIAIC filed a submission last month with the Department of Innovation, Science and Economic Development as part of its Innovation Agenda consultation. A copy of the submission is attached. Several the recommendations from that submission are also included in this submission where appropriate.

33. The government and private sector have several tools already in place to help support the creative enterprises including the CMF, Business Development Bank of Canada and Export Development Canada, however as detailed in our Innovation Agenda submission, enhancements to existing programs, improvements such as immigration reform and new programs such as enterprise funding, would go a long way to supporting the growth of new and existing creative enterprises.

Q. 7: How do we incent more risk-taking from creators and cultural entrepreneurs?

34. In the IDM industry, the creators and cultural entrepreneurs are risk-takers and do not need incentives to take any greater risks. They innovate content forms, technology, distribution methods, business models and more. They rely on their own resources, particularly in early stages of project or corporate development. There does not seem to be a need to encourage IDM to be riskier but to encourage

those who finance IDM through the public or the private sector to be more open to risk and share the risk that the IDM creators and cultural entrepreneurs are already taking. Notwithstanding the foregoing, IDM creators would undertake more risk-taking activities if that risk was mitigated by more early stage or development financing from funders such as CMF. An Activity Tax Credit would support a certain level of “failure” and risk-taking activity even if the result was not a finished product, thereby encouraging innovation. Enterprise funding would help creative entrepreneurs grow as companies, particularly in areas such as marketing, sales and business development. More support for export activities would help creative entrepreneurs get to market.

Recommendation 14: An Enterprise Fund that targets one or both of small and medium-sized cultural enterprises⁸. Funding would support the enterprise for specific goals or tasks (i.e. meet sales targets or engage a sales agent) that are specific to the cultural industries and not already being met by other government programs. The fund could establish targets for the company and require that the company meet those targets before receiving further funding. There can be concrete performance measures such as revenue growth, number of new hires, projects developed or export contracts concluded, as are appropriate for that enterprise.

Recommendation 15: ‘Slate Development’ is another form of enterprise funding as it funds a company to develop a slate of projects. Funds are recouped when a project enters production but there is no penalty if the project fails during the early stage phase. Funding of a slate encourages risk and diversification and allows a company to develop projects based on their natural life, prioritizing projects as the market demands, and not in response to artificial funding deadlines. Slate development programs have been successfully implemented in Australia and the European Commission⁹.

Q. 8: How do we ensure that our national cultural institutions, such as the CBC/Radio-Canada and the National Film Board, are a source of creativity and ingenuity for the creative sector more broadly?

35. More collaborations between the CBC and the NFB and private sector creative enterprises would allow for cross-pollination between those more cultural institutions and the more entrepreneurial creative enterprises to the benefit of both. The CBC and the NFB have a Canadian cultural mandate which is important to the country

⁸ The definitions of small and medium-sized enterprises used by the Department of Innovation, Science and Economic Development would apply, namely ‘small’ has 1 - 99 employees and ‘medium’ has 100 - 499 employees.

⁹ While there have been several television slate development programs in Canada, none are currently operational. For reference to an existing slate development program please see Screen Australia’s Gender Matters program that includes funding of slate development: <https://www.screenaustralia.gov.au/getmedia/5a26c4e1-7000-49fd-a264-cd714150e394/Gender-Matters-Brilliant-Careers-Guidelines.pdf> For an example at the European Commission please see Creative Europe: <http://www.creativeeuropeuk.eu/funding-opportunities/development-slate>

and the cultural industries, while the goal of the private sector cultural industries is to achieve the largest possible audience and generate revenues. These goals are not and should never be at odds, and facilitated collaboration would help both sides create profitable and creatively innovative content.

36. The CBC and the NFB are not the only national cultural institutions. Telefilm and the Canada Media Fund are also incredibly important to the Canadian IDM industry. While Telefilm's primary focus is feature film and the marketing of feature film, it does have the Promotion program which supports the promotion of film, television and digital media. However, the Promotion program is limited to promotion to the public or raising the profile of talent. Support for forms of digital marketing specific to the IDM industry (online and mobile ad buys, social media campaigns, search engine optimization, analytics research etc.) would increase Telefilm's effectiveness in supporting Canadian IDM. As mentioned above the CMF has been very effective at supporting Canadian IDM through both the Convergent and Experimental Funds. There is concern that with cord-cutting, CMF's revenues from cable and satellite may drop to the point where the CMF is no longer effective. CIAIC recommends that the Department of Heritage ensure the CMF has secure funding that allows it to remain an essential support for the Canadian IDM industry.

Recommendation 16: Heritage should encourage the CBC and the NFB to allocate more resources to collaboration with private sector creative enterprises.

Recommendation 17: Enhance Telefilm's support of the marketing, promotion and distribution of Canadian IDM and specifically include a program that supports digital marketing initiatives.

Recommendation 18: Ensure that the CMF has secure funding so that it remains an essential support for the Canadian IDM industry.

Exports

Q. 9: What is needed to best equip Canadian creators and cultural industries to thrive in a global market and exploit the country's competitive advantages? In a global market, what conditions need to be in place to encourage foreign investment in Canada's cultural industries? How can we better brand Canadian content internationally?

37. Canadian IDM is doing well in global markets and taking advantage of Canada's strengths to exploit long term opportunities and open new markets. Canadian digital media companies have long worked with markets in Europe and bridged their markets with the U.S. through a shared understanding of both. The cultural diversity of the ownership of digital media companies like Mark Media and Minority Media has provided those companies with access to contacts and shared cultural understanding in China (Mark Media) and Latin America (Minority Media). Funding

from CMF, CIPFs and provincial funding opportunities like the OMDC IDM Fund and Ontario Interactive Digital Media Credit have helped the Canadian IDM industry develop expertise. Canadian IDM companies are sought after for partnership and collaboration from around the world because of both the established expertise and access to funding. With support, Canadian IDM can do even more to reach new markets and attract foreign investment.

38. Traditional cultural funding such as the CMF has supported specific projects. Funding that supports companies and not just projects will help those companies grow, innovate, develop new products and reach new markets. Enterprise funding can be targeted to early start-up stages and help develop business plans, help develop a minimum viable product (MVP), test MVPs in the market, and help develop growth strategies. Funding targeted to mid-stage companies can help them scale up, i.e. reach new markets, diversify their products, attract foreign investment, hire missing talent such as business manager, sales executive or marketing professional. In other jurisdictions where enterprise funding has been implemented for creative industries, such as Australia, it has been demonstrated as an effective tool to help creative enterprises to become more sustainable and require less government assistance. These companies have gone on to hire more employees and increased their foreign sales.
39. As many of the Canadian IDM companies in the sector are small and medium sized enterprises it can be difficult for them to afford to undertake several pre-export activities such as market research and attendance at international conferences and trade shows. There are supports such as the OMDC Global Market Development Fund, which assist producers with these activities but they are oversubscribed and not every province has them. Companies are increasingly going directly to consumers and looking at consumer trade shows and festivals to find audiences rather than B2B trade shows, and these are not supported by traditional export funds. More export assistance with a wider definition of what would be supported would help companies make international sales.
40. The federal government conducts trade missions to target countries but as those organizing them are not always experts in the sector or the mission covers many sectors, the meetings set up are not always appropriate. A fund that support trade associations to do targeted market research and lead export-focused trade missions would help to put their expertise to work on behalf of their members.
41. A new idea that was generated by Interactive Ontario's Twitter Chat was the idea of a localization fund that would help Canadian IDM projects sell in international markets. It would work much like versioning funds at Telefilm and CMF but would be specific to IDM, where projects need to be adapted to local markets as well as translated. Localization can be expensive and challenging and is not always paid for by the buyer or licensee of a property.

42. CIAIC looks forward to the government modernizing the PromArts and Trade Routes programs to be more accessible to IDM companies and to the trade associations that support them and hopes that some of these proposals are included in the new programs.
43. Canadian IDM has built a reputation for innovation and quality. CIAIC-member association Interactive Ontario conducted research on international co-productions for interactive digital media (International Digital Media Co-Production: A Guide for Canadian Companies I and II) and in that research discovered the high regard that international markets have for Canadian IDM and their interest in working in collaboration with Canadian companies.

Recommendation 19: Expanded export assistance that would help creative enterprises reach consumer as well as trade shows and festivals and fund market research and trade missions conducted by trade associations.

Recommendation 20: Create a localization fund that would support translating and adapting Canadian IDM into other languages and cultures for export around the world.

Recommendation 21: Modernize PromArts and Trade Routes to make it more accessible to the IDM sector and the trade associations that support it.

Conclusion

44. As Minister Mélanie Joly has said “Culture fosters creativity, which leads to innovation, which triggers economic growth”¹⁰ We might also say that government support spurs innovation, challenging IDM content creators to push boundaries to create higher quality content that attracts audiences in Canada and around the world, leading to growing companies and greater employment opportunities. The IDM industry in Canada follows that value chain and is an active participant in fostering economic growth in Canada. With targeted government support along the lines that CIAIC has recommended, IDM can play a greater role in ensuring that Canada is competitive in global markets and has an international reputation for excellence and innovation, while generating highly skilled, well-paid middle class jobs and supporting creative enterprises at home in Canada.
45. CIAIC would be happy to provide more detail on any or all the Recommendations contained in this submission. We hope that this public consultation is the start of a dialogue towards building a new model to support the creation and distribution

¹⁰ Speech June 9, 2016 to Economic Club of Canada

of Canadian content. Canada's IDM sector is world-renowned and making a name for Canadian creative excellence but more can and should be done to support it as both an economic and creative driver.

Yours truly,

A handwritten signature in black ink that reads "Christa Dickenson". The signature is written in a cursive, flowing style.

Christa Dickenson

Chair, Canadian Interactive Alliance/Alliance Interactive Canadienne
Executive Director, Interactive Ontario

c.c. Catherine Émond, Executive Director - Alliance Numérique
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SCHEDULE A

September 29, 2016

CIAIC – Innovation Agenda Submission

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Re: Canada's Innovation Agenda

Introduction

1. On behalf of the Board of the Canadian Interactive Alliance/Alliance Interactive Canadienne ("CIAIC") and Canada's Interactive Digital Media ("IDM") sector, we are pleased to have this opportunity to share with you the thoughts of our members on Canada's Innovation Agenda and how the IDM sector can continue to help position Canada as a global leader in innovation.
2. The CIAIC is a bilingual not-for-profit trade association formed in 2005 to serve as the voice of Canada's IDM industry. CIAIC's membership is comprised of Canada's seven existing provincial interactive digital media trade organizations: Alliance Numérique, DigiBC, Digital Alberta, Interactive Ontario, New Media Manitoba, Nova Scotia Game Developers Association and SaskInteractive.
3. Canada's digital media companies create a wide variety of interactive digital media products and services including video games, Augmented Reality (AR), Virtual Reality (VR) and Mixed Reality (MR) products, cross-platform content, e-Learning, web series and mobile content. Canada has become one of the global leaders in high quality IDM content, exporting titles such as mobile game "My Singing Monsters", cross-platform children's property "Napkin Man", winning awards with cutting edge technology like "Time Machine VR" and exploring new business models with games like "The Long Dark".
4. Innovation is the central theme of the IDM sector, a growth market created in the past several decades. Its rapidly evolving nature has spurred a culture of innovation that is now renowned worldwide. To the IDM sector, innovation is not

just about technology or new forms of code. In addition to those boundaries, IDM companies innovate daily in discovering new business models, distribution and marketing methods and ways to entertain and engage with audiences. Each IDM company experiments continuously as they try to reach new audiences with new forms of content and find new ways to make money, drive down costs and grow their companies to be able to take on bigger and more complex projects. The result has been a growing sector, employing more and more skilled Canadians as they deliver high quality content to Canadians and to markets around the world.

5. From that perspective, CIAIC is pleased to provide you with our ideas on how, with specific targeted initiatives, the IDM sector could not only continue to support the government's Innovation Agenda, increase jobs and exports and drive corporate growth but also collaborate with other sectors to help them make the transition to an innovation economy. Through effective partnership between government and the private sector, Canada's reputation as a leader in digital media innovation can be both encouraged and expanded.

IDM Sector in Canada

6. The growing IDM sector now generates in excess of \$3.8 billion in gross annual revenue and includes over 3,000 businesses in Canada¹¹. The entire sector supports and creates an estimated over 26,700 high value full time equivalent jobs¹². The industry is internationally-focused with 57% of the revenue of IDM companies derived from exports.
7. The video game industry alone adds over \$3 billion to Canada's GDP each year and in 2015 that represented a 31% growth over the previous year¹³.
8. IDM companies have projected 10% to 25% growth, a rate significantly higher than even the average GDP growth rate in Canada¹⁴. Canada's IDM sector is growing because it is innovative and globally competitive.

¹¹ 2012 Canadian Interactive Industry Profile, October 2013

¹² 2012 Canadian Interactive Industry Profile, *ibid*

¹³ Essential Facts About the Canadian Video Game Industry, 2015, Entertainment Software Association of Canada

¹⁴ 2012 Canadian Interactive Industry Profile, *op. cit.*

Recommendations

Collaboration

9. IDM companies would like to fully leverage the power of partnerships with other companies to take on larger and more complex projects that would allow them to grow, become more competitive, cross-pollinate other economic sectors and enter new markets in Canada and globally. These collaborations could be with other IDM companies that have expertise that they lack, such as VR or animation. Or they could be subject matter experts such as hospitals or book publishers or academic institutions.
10. Federal funding such as the Canada Media Fund (CMF) often allow for collaboration between IDM companies but have restrictions on the types of collaborations allowed. For example, the CMF is a cultural media fund so cannot support non-cultural collaborations with other sectors, or those with combined goals (e.g. using video games to meet therapeutic goals). The nature of federal program funding is that it is departmentalized by Ministry and then further broken down into programs for specific sectors. However, a broader mandate for these programs and the CMF in particular would allow companies to be innovative in partnerships, audiences, content forms and revenue streams. IDM companies should be encouraged to think outside the box for potential collaborations without worrying about whether they will be offside with funding programs or that they need to artificially redesign their business structure in order to qualify. With fewer barriers to collaboration, businesses in many sectors could benefit from the expertise that IDM has developed and will continue to develop in creating engaging digital content, digital business models and digital distribution.

Recommendation 1: The federal government should review federal funding programs to find ways to reduce barriers to collaboration or set up flexible funding programs that will support and encourage collaborations. Specifically, it should broaden the mandate of the CMF to allow projects that combine cultural and non-cultural goals to be eligible for funding. Government departments should find ways to introduce their stakeholders to the stakeholders of other departments, furthering opportunities for collaboration.

Risk-Taking

11. One of the prerequisites for innovation is the ability to take risks and fail, sometimes multiple times, before succeeding. In Canada we tend to have insufficient resources so have to make every dollar count. For example, IDM projects funded by the Canada Media Fund's Experimental Fund must be completed and delivered to the audience even if during the course of production technology changed, audiences lost interest in the topic or any other reason which could result in the finished project being unable to find a market. More money then has to be spent to prevent the producer from being in default and the producer no longer being able to access that fund for future projects.
12. Projects clearly need to be completed to ensure that taxpayer funded production can be enjoyed by taxpayers, but the government could encourage risk-taking by funding innovation activity as well as projects. Funding that allows a producer to take risks, fail, throw the project out and start again, is funding that fosters innovation. As innovation changes a project, with activity-based funding that project would be able to pivot without waiting for approval or could avoid having to proceed needlessly to avoid being in default.
13. Canada has a risk-averse investment community and the screen-based industries are risky investments due to impossible to predict variables such as audience demand. Risk-averse investors tend to discourage risk-taking and failure as a necessary part of innovation as they look for a more stable investment. Canadian companies therefore end up relying on their own limited resources while both the government and the private sector wait for the 'sure thing' before getting involved.
14. Government support encourages IDM studios to be innovative to a degree that they cannot when they are dependent on the existing market to fund them through a distributor or publisher. Too often these market representatives look for more of what is already successful and are unwilling to take a risk on new products. The CMF Experimental Fund has been supportive of IDM innovation but it is a selective jury-based program. An objective labour-based tax credit would ensure that a wide range of IDM projects were supported

Recommendation 2: The federal government implement an Activity Tax Credit for IDM based on qualified labour (innovation-focused activities) over the year, regardless of whether the project was finished or not. There would have to be safeguards to ensure that companies are actually trying to complete projects but they would not be penalized should they decide not to complete a failed project. Other jurisdictions such as the UK or France have IDM or video game-based tax credits which could be used in part as models.

Recommendation 3: CIAIC encourages the federal government to explore tax policy that would encourage a more risk-friendly private sector through, for example, incentives for existing entrepreneurs to reinvest their funds in new start-ups, to allow the younger companies to take advantage of both the experience and the funds from the more experienced entrepreneurs.

Enterprise Funding

15. Traditional cultural funding such as the Canada Media Fund has supported specific projects. Funding that supports companies and not just projects will help those companies grow, innovate, develop new products and reach new markets. Enterprise funding can be targeted to early start-up stages and help develop business plans, help develop a minimum viable product (MVP), test MVPs in the market, and help develop growth strategies. Funding targeted to mid-stage companies can help them scale up, i.e. reach new markets, diversify their products, attract foreign investment, hire missing talent such as business manager, sales executive or marketing professional. In other jurisdictions where enterprise funding has been implemented, such as Australia, it has been demonstrated as an effective tool to help creative enterprises to become more sustainable and require less government assistance. These companies have gone on to hire more employees and increased their foreign sales.

Recommendation 4: An Enterprise Fund that targets one or both of start-up and mid-stage companies. The fund could establish targets for the company and require that the company meet those targets before receiving further funding. There can be concrete performance measures such as revenue growth, number of new hires, projects developed or export contracts concluded.

Recommendation 5: ‘Slate Development’ is another form of enterprise funding as it funds a company to develop a slate of projects. Funds are recouped when a project enters production but there is no penalty if the project fails during the early stage phase. Funding of a slate encourages risk and diversification and allows a company to develop projects based on their natural life, prioritizing projects as the market demands, and not in response to artificial funding deadlines. The CMF could easily be adapted to include a slate development program using similar to its existing Broadcaster Performance Envelope system, such as audience success and historic performance. Slate development programs have been successfully implemented in Australia and the European Commission.

Skills Gap

16. In order to be innovative, companies must have access to the best talent possible. Unfortunately, in a number of IDM job categories there is not a large enough skilled talent pool to meet the demand. There are many new graduates but not enough mid-level to senior staff in positions such as animators, illustrators, programmers and usability experts. Training existing junior staff is the cheapest and easiest solution but takes time. Short term, IDM companies often bring in employees on contract through the Temporary Foreign Worker Program but the administration of that program is cumbersome and time consuming. IDM companies often have a core staff but hire more on contract to work on specific projects once they are financed. Workers often cannot be brought in fast enough under the Temporary Foreign Worker Program to be able to demonstrate that a company will have the capacity to undertake a new contract. Companies then lose business. The other option is training experienced staff from other sectors, such as manufacturing, to adapt to IDM. Mid-career training can help to move employees from shrinking sectors into the high growth IDM sector.
17. Additionally, most IDM companies are small to medium-sized enterprises that do not always have the time and resources to train and integrate new graduates, making it harder for them to get established and enter a career path in IDM. Highly skilled but frustrated talent have easily transferable skills which they could use in a number of other jurisdictions.

Recommendation 6: Improve the Temporary Foreign Worker Program to make it faster and easier to bring in skilled IDM employees on short term contracts. Simplify the process for Temporary Foreign Workers already here to become landed residents and permanently increase the skilled talent pool.

Recommendation 7: Fund mid-career training both on the job and through partnerships with academic institutions for new graduates and those in other sectors, to help meet the demand short term and long term for a skilled talent pool.

Recommendation 8: Private-public partnerships to create internship jobs for IDM-trained new graduates to reduce the risk for employers in training new staff thereby helping new graduates gain skilled employment in Canada. CIAIC would be happy to coordinate such a program between its members and government resources.

Employment and Social Development

18. In addition to the current skills shortage, it has been predicted¹⁵ that there will be a significant shortage of skilled labour in Canada in the future unless steps are taken to add more Canadians to the skilled labour pool. Long term planning to minimize that shortfall should include improving the skills of students within the K-12 setting so that all or most Canadians are both equipped for the jobs of tomorrow and equipped to innovate jobs we have not yet even thought of.

Recommendation 9: Implement coding and computer literacy skills within the K-12 curriculum so that all have a basic understanding of coding and computer literacy regardless of the field that they are going into, to ensure that they have long term employability. More of those students will then go on to advanced computer science degrees and innovate in those fields but all Canadians will have core computer literacy competencies.

Recommendation 10: Teach entrepreneurialism and innovation from an early age to foster a culture of risk-taking and to encourage the creation of small businesses. Parents and educators need to role model innovative careers and businesses and not just traditional careers such as doctors, lawyers and teachers.

Conclusion

19. CIAIC would be happy to provide more detail on any or all of the Recommendations contained in this submission. We hope that this public consultation is the start of a dialogue and a new way of working with industry to support and encourage a wide range of innovation.

¹⁵ Miner, Rick, "The Great Canadian Skills Mismatch", 2014 where he predicts a shortage of 2.3 million skilled labour by 2031

As mentioned above, the IDM sector is already pursuing an Innovation Agenda as a way of doing business. Canada's IDM sector is world-renowned and making a name for Canadian creative innovation. With government support and targeted programs, IDM can help advance the government's Innovation Agenda and further develop the IDM industry to become a world leader.

Yours truly,

A handwritten signature in black ink that reads "Christa Dickenson". The signature is written in a cursive, flowing style.

Christa Dickenson

Chair, Canadian Interactive Alliance/Alliance Interactive Canadienne
Executive Director, Interactive Ontario

c.c. Catherine Émond, Executive Director - Alliance Numérique
Louie Ghiz, Executive Director - New Media Manitoba
Thomas Archer, Executive Director - Saskinteractive

SCHEDULE B

On November 7th, 2016 from 11:30am to 12:30pm Interactive Ontario held a Twitter Chat on Canadian Heritage's Canadian Content in a Digital World consultations.

A storified account of that Twitter Chat, **#iodigicancon**, can be accessed at this link:

<https://storify.com/IOnews/iodigicancon-twitter-chat>