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Chair

Mr. David Sweet

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• (1535)

[English]

The Chair (Mr. David Sweet (Ancaster—Dundas—Flamborough—Westdale, CPC)): Good afternoon, ladies and gentlemen.

Welcome to the 11th meeting of the Standing Committee on Industry, Science and Technology. Pursuant to Standing Order 108 (2), we are undertaking a study of the entertainment software industry in Canada.

We have witnesses before us in person today. From Frima Studio, we have Pierre Moisan, vice-president, strategic and business affairs. From Project Whitecard, we have Khaled Shariff, the chief executive officer. By video conference we have Donald Henderson, president and chief executive officer, Interactive Ontario, and joining him is Sara Morton, a director. By telephone we have Mr. Jonathan Lutz, vice-president and chief financial officer, Electronic Arts.

I would remind colleagues that it's easy to lose track of those folks who we have with us remotely. We have one witness—with two individuals—by teleconference, and then we have Mr. Lutz only telephonically. Please bear in mind that when you're asking questions, etc., you can refer to those who are joining us remotely as well.

Ladies and gentlemen, as witnesses you are given 10 minutes each for your opening remarks, but if you could keep them more succinct, that would be great, because we have four presentations for opening remarks.

I take it, Mr. Henderson, that you'll be giving the opening remarks for your organization. Is that correct?

Mr. Donald Henderson (President and Chief Executive Officer, Interactive Ontario): Both I and Ms. Morton will. I'm going to start and then she will—

The Chair: You will share the time.

Mr. Donald Henderson: Yes. We'll combine it into the 10 minutes.

The Chair: That's great.

You are given 10 minutes. If you could make it six or seven, I would be one delighted chair, but whatever you're able to do.... I understand that you've already prepared them. Try to keep them as brief as possible. That said, I also don't want you to rush through too much, because we do have active translation as well.

We'll follow the orders of the day. I'll begin first with Mr. Moisan.

Go ahead with your opening remarks, please.

[Translation]

Mr. Pierre Moisan (Vice-President, Strategic and Business Affairs, Frima Studio): Good afternoon. I am Vice-President of Frima Studio, a business in Quebec City which started up with video games. Frima has 350 employees and is the largest independent video game design studio in Canada. The business extended the scope of its activities by moving on to animation films with its first feature film entitled *Le coq de Saint-Victor*.

Frima has clients in the United States, Europe and Japan. We began by providing a lot of services for large companies like Warner Bros., Electronic Arts and Disney. We still work with them, but increasingly we work on the creation of original intellectual properties. My main objective in this presentation is to explain the reasons why we started doing that.

As you know, Canada has become a very fertile video game design hotbed. This began in Quebec thanks to some very interesting tax credits for businesses, and the other provinces followed suit. For instance, Electronic Arts, one of our clients, settled in Montreal. Ubisoft and Warner Bros. are also there, among others. These businesses settled in our area in order to take advantage of the very interesting tax regime and very competent employees.

This type of fiscal framework is now offered in Ontario, British Columbia, Nova Scotia and Manitoba. The Canadian provinces are attempting in this way to attract and help video game companies and digital entertainment product companies, and that is a good thing.

In Vancouver, that has been called Hollywood North because of its very strong film industry, this type of tax credit was not being offered and this recently led to the closure of some companies. Consequently, British Columbia has decided to offer tax credits also.

It is extraordinary to have attracted all of these businesses here to Canada and to have created expertise in programming and animation, particularly. The only risk is that we may not further the creation of Canadian-owned businesses that create Canadian brands. Tax credits are an interesting tool, but you know as I do that businesses are now inclined to shop around everywhere in the world to find superior tax advantages or more interesting ones, which can sometimes lead to a slew of business closures here, which then open elsewhere.

Competition is becoming increasingly fierce, be it in Asia or in Eastern Europe. Canada remains competitive on tariffs, thanks to the tax credits it is offering. Without those tax credits, we would be competitive because of the creativity and expertise we offer, but we would have a problem with keeping companies here.

I want to emphasize the importance of this rootedness. We have to continue to invite businesses from other countries to settle here because that is an excellent thing. However, we have to be aware that even if a video game that is created in Montreal sells very well, for instance, often the design of the game or the marketing plan was done abroad. This means that the business intelligence does not benefit Canada, and France or Santa Monica instead of Canada will be pocketing the profits. We thus have to ensure that we create Canadian brands, while welcoming foreign businesses.

One of the federal government's initiatives I find particularly interesting is the Canada Media Fund. It is managed by Heritage Canada and offers programs that support the creation of original intellectual properties. Any business may submit a funding request as long as it is Canadian-owned. Thanks to this initiative we can create brands here and prepare our marketing strategy here and thus keep our profits here. This type of rootedness is essential if we are to ensure the durability of our industry. That is the main point I wanted to make.

We work a great deal to export our products. Assistance to exports is very important. As you know, in the video game industry, business models have changed enormously. In the past, a game was created on a disc, on a physical support, it was put in a box and placed on shelves at Walmart, and we had sales. Now, games are living organisms because of data exploration and management. People no longer pay for the games at the outset; they will pay if they like them. There is a tendency toward free-to-play games which makes marketing games much more difficult.

With Google Store or Apple Store, for instance, access to games is easy, but there are so many apps that in order to be noticed in the crowd, we have to make considerable marketing efforts. This is another area where Industry Canada could intervene. The department could help market Canadian products so that they could be sold throughout the world.

We are not hiding it: we want to broaden our markets. Even the United States has become a small market for certain games, given all of the extremely promising new markets such as China, South Korea and India. We have to compete with their businesses and conquer those markets.

Consular offices, embassies or trade attachés could help us to establish contacts in these large markets. That is another useful thing the federal government could do.

• (1540)

The Chair: Thank you, Mr. Moisan.

[English]

Mr. Shariff, please go ahead with your opening remarks.

Mr. Khaled Shariff (Chief Executive Officer, Project Whitecard Inc.): Thank you for having me.

My presentation is entitled "A Digital Highland". The first half is about me, and the second half is recommendations.

I'm the CEO of Project Whitecard in Winnipeg. Project Whitecard is a company that's been around for eight years. We specialize in creating learning games for children, so you may not have seen our games but your kids have seen them.

We did a project with the Canadian Space Agency and Julie Payette, which went to over one million kids. We have just completed a project depicting the International Space Station with Chris Hadfield that went to over one million kids.

We are now funded by the Canada Media Fund to work on a new brand, working in conjunction with NASA to create a worldwide project called Starlite.

We have investment from the Canada Media Fund, the Manitoba tax credits, the Bill and Melinda Gates Foundation, and the MacArthur Foundation.

We're an overnight success, but eight years in the making. We're quite happy to be developing our own brand now. It's wonderful to be in that place.

Why did I choose to do games? I was actually at the Canadian Broadcasting Corporation for four years and decided I should do something that would change people and maybe make them smarter. I researched and when I looked at UNESCO results on the direct impact of mathematics on the gross domestic product, I found that perhaps I could use technology to make people smarter.

Did you know that the average Canadian child spends over 40 hours a week in front of screens? That's a stat from Active Healthy Kids Canada. Maybe we could find a way to make that more meaningful.

Our goal is simply to revolutionize learning with new and more intelligent technology as we work on this learning project. With the MacArthur Foundation, NASA, and the Canada Media Fund, we are trying to implement a digital badging system that will give accreditation across the board to science standards that kids acquire while they play these games. It is possible. We want to inspire both students and adults to create a better tomorrow through science, technology, engineering, and mathematics.

What do I see a digital highland as being? Yes, it would be a northern Silicon Valley model. We would like to revolutionize accreditation for IT professionals and young learners across Canada. For Canada in general now, I think we should look at improving the national communication between IT leaders and start-ups.

We should maintain or increase funding envelopes such as the Canada Media Fund. I found out just before I left for this trip that we were accepted into the Canada Media Fund accelerator program with an accelerator program in Winnipeg called LaunchPad. That is fantastic and will help us go to market. We should facilitate career opportunities for accelerator programs and mentors.

In the video game industry, just as an example, CMF now has eight, and now nine with one in Winnipeg, of these accelerator programs they are supporting. It's very important in establishing our own brand for the first time, we realize that we now need to re-emphasize our efforts and our intellectual efforts on how we are going to align this product to market.

I applied to the Canada Media Fund for three years in a row—hundreds and hundreds of pages, maybe over 1,000 pages of applications—before we were accepted. Maybe more emphasis on the actual alignment with the market....

Regarding accreditation, many of the people I hire come directly out of working on this technology themselves. They're just good at it.

I spent three months, thanks to a Canadian program, in Silicon Valley on an accelerator called Plug and Play. I think David had a small part in that. I think he was in the room when I won that, down at GDC.

Quite often, people there who have successful IPs, who make billions of dollars on Dropbox or Facebook, have just come out of a university environment. The provenance of higher learning is moving to social communities of digital literacy, but we don't really have a way of tracking who knows what.

Part of the project I'm doing with the MacArthur Foundation is simply to acknowledge people's skill levels in that region.

•(1545)

It's a question of do we need better standards? Do we need better peer recognition?

Project Whitecard delivers a program in serious games at the University of Winnipeg. It's a full-time certificate program. We're also proud of that.

Mentorship should be sustained, local, and connected to venture capital. The example I gave you was Plug and Play in Palo Alto. There will also be Plug and Play in Calgary, and LaunchPad in Winnipeg.

What can the government do?

The role of trade commissioners should evolve to be aware of the broad spectrum of activities as we try to create start-ups. Remove the barriers to start-ups on RFPs, government and otherwise. Responses of 100 pages are too large. I competed with 180 companies for the NASA project and we won. The response was 15 pages long, and a presentation. We won that, so that's good. We were able to compete with the biggest companies in the world on that project.

Simultaneously, connect educational leaders and entrepreneurs in the IT sector.

Increase the digital fund envelopes. Why? It hones us. Smaller companies, like my company which has 10 to 20 individuals at any given time, and is moving to 100 individuals, were honed over the last three years because there was the competitive environment with the Canada Media Fund where everyone across Canada can compete. It wasn't easy, but we picked up the skills we needed.

In summary, breed 100-plus more Canadian start-ups every year. We already know what a digital highland is, right? We know that a nearby university or college with evolved programs in business and IT, together with a local accelerator program and business capital, combined with legislation, is what a digital highland is and that's what Canada can be.

Many start-ups leaving the nest means more will flourish, more jobs, and Canadian leadership in the world.

Thank you.

The Chair: Thank you, Mr. Shariff.

Now we'll move on to Electronic Arts, and Jonathan Lutz, who's with us telephonically.

Mr. Lutz, please go ahead with your opening remarks.

Mr. Jonathan Lutz (Vice-President and Chief Financial Officer, Electronic Arts (Canada) Inc., Electronic Arts Inc.): Good afternoon. My name is Jon Lutz and I'm the vice-president and chief financial officer for EA Canada.

I've been with Electronic Arts for sixteen years, and I've spent the last eight years here in Burnaby, British Columbia, where we make world-renowned games such as NHL, FIFA Soccer, as well as the Ultimate Fighting Championship title, which is currently in development.

EA also has a number of other studios across Canada, including studios in Edmonton and Montreal, a location in Kitchener, Ontario, and our Charlottetown, Prince Edward Island studio. They make games such as Dragon Age, Mass Effect, and the widely popular mobile title, The Simpsons: Tapped Out.

Combined, EA employs close to 1,800 employees in Canada.

EA began its presence in Canada way back in 1991 with the acquisition of Distinctive Software in Burnaby. Distinctive Software itself was founded in the 1980s. Since that time, the studio has grown to be one of our largest in the world, and our company has continued to reinvest in Canada by opening, expanding, and acquiring new studios.

In the 1990s, the attractiveness of Canada was the incredible talent that existed in greater Vancouver, but also the proximity to our corporate headquarters in Redwood Shores, California, and the favourable currency exchange rate that existed at that time.

While our headquarters is still in California, many things have changed in our industry.

The macroeconomic environment that existed at the time has changed, with the dollar reaching close to parity and eroding some of the advantage we had when it was lower. Perhaps one of the biggest things that has changed is the size and importance of the Canadian industry as a whole. When we set up EA Canada in 1991, there weren't many video game companies in Vancouver, let alone across the country, but that has changed dramatically.

We've seen Vancouver grow its industry too. Where at a time it was the largest in Canada, we've seen the rise of the Montreal industry, which is now a world leader in our sector, boasting roughly 60% of all video game employees in Canada.

Perhaps the biggest change is that Canada as a country now boasts one of the biggest video game industries in the world.

This hasn't happened overnight, but it has happened rapidly due to a number of very strong economic policies, such as provincially administered targeted tax incentives that have helped our industry grow and stay competitive in an ever more globally competitive industry. But it remains the quality of employee we can find in Canada that keeps us here and compels us to reinvest.

As our industry grows, it has become harder and harder to find the intermediate and senior talent to fill all of the positions we have available. In order to produce the best products we can and stay ahead of the evolution of technology, we need access to a global labour pool.

Talent is the natural resource that we thrive on, and while we do everything we can to find that talent in Canada, sometimes for a number of reasons we need to look globally. Being able to take advantage of programs through ESDC and CIC that are efficient and reliable, and to prioritize highly skilled employees are vital to the continued growth of our company.

Recent changes have caused delays in this process; however, after hearing recent comments by Minister Kenney and talking to our trade association, which has been working hard on this issue, I'm now optimistic that the message is getting through.

We pride ourselves on being an innovative company that is on the cutting edge of our industry. We invest in R and D in Canada and take advantage of the SR and ED tax credit program to help offset some of the cost of this investment.

While the program is very valuable, it denies multinational enterprises the same benefit that is given to wholly-owned Canadian firms, even though very important and innovative R and D is being conducted here in Canada by companies such as ours.

Providing global companies with the same percentage tax credit in a refundable manner would make Canada much more competitive for investors to serve their increased R and D expenditure.

EA is a company that designs and produces intellectual property that is sold all over the world. As the economy moves from a brick and mortar model to a digital economy, the protection of intellectual property has become even more important than in the past.

Countries with the strongest intellectual property protection laws will be the ones that thrive in a digital economy. Canada's Bill C-11 on copyright reform was a strong first step toward improving Canada's protection of intellectual property.

I encourage you to continue to work to ensure that rights holders in Canada are protected and have the confidence to continue to produce innovative products here.

● (1550)

We believe that Canada has a number of key advantages that allow it to continue to be a world leader in the production and development of video games. We've shown our commitment to Canada by expanding from being a small acquisition 23 years ago to having multiple locations spanning from Vancouver to Charlottetown.

We employ a broad range of experience levels, from the recently graduated junior employee to the senior producer responsible for the overall product management of our games.

We invest in our employees, and EA works with local universities to help ensure the curriculum is up to date and reflective of what our industry needs from new employees.

We provide internships to help advance the skills of students while they're still in school. We ensure our employees continue to have access to the education they need to advance their careers and become more valuable within the company.

Initiatives like EA university, which puts employees through rigorous courses that enhance their skills in programming, art, and production, are huge investments by EA, which we believe benefit the employee and the company in the long term.

We hire Canadians whenever we can. It is much more expensive for us to recruit prospective employees living abroad and then relocate them and their families to Canada, but in some situations when we cannot find these people in Canada, we have no choice.

If I can leave you with one final thought today, it is that we exist in a global industry, within a global economy that is in competition for the best people to produce the most innovative entertainment experiences.

Without support like SR and ED to invest in those experiences and without efficient access to the best talent, our industry will not continue to be the Canadian success story that it is today. We can work together to ensure that this industry goes nowhere but up.

I appreciate the opportunity to speak with you today, and I am open to answering any questions you may have about Electronic Arts.

Thank you.

● (1555)

The Chair: Thank you very much, Mr. Lutz.

Now, we'll hear from our final witnesses.

Mr. Henderson, from Interactive Ontario, please go ahead with your opening remarks.

Mr. Donald Henderson: Thank you, Mr. Chair.

Good afternoon. My name is Donald Henderson. I am the president and CEO of Interactive Ontario, or IO, as we call it. With me today is Sara Morton, who is a board member of Interactive Ontario. She is also a member of our research and advocacy committee. We're delighted to be here today to speak to you about Canada's entertainment software industry.

As a bit of background, Interactive Ontario is a not-for-profit trade association. It was formed 13 years ago. Our mandate is to assist our members in growing their interactive digital media businesses. IDM is the abbreviation.

We represent approximately 300 interactive digital media companies. These companies create interactive content across a wide range of sectors for the entire spectrum of digital media devices. This creation of content includes creating video games and other forms of entertainment software, but also e-learning applications, web-based content, apps, and other types of content for such mobile devices as smart phones and tablets.

Given our mandate and our membership, it probably will not surprise members of the committee that we take a very broad view of what constitutes the entertainment software industry. This is probably consistent with what you have already heard from some of the other speakers.

The definition of video games has changed remarkably over the past five years. We've already heard references to companies, such as Electronic Arts, that make what are called triple-A games for PCs or for such consoles as Xbox One and PlayStation. These are the traditional video games in Canada from a development perspective. In cities like Vancouver and Montreal these are the dominant types of products created.

In contrast, although there are several companies in Ontario that are creating these types of games, Ontario is also home to a large number of small and medium-size businesses, many of which are bootstrapping their own businesses with smaller-scale development and which distribute their content digitally, as we have already heard.

Only 4% of Ontario's interactive digital media firms are considered large—and in this industry, large means over 100 employees—and a full third of Ontario's companies have five or fewer employees. It is a very entrepreneur-driven business.

Another change that has happened is that people are consuming games in a different way. They'll pull out their smart phone while they wait for the bus; they'll check their Facebook account; they may play a game while they are on a break at the office.

Games are also starting to serve a broader purpose than simply entertaining, as many are designed to simply educate or inform. The underlying technologies for all of these types of entertainment software are the same regardless of the company creating the software.

To give a little more background on it, In Ontario we have approximately 1,000 companies creating interactive digital media. They involve approximately 17,000 employees and generate over \$2 billion in annual revenue. This is about an 18% compounded annual growth rate over the last three years. We have quite a successful industry in Ontario. There are several reasons for this.

First, the barriers to establishing an IDM firm are very low compared with those for such traditional sectors as manufacturing or natural resources. Ontario benefits from having a large number of highly skilled employees. There are challenges, which have already been alluded to, in finding senior and intermediate employees, but Ontario's universities and colleges are generating a large number of

qualified employees who are helping companies in this industry grow. These include computer science graduates from McMaster University and the University of Western Ontario, and those with technical as well as artistic and creative skills, such as those from the design program jointly offered by York University and Sheridan College.

That said, the industry is growing faster than the labour market, and so, as mentioned, there are some challenges for senior and intermediate employees in certain circumstances.

The second factor behind Ontario's success is the concentration of other creative industries in Ontario. There is a long history of excellence in industries such as film, television, book and magazine publishing, and music. This provides talent and cross-media opportunities that have fostered the development of a strong digital media sector.

Third, the Ontario government, like the federal government, has supported the digital media sector. In Ontario, the broader ICT sector is one of the economic priorities. The government in Ontario is investing in this sector through tax credits and other means of support.

● (1600)

Finally, government support has targeted both Canadian-owned and foreign-owned digital media companies, not necessarily in the same ways for all companies, but government has recognized that to build a strong industry, we need an ecosystem that supports both Canadian-owned and foreign-owned companies.

Government's role in supporting and growing this important industry cannot be overstated. We believe the objective must be to create a successful industry, with the emphasis on the word "industry".

I spoke to the House Standing Committee on Canadian Heritage a few months ago. We mentioned at that point that the goal should be to develop an industry rather than to try to subsidize cultural products. Support for the IDM industry must allow the government to see its investments recouped through employment, payment of taxes, and other ways of return on investment.

I'll now turn it to Sara.

Ms. Sara Morton (Director, Interactive Ontario): Thank you, Don.

Good afternoon, everyone.

Don has identified some of the things we know about the IDM sector in Ontario. I'd like to touch briefly on a number of things that we still don't know about IDM in Ontario. Surprisingly, one of these things is the precise size and scope of the interactive digital media sector in Ontario and in Canada.

Over the past year, IO has been active in research into the industry, including through our involvement in the latest Canadian Interactive Alliance industry profile and also a research project that's being funded by the Ontario government. That will provide a more detailed mapping of the companies in Ontario, identifying their size and scope of their activity and information about revenues, use of government support, and other factors.

A second thing that we don't know is precisely how synergies work between subsectors within the interactive digital media industry and between the IDM industry and traditional media. We know they do. There are many examples of books being turned into digital media games, and of course many examples of film and TV projects having interactive digital media components. What we don't know is precisely how they can be encouraged, or indeed whether they need to be encouraged.

The third thing we really still do not know is precisely the best way for government to provide early-stage support, whether this relates to the start-up of a company or development of innovative, new interactive digital media content. We do know that financing is identified as the most significant issue for the sector. Our colleagues at the Canadian Interactive Alliance have done some research on this. Some of the earlier witnesses have referred to the importance of provincial tax credits, and we certainly agree with that. We understand that our colleagues at the Entertainment Software Association of Canada have been advocating for the creation of a federal IDM tax credit that would work in concert with the existing provincial credits. Of course we fully support that suggestion.

The Canada Media Fund has also been referred to, and we absolutely agree that this is a very important source of funding for the IDM sector. As well, for start-ups, both Ontario and the federal government have launched VC funding programs. We haven't seen analyses of the returns on these investments, but we feel that VC matching funds might be a better approach than the government trying to pick winners. As well, it's important to note that VC funding is not for everyone. Most young entrepreneurs get their first funding from their own resources and friends and family. However, tax measures in support of this kind of early-stage funding might also be worth considering.

Finally, we don't know what gaps, if any, exist in the case of projects that push both technological and artistic boundaries. We do know that in such cases companies tap into R and D support like the SR and ED program, as other witnesses have mentioned, and also content support, like Ontario's digital media tax credit. Is this just a wonderful confluence of things working ideally together, or do these supports not fully provide a basis for the necessary components of the projects? We just don't know enough about this yet.

Finally, I'd like to say that whatever we do, we need to be nimble in the government support for the IDM sector. We need to be prepared to experiment, to examine, and to make refinements. In our view there's no shame in not getting it exactly right the first time. If we want leading-edge interactive digital media companies in Canada, our public policy frameworks need to be leading edge as well.

Thank you for your time. We look forward to your questions.

•(1605)

The Chair: Thank you very much, Ms. Morton.

Colleagues, this is our first attempt at our new model. We have just enough time for eight minutes per person. It'll be one round straight through at eight minutes per person, and then we're going to business at the end. I'll need to cut you right off at eight minutes for us to maintain our schedule.

Please go ahead, Mr. Lake, for eight minutes.

Hon. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): Thanks to all the witnesses for being here.

After listening to all the testimony, the main thing I want to focus on is distribution revenue. I want to get a bit of an understanding.

Mr. Moisan, I'm curious about your organization. You're based in Quebec City. You have 350 employees.

I had the opportunity to visit Ubisoft in Quebec City and do a tour from floor to floor. I was amazed at how many people were working on video games there and just how intense the activity was.

Tell me a bit about what the 350 employees are working on, and from a distribution standpoint, how you sell your product.

Mr. Pierre Moisan: At first we started doing servicing. That servicing helped us gain some expertise in programming and animation. We do 2-D and 3-D animation. We create our own technology. We have our own game engines—that's what they're called—so our technology is adapted to many types of game mobiles.

Games now have to be able to communicate together, whatever the platform is. If you want to play on your mobile device and then come home and start playing on your computer, the points you made while you were on the bus have to accumulate in your game and your computer. Otherwise, you'll use all sorts of mobile devices. It's every screen.... People now want to have access everywhere at any time. Increasingly, it's going to be the same with television, this revolution.

Also, there's the fact there was a period where there were garage companies that could make games. Then there was that trend for triple-A titles and only big companies could make blockbusters, which were quite risky, but now it's back to garage companies for many mobile applications. That's what our marketing efforts have to fight, because we are stuck with the fact that there are hundreds of thousands of apps.

Because of that, how can you stand out, apart from big successes like Angry Birds, which everybody knows about and was very viral from its inception. Some other products are as good as that or even better, but nobody will hear about them. You have to find ways, a lot of them through social media. We now have hired people who have worked with Procter & Gamble, Ubisoft, and other companies like that. They spend their days creating a buzz and trying to get people to become aware of our products. They'll go on Facebook and YouTube; they will make videos and spread the word and stuff, but it's very difficult.

The other thing that's difficult is the free-to-play model. It makes you successful sometimes, but kids are used to free, to not paying on the Internet. They'll try your game, and when it's time to pay, they'll stop. For example, we have a super good title called Nun Attack, which is quite irreverent but very decent. It's a humoristic title. We have seven million downloads, but the money is not there to match those numbers.

Hon. Mike Lake: That's what I'm curious about. That was the crux of my question. For this offering, you have seven million downloads. What's the distribution system for your downloads? Where are consumers buying?

• (1610)

Mr. Pierre Moisan: They go to the Apple store.

Hon. Mike Lake: The App Store, okay.

Mr. Pierre Moisan: They go to the Google store. One of the keys things—and it's happening right now to one of our brands for preschoolers, CosmoCamp. You want to be featured as one of the top 10 games. If you manage to convince them to feature you, then people will see you when they go to the game, but if you're number 375, nobody will ever hear about you.

The game is to convince those people. When you think about it, there are only a few. It's Google or Apple. Microsoft is there, but not as much; they try to be there increasingly. Or you go online, and again, it's how you create awareness: that's the new challenge.

One of the key elements is that, as I said, we have seven million, but the sales are not nearly as high. Now we have clients, and that's how we....

You've heard about FarmVille by Zynga. It was very successful on Facebook. What they did was that they had success, but now they also own the clients. We are becoming increasingly a database model of a business. We have our clients and when we have a new game, we promote it or show it to our seven million clients without any effort. We just spread the word.

You need to have your own crowd, and you need to grow your crowd increasingly. The business model has changed dramatically. Before it was being in the aisles of Walmart, and being at the best place, but now we're nowhere, right? We have to find our place there.

Hon. Mike Lake: I'm going to stay with you, because this is interesting. I'm learning something here.

If I go to the app store and buy something, I can use it on my iPad. I'm used to doing that, but how does that interactivity work with other systems? How many different versions of each game would you have to make? Are they the same from one platform to another? Is there an interactivity?

You talked about someone using whatever device they're using on the bus, and then coming home to use their PC. I imagine the software, or the code for that, would be different. Maybe you could explain that a little bit.

Mr. Pierre Moisan: We have engines for mobile games. Then we'll program.

Hon. Mike Lake: Yes.

Mr. Pierre Moisan: We call it porting. We port a game from a platform to another. We have another engine that will use the code and change or transform the code into that other platform.

As well, we need communication capabilities, because we want them to communicate, but sometimes the game will be different. For example, if you play with your finger on a screen, or you play with a mouse on a table, you won't have the same interaction. You have to adapt the game. It's not only translating code; the graphic design, the human interface, the relationship has to change too.

Hon. Mike Lake: How do you monetize the game, just using the example of the game downloaded seven million times that you talked about?

Mr. Pierre Moisan: You progress. You always have a choice. Most games will have the same system. You can play if you want—some games will let you play—but it will take you so long that you'd rather take a power-up, as we call it, so that you'll be stronger and you'll save time.

That's very important. That's what you say to your client, "If you want to go faster, buy this."

Hon. Mike Lake: Is it free to start?

Mr. Pierre Moisan: Yes.

Hon. Mike Lake: It's free to start, but you can pay to make the game better, basically, in a sense.

Mr. Pierre Moisan: Yes, that's what it is. In other games, you'll be able to play the first six levels. If you want to play the whole game, you'll need to unlock the other levels and you'll have to pay for that. There are many models like that.

Hon. Mike Lake: Okay. That's fantastic.

Thank you.

The Chair: Thank you very much, Mr. Moisan and Mr. Lake.

[*Translation*]

Ms. Quach, you now have the floor. You have eight minutes.

Ms. Anne Minh-Thu Quach (Beauharnois—Salaberry, NDP): Thank you, Mr. Chair.

I thank the witnesses for having come here to enlighten us on the impact video games have on our economy.

You all mentioned the importance of research and development to further the good development of small and medium enterprises working in Canada in the digital entertainment. In 2012, there were cuts to this program specifically. How did this affect your sector and how could the situation be improved?

You may answer in turn. I think you were the first to raise that issue, Mr. Moisan, and so I yield the floor to you.

Mr. Pierre Moisan: I can tell you that this was a key point in our development. Most people probably know Club Penguin, which was conceived by some Vancouver residents and purchased by Disney. Webkinz was a Toronto creation. We created GalaXseeds for Corus Entertainment in Toronto.

There was a point in the history of video games where Canada was the leader of the strongest children's game trend, called multiplayer online games, or MMOs, an acronym for the English term massively multiplayer online games. The children would play them, find friends, build a small house, and so on. Databases containing all of the goods they accumulated were then created.

Our company, Frima Studio, became a world leader in this area thanks to the R&D credits. We designed an MMO motor that allowed us to create games. We designed a game for Build-A-Bear Workshop, which you can visit at www.bearville.com, that allows you to take a stuffed animal and make it your own by dressing it. The number of users has reached 25 million. They are mostly little girls. Only 10% of the users are boys. They probably go on the site in the hope of meeting girls. Be that as it may, this was a huge success for us.

We worked on the Littlest Pet Shop project with Electronic Arts. We worked with several other businesses, even with Microsoft and Activision programmers, imagine that. We created Skylanders online, and this is currently the most popular toy in the world. The Ubisoft company also hired us to create a massive multiplayer online game for children.

This technology is designed in Canada thanks to tax credits for R&D. We need this support. We have the necessary talent. At a certain point, we were the best in the world in this area. In my opinion, these credits are still useful. This is a knowledge industry that needs to be stimulated. It is very risky to do research and development, but if the government shares that risk with us, this can lead to enormous gains for all Canadians.

•(1615)

Ms. Anne Minh-Thu Quach: Before concluding, could you talk to us about the consequences of the cuts? Are you already feeling them?

Mr. Pierre Moisan: Yes, certain plans that were in the works could not be brought to fruition, but we continue to do a lot of R&D despite that. We have a 30-person team that works on that. That represents almost 10% of our workforce. However, we could possibly do more.

Ms. Anne Minh-Thu Quach: Thank you.

Mr. Shariff, what do you think about that?

[English]

Mr. Khaled Shariff: I'll just say that very early on we took advantage of tax credits in Manitoba which, for the new media industry, are 40% of your labour. It comes back as essentially cash the next year. With that, over the last four years we developed our own IP and were able to take advantage of that.

As for the second question, budget cuts directly affected us because we were the educational developers for the Canadian Space Agency, and that budget for creating online interactives with the Canadian Space Agency, their education budget, went to zero. You would never know it from the wonderful year we had. As well, the education budget at NASA in the United States has also been cut.

It's very difficult and we're kind of out there on our own. We're taking everything we learned over the last eight years and we're pouring it into our commercial product.

[Translation]

Ms. Anne Minh-Thu Quach: Thank you.

I am going to ask Mr. Henderson and Mr. Lutz, who are appearing through videoconference, if they have something to add.

[English]

Mr. Donald Henderson: Yes, as has been mentioned, there are federal tax credits for scientific research and experimental development, as well as provincial tax credits that are focused on the creation of entertainment software. Those are used by the different companies in Ontario to help them grow their businesses and often to make the shift that Mr. Moisan talked about, going from a company that creates fee-for-service projects where they do not own the actual brand or that intellectual property, to being a company that actually is owning and developing its own property, which is of course more valuable to the Canadian economy.

Right now there is no federal tax credit to match that provincial digital media tax credit. In other types of businesses, such as film and television, there is a federal tax credit, but I think that would be a good way to help support the growth of this important industry.

•(1620)

Mr. Jonathan Lutz: I would add that EA is fairly unique from the other members of the panel today in that not only do we develop interactive entertainment software, but we also publish it. Globally, we're a company that employs over 8,000 people and we do look more and more at the cost of development and the economics of development as a bigger and bigger factor in terms of where we're going to place large-scale production of some of our key projects.

The global landscape is becoming a lot more competitive now. There are universities all over the world now graduating students with the relevant skills, and there are tax credit programs in place outside of Canada as well which are very, very attractive. For us, we need to make sure that the Canadian tax credit programs stay competitive with those available on the global platform so that we see our best and brightest and our key development staying right here in Canada.

[Translation]

Ms. Anne Minh-Thu Quach: Thank you, everyone.

Mr. Shariff, you talked about learning. The Canadian Space Agency had its education budget totally abolished. This affected you directly. You want the industry and researchers to be able to work together to stimulate learning. What do you get from the involvement of the institutions?

[English]

Mr. Khaled Shariff: From what kinds of institutions?

[Translation]

Ms. Anne Minh-Thu Quach: Do you deal with several types of institutions, for instance colleges and universities?

[English]

The Chair: Very briefly, please.

Mr. Khaled Shariff: We do business with the University of Winnipeg by choice. I'm also a graduate from there. We did work with the Canadian Space Agency, and I've had conversations with NASA for the last five years.

What I take away from this is that what we are attempting to do now, which is different in developing our own brand, is to create a sustainable model for educational product. I believe it's very important, if we're to increase the quality of education overall in North America, that we look at it very—

The Chair: Mr. Shariff, I'm sorry. We're way over. I was trying to get you to finish, but it's now really off the rails on that one.

Mr. Khaled Shariff: Sure.

The Chair: Now we need to go to Ms. Bateman, for eight minutes, please.

Ms. Joyce Bateman (Winnipeg South Centre, CPC): Thank you very much, Mr. Chair.

[Translation]

Thank you to all of the witnesses. That's extraordinary.

[English]

This is so interesting.

I want to start with you, Mr. Shariff, not only because your business is in my riding, but also I'm very fascinated with some of the comments that you've made in terms of the potential for harnessing this tool as an educational tool.

I was at a conference on Saturday where I heard the CEO of General Electric in the United States speak of the need for math and science for America, and by that he meant North America, to succeed.

I'm struck by your statistics. The 40 hours a week—trust me, I have a 16-year-old—this is not out of line; this is right on, if not small. I have an older child who used to play Gizmos & Gadgets. You may remember that video game.

Mr. Khaled Shariff: Sure, yes.

Ms. Joyce Bateman: It's a great one. He learned all about physics and math. I would like you to take a little bit of time to educate us on how you could target the education market, if you like, successfully, with a view to achieving positive results in math and science for our youth.

Mr. Khaled Shariff: It's estimated there is approximately \$3,000 spent per student in North America on software. That's a huge figure. It's not always apparent how the digital technology appears in the classroom, but it does, whether through smart boards or through other softwares that are bought. Of course, it's nothing new—let's use the technology in the classroom—but what is new is the capability of that technology to actually increase competency in common core standards, if you will. Common core standards were developed over the last two years to try to give people a sort of watermark for how you could establish what you are trying to do. For example—

• (1625)

Ms. Joyce Bateman: Could you clarify who established those common core standards?

Mr. Khaled Shariff: Common core standards were established by working committees in the United States and Canada. Surprisingly, all 10 provinces are represented in the National Science Teachers Association. They have monthly meetings in which I have participated. They established certain common core competencies in science to try to give people across the board and across North America an idea of how you can harmonize and bring people up to speed.

Canada has less of a problem than the United States does, which constantly scores 28 and 31, but Canada is slipping as well. The idea is that of 40 hours in front of the screen, about 15 to 17 hours per week are spent playing just video games. You can reference my TEDx talk on that if you google my name.

The science shows that if you take some of that time away, you're actually able to increase base level scores. The goal is that if you can get the failing bottom 20% of grade 9 students to a passing rate, it will raise the GDP of a country by approximately 2.5% to 3% over every five years. This has been shown in the UNESCO study I showed you. This is huge and a very practical reason to do it.

We also don't want people falling behind generally, so we have an initiative with the MacArthur and the Mozilla foundations to recognize common core standard achievement in the games that we develop. We developed what's called the digital badging system with Mozilla, the Firefox people, and the MacArthur and the Bill and Melinda Gates foundations, that will recognize achievement in video games with common core standards. We are bringing that with NASA and our other partners into the Starlite project that we are working on now.

Ms. Joyce Bateman: Do you see an opportunity to use that badging system to enable students to achieve the common core competencies required in their academic programs, whether it's in grade 1, 9, or 12?

• (1630)

Mr. Khaled Shariff: Yes, I think the educational model as a whole is undergoing a radical shift. If you want to see some of the cutting-edge work that's being done, the Khan Academy has created a system, whereby through 4,000 to 5,000 different videos and exercises done online at a student's own pace, while supervised by a teacher...

I'll give you an example. Suppose all of you were students and you're not doing well and I can see that you're not doing well. I as the teacher can spend time with you and you're badged for all of your progress in those classrooms. That's a complete revolution for how a classroom works.

Classrooms essentially haven't changed in over a hundred years. We all sit and look at a screen now, but essentially it's the same thing. But there is a revolution. To harness that use of technology requires a hierarchical system that allows teachers to maximize their time. That, of course, can be done through the technology. If you can see which students are immediately having issues, you can go and help them. Surprisingly, they showed that students who would have had issues in the classrooms early on, when allowed to work at their own pace did not fall behind, that quite often those students later excelled. You can also look at Salman Khan's video on TED. That those students could often excel in an environment like that is like finding diamonds.

We all live in a technical environment. Why should it be any different for schools?

Ms. Joyce Bateman: Yes. That's incredible and it actually enables the teacher not to have to speak to the lowest common denominator, but to help whoever needs it.

Mr. Khaled Shariff: That's exactly it.

Ms. Joyce Bateman: That's amazing. You're truly revolutionizing.

Are you dealing with educators? My background is as a school trustee before I became a member of Parliament. Have you reached out to schools?

Mr. Khaled Shariff: I participated in the MacArthur Foundation initiative with approximately 40 other schools from around North America, including some in Quebec. Yes, we have reached out and are very much having a dialogue with them. We are working with NASA as one of our clients. They have an interest, as does the Canadian Space Agency, in seeing that students continue to learn.

I will say this, though. It is hard for teachers to get over the initial hump of what the technology is about. There's a learning divide. I have a one and a half year old and he can pick up my iPad and start using it. I mean, what is that about?

They say that the exact statistic is it has shrunk to about eight years' difference, double the amount of knowledge. Some of us are going to be left behind in the revolution, but the idea is to create all those opportunities for the kids.

Ms. Joyce Bateman: Taking your colleague Mr. Moisan's example—

The Chair: That's all the time we have. Sorry about that, Ms. Bateman.

Now on to Madam Sgro, for eight minutes.

Hon. Judy Sgro (York West, Lib.): Thank you very much, Mr. Chair.

Yes, it is quite fascinating, especially for some of us who are not into video games and all of that. We certainly see our kids into it all the time. There's a concern about addiction, too, because in Dungeons and Dragons, you name it, it's all there, and our kids are playing it at a younger and younger age.

On the benefit to Canada, what more can Canada do to make sure we stay competitive or get the competitive edge on this? We certainly have very smart people who are into this, who are

developing the software and so on. What can we do to ensure that the net benefit would be to all of you, that we get the edge?

Mr. Khaled Shariff: I thought this was the most important question. I looked at this in terms of venture capital and IT technology, considering Palo Alto and Silicon Valley, where you hatch a billion-dollar company. The question is how Canada can deal with this.

I think the model is that you centralize highly educated pockets of academic professionals with venture capitalist accelerator programs, and of course, the start-up companies, and you create more opportunities for people to start small businesses in that environment.

The one thing in common I saw in jumping around the United States is that this is their model, if you look at VMASC with Old Dominion University and Lockheed Martin in Virginia, or you look at Palo Alto, which just happens to be next to Stanford University and everything else. We can do that too. Certainly, it's where BlackBerry was born, in a community like that. That is what you do. The way to make money, if you will, to be very frank about it, is to repeat models that work. You repeat what worked with BlackBerry. You have to have the intelligence, the access to capital funds, and an environment that allows start-ups to thrive.

Hon. Judy Sgro: Are there comments from any of the others?

Mr. Jonathan Lutz: I agree with everything that was just said.

The one piece I would add is we need to make it seamless and easy to access senior foreign talent and bring it into the country to help us seed innovation, help us educate, and help us develop the best-of-breed products.

We don't have all of the senior leadership that we need here right now. While in time we might find more of that from within, there's an immediate need to make sure our accelerated LMO process stays in place, that the ICT process stays in place, that we have a streamlined way of getting that talent into Canada, and that the temporary foreign worker program stays in place as well. When we bring these people in, they're not taking Canadian jobs; in fact, they're doing exactly the opposite. They're creating more Canadian jobs and helping educate Canadians into being the next batch of leaders to the future.

•(1635)

Hon. Judy Sgro: You indicated earlier, Mr. Lutz, that you had a significant problem trying to find that talent here in Canada. How do you go about looking for that talent here in Canada? Where do you look?

Mr. Jonathan Lutz: When it comes to the most senior leaders, most of them are actually brought up with years and years of experience in the industry. It's very hard to train someone from a different industry to come into the video game industry as a senior executive, because it is such a specialist field. It's a unique blend of artists, engineers, animators. Our media form is kind of the intersection of math, science, and art, if you like.

These people are highly specialized, and these senior people are few and far between around the world. Those best and brightest are the people we need here to help educate our workforce and train them, so that in turn, when they have 10 years' experience under their belt, they're ready to be that next executive producer on a half-billion dollar franchise, for example.

Hon. Judy Sgro: I certainly would hope to see that we have as many as possible right here as well.

What about the universities? There must be an awful lot of interest, not necessarily at the senior level, but certainly from many of our young people who are extensively into IT who would look for those opportunities to work on developing games and so on.

Mr. Moisan.

Mr. Pierre Moisan: We're increasingly competing, strangely, with database companies, major consultants like CGI, or firms like that. They're after increasingly the same data managers as we are. These people are becoming increasingly rare. It's important to promote those jobs because there's actual growth in our industry. To make it grow, manpower training is so important.

Also, I want to add a point on immigration. We have a company that we acquired called Volta. They're one of the leaders in the world for concept art, which means creating the characters, the environments, and all that. Out of 25 employees, 15 different languages are spoken. There are people from the Philippines, from Indonesia, from all over the world. These people are the best talents in the world and now they're in Quebec City. Increasingly they create jobs, and they can train other Canadians into that. We have *la crème de la crème* and this makes Canada a leader. Immigration flexibility is a key element also.

We want to train people. The thing is senior people are super rare, and the way to hire them is increasingly to steal them from competitors. In Montreal there is that problem, and because of that, salaries are getting higher and higher. The benefits that we have from the tax credits will be lost if the salary raises are too rapid. It's kind of like a dog running after its tail. That part is dangerous.

Hon. Judy Sgro: How big an industry is it in Canada? It's certainly an industry that's growing rapidly. I'd be interested to know just an estimate of what they think is the actual value of the entertainment software industry in Canada.

Mr. Pierre Moisan: In Quebec City it's about 1,500, and Montreal is about 10,000 and something. Montreal is the biggest one. There may be 15,000 in Montreal. If you count interactive things, not just games but websites and everything, it's much bigger than that. Sometimes we hire the same people, too. It's tens of thousands, but I wouldn't say the exact number.

Hon. Judy Sgro: Jobs.

Mr. Pierre Moisan: Jobs, yes.

Hon. Judy Sgro: Thank you very much.

The Chair: Thank you very much, Madam Sgro.

Now we'll move to Mr. Holder for eight minutes.

Mr. Ed Holder (London West, CPC): I'd like to thank our guests for being here; whether you are here by phone, video, or are sitting here, we appreciate your being here.

I'd like to take a bit of a different tack. I want to do this not to be harsh, but so that I can better understand your industry.

Whenever whatever level of government is asked to provide tax credits, subsidies, incentives, whatever it might be, whether or not the rest of the world offers it, we have an obligation to be accountable to the taxpayer, because that's the only place where we can get our money. It sounds like that's where you get some of yours. As I ask this, please understand I'm trying to ask this in the spirit of understanding.

With that, perhaps I could ask Mr. Henderson and Ms. Morton, why do you need subsidies and tax credits and things of that sort? Could you please help me understand that?

• (1640)

Mr. Donald Henderson: Sure.

I understand that you don't want to hear about the ways other jurisdictions are handling this type of an issue, but I think I will start there anyway, which is to say that it is a global market—

Mr. Ed Holder: Sorry, Mr. Henderson, I'm going to ask you to be really tight, please, because I'm trying to get this opinion from everyone.

Mr. Donald Henderson: Sure.

It's a global market that we're working in. It's a fairly new industry that is actually developing and growing very rapidly. It's the kind of industry in which governments around the world are looking to have those companies created or moved to their jurisdictions because it creates highly paid jobs, huge tax revenues, and it also ties in directly to the education system investments that these governments are making.

Mr. Ed Holder: Mr. Henderson, I'm going to stop you again, please, because I think yours could be the never-ending story, and as interesting as that might be, perhaps I could ask a question. What percentage of your operating capital is subsidy revenue, or let's say, non profit generated income? What percentage would that be?

Mr. Donald Henderson: For a typical member, the tax credit is actually probably used in almost every one of their products. That tax credit—

Mr. Ed Holder: What's the percentage, sir?

Mr. Donald Henderson: Sorry, for the tax credit percentages—

Mr. Ed Holder: Yes.

Mr. Donald Henderson: —sorry, the tax credit percentage is 40% of eligible labour, which is Ontario staff expenditures on creating the actual product.

Mr. Ed Holder: Let me explain, perhaps, to all of our colleagues and our guests. My wife has three small businesses. They're not high tech. It's the oldest flower shop in Canada. It's a chocolate shop—Belgian, you probably wouldn't like it—and a gift basket company. Do you know how much subsidy she gets? Zero. Do you know how much she has ever received? Zero. She's hanging on. She's doing her best. I'm not cranky about that, but it seems to me that in my area of southwestern Ontario we've lost a lot of industry, and the most common denominator in the industry that we've lost is they've had somewhere else to go, and often with subsidies.

Are we on a slippery slope with this? Perhaps I could ask Mr. Moisan to answer in 30 seconds because I'm going to be cut off. Could you give me a sense quickly? Is that just the nature of the beast? Do we have to live with this subsidy as the way to go to promote this business and grow it?

Mr. Pierre Moisan: I think the day we have our own brands, we won't need as many subsidies. Garfield doesn't need subsidies. Mickey Mouse doesn't need subsidies. We need to create our own Canadian brands.

Another point is, I think that if the government does that, at least from what I know in Quebec, it's because it pays. It's worth it.

At the end of the day, taxes are collected, 37%, let's say, in Quebec, and jobs are created. Some artists, if you remove the video game industry... In Quebec there's a street close to the Chateau Frontenac called rue du Trésor, and they sell mock copies of the Chateau Frontenac. That was the only place where some artists could find jobs at one point. Now they have full-time jobs. They create. They have families.

Mr. Ed Holder: Mr. Lutz, if we didn't have subsidies, would Electronic Arts be in Canada?

Mr. Jonathan Lutz: I think we'd struggle.

Mr. Ed Holder: That works for me. Sorry. I'm just going through. Mr. Shariff, you mentioned that if you got 20% of grade 9 students to a passing rate, you increase the GDP.

Mr. Khaled Shariff: Right.

Mr. Ed Holder: That reminds me of when Gerard Kennedy was a member of Parliament. Before that, he was minister of education in Ontario, and I was on the editorial board of my city. He said to our editorial board—because he was so proud as minister of education—that what he was going to do to increase the graduation numbers is he was going to change the standards so that we would have a higher passing grade. I told him that it reminded me of when we didn't have enough grade A large eggs in Ontario. Do you know what we did? We just made the medium ones large. We just changed the size so we had a whole lot more large eggs.

Is that what we're doing with your approach? What do you think?

Mr. Khaled Shariff: No. You can point at some studies around the world. There's one in Scotland where they did this specifically with a math game with grade 9 students. The students were failing, and then they weren't failing. They didn't change the passing grade.

• (1645)

Mr. Ed Holder: Who haven't I heard from here?

I'm going to come back and ask another question as well. You see, I get what you're all trying to do. I will tell you, I'm not really big on using the public purse to do it, and I've shared a bit of my rationale. I'm a free trader and I'm one who believes that, but I also am a realist when it comes to the nature of the marketplace. Here's my fear: any one of you could get a better deal and you're gone.

If it isn't the money, why would you stay in Canada?

Ms. Morton, we haven't heard from you. I wonder why you would stay in Canada, all things being equal, or maybe not equal, but when the money runs out, it doesn't sound like you'd stay. That's what I thought I heard Mr. Henderson say.

Ms. Sara Morton: I'm not absolutely clear on that. I think there would be lots of companies that would certainly choose to stay in Canada. Maybe you can call it for patriotic reasons, but you know, these are people who work in these businesses and they have families, extended families, and connections to the community.

I don't know that it's quite as simple as getting everyone to move to a new jurisdiction. Also, there are many benefits to Canada that we've talked about. We've talked about the skilled workforce. Even Mr. Lutz, who acknowledges that tax credits are important, will also say to you that there's a very skilled base here, and we have skilled educational institutions.

Mr. Ed Holder: I think you all have, actually.

Ms. Sara Morton: We have many aspects of the economic environment and the public policy environment that are supportive of these businesses. I think what we are saying is that there are some.... It's not the only business in Canada, or in Ontario, that we're more familiar with, that needs some assistance in this start-up phase, whether it's for the industry getting to a critical mass, or for individual companies, or individual projects. We're not alone in that.

What we're saying is we do need the additional incentive, as otherwise these companies find it very difficult to move from a project-to-project subsistence, when they're typically doing the work for someone else, in order to have some money to capitalize their company, and in particular tax credits, with which I am very familiar as a method, to enable them to have that capital that they use for their companies.

The Chair: Thank you, Ms. Morton. I'm sorry the time has run out.

Mr. Ed Holder: Thank you, all.

The Chair: Thank you, Mr. Holder.

[*Translation*]

Mr. Côté has the floor for eight minutes.

Mr. Raymond Côté (Beauport—Limoilou, NDP): Thank you very much, Mr. Chair.

I must comment on what my colleague Mr. Holder said. You know, we have to find ways of investing in the economy, of finding new avenues. The quality jobs we can create can allow small businesses, service businesses among others, to survive and to have clients who sustain their activities, whatever they may be. Rather than injuring an industry that is growing and very successful, we should perhaps focus on seeing what we can do that is positive.

In fact, my comments on the specific number of jobs this represents in Quebec are based on data from the Entertainment Software Association of Canada. You referred to this, Mr. Moisan. For 2012, we are talking about 8,750 full-time equivalents. Of course, since this is an area where there are a lot of contracts and projects, it is difficult to talk about permanent jobs, from a traditional perspective.

Mr. Moisan, you talked about the tax credits granted by some provinces. Quebec fostered the creation and support of innovation in this sector, among other things. We could also talk about venture capital.

Quebec is in a very particular situation if you consider the labour-sponsored venture capital funds. These funds have allowed us to sustain several areas of activity, yours among others. The government decided to abolish the long-term credit. One of the very original features of these labour-sponsored funds was that they had a very broad impact. In Beauport—Limoilou alone, approximately 10,000 of my fellow citizens are building their retirement fund while contributing to the creation and growth of businesses like yours.

Do you want to comment on the federal government's abolition of the tax credit and the concerns this may have caused in your sector?

• (1650)

Mr. Pierre Moisan: There is not a doubt that that fund helped many businesses. I am thinking of QuébecComm, which produced the shows of Madonna and Céline Dion, for instance. QuébecComm received funding from the FTQ Solidarity Fund. There is no doubt that this was a help.

Of course, we could talk about ideology, but at a certain point, we can set that aside and simply observe that from a mathematical point of view, either jobs are created or they are not.

What is going on with the French video game industry? The French video game industry is located in Quebec, and not in France. And yet, the government of France invests often, but it did not invest at all in the video game industry. Consequently, the largest Ubisoft studio is not in Paris or in Montpellier, but in Montreal.

At a certain point, mathematical calculations should be done to determine the consequences of these investments, how many jobs they create and what this really brings in to the public purse, from all points of view. In the final analysis, this is profitable, in my opinion. I am not a government treasurer, but I imagine that some calculations

could be done somewhere. You only have to do them to see whether this was a good idea or not. I think it can be demonstrated with figures.

Mr. Raymond Côté: Thank you very much.

I will now put a question to Mr. Lutz, from Electronic Arts.

I would like to talk about the hiring of qualified employees, in particular those who come from other countries. I have heard a lot about this problem. Other witnesses described how complicated this could be in several ways.

I had the privilege of sitting on the Standing Committee on Finance during all of 2013. The former governor of the Bank of Canada, Mr. Mark Carney, told us about the dangers related to the Temporary Foreign Worker Program in more traditional activity sectors and basic services. He indicated that this could in fact exert a downward pressure on salaries.

However, measures to encourage foreign workers to come here may clearly be very beneficial in your sector, Mr. Lutz. Are there assessments of the spinoffs for every employee from another country hired by Electronic Arts? Can you give us some idea of the number of jobs that could be created by specific projects, or in general? Does this type of data exist? Do you think that the Government of Canada, through Industry Canada or Statistics Canada, should carry out that type of assessment?

[*English*]

Mr. Jonathan Lutz: I can answer with an example, although I don't have a statistical study of my own.

To answer the second part of the question first, yes, I think it would be valuable to do that study.

I have a couple of points. First, we don't hire foreign workers to save money. In fact, we usually end up paying foreign workers above the prevailing wage because they're the most senior and sought after talent. It's also very expensive for us to recruit them and relocate them from abroad. Obviously, we would always much rather hire locally. We have a very, very experienced recruitment team that looks across the industry and would always hire a Canadian first if, side by side, they had the same skills and experience as the foreign worker.

As I said, it's mostly to senior and leadership positions that we're bringing these folks in. If we don't bring them into Canada to help us train our workforce here, they'll go elsewhere. They'll go to the U.S. or they'll go to Europe.

One example is FIFA Soccer, a big franchise that we developed here in Vancouver. It's made up of a very eclectic team all from different parts of the world. It's EA's best-selling franchise. It generates huge revenues, and directly creates, I'd say, about 150 jobs in Canada, which are highly paid and highly skilled. There's absolutely no geographical reason for the development of this game to be based in Canada anymore, but we've been able to bring in the leadership and talent required over the years to build that team and build that beachhead, if you like, here. In order to keep those jobs here, we need it to continue to be easy for us to access that talent we need.

•(1655)

[Translation]

Mr. Raymond Côté: How much time do I have left, Mr. Chair?

[English]

The Chair: You have 40 seconds.

[Translation]

Mr. Raymond Côté: I now have a brief question for Mr. Henderson.

When you have an idea, it has to be brought to market. Businesses cannot exist without revenues. Can you talk to us briefly about the challenges the companies that are members of your association face in recruiting marketing experts?

[English]

Mr. Donald Henderson: I believe it was Mr. Moisan who was talking about that. We call that the discoverability challenge. You create your product, but then no one knows about it until you get it into the market. As was mentioned, there's this new model of game development, whereby you give away the core product and then you try to monetize later on. You get them excited about your game and then get them to the point where they want to buy more. It's a fairly new phenomenon. We've seen it in the games industry over the last several years, but it has dramatically changed the way the industry works, especially for digital products like tablets and mobile—

The Chair: Thank you, Mr. Henderson. I'm sorry, but we've run out of time.

We'll go to Mr. Wilks, for eight minutes, please.

Mr. David Wilks (Kootenay—Columbia, CPC): Thank you, witnesses, for being here today.

It would be interesting to see if one of your companies could come to the House of Commons and get wireless for us, because we don't even have that yet.

Ms. Joyce Bateman: It's pretty pathetic.

Mr. David Wilks: That being said, there has been some very interesting stuff mentioned here today.

Mr. Moisan, you spoke about increased wages. It's interesting, because there are a lot of other areas across Canada that are fighting for the same thing. In my part of the world, in southeast British Columbia, we can't find enough tradespeople, and then you can't pay them enough, because even if you do pay them enough, another company, for example in Fort McMurray, will come along and rob you of them anyway. It's a challenge.

That being said, from the perspective of getting qualified people, is there a limit beyond which your company can't pay and you just have to say, "We lose"?

Mr. Pierre Moisan: Yes. One of the things we're confronted with, for example, in Quebec City, is that there's Activision, which is the number one video game developer in the world, and Ubisoft is across the street. They have much deeper pockets than we do. We create an environment in which we get free fruit in the morning; we get massages during business hours; we are flexible. We have all sorts of ideas like that, all sorts of treats, and a climate that will

compensate. You can always compensate so much, but right now that's the way we treat our manpower, and that's very important.

For the rest, for sure there's a challenge. If those with deep pockets decided to attack us for real by offering 40% more, they could do that. It's a threat we have, but so far, so good. We've thrived and we've grown.

Mr. David Wilks: Mr. Shariff, at the beginning of your talk you mentioned that IT leaders and start-up companies need to help each other. I wonder if you could expound upon that for a couple of minutes before I move on.

Mr. Khaled Shariff: I'd say that's the key to everything. We wouldn't need tax credits if there were venture capital money. We wouldn't need government funding if there were venture capitalists waiting in the wings to take on investment in Canadian companies, to make Frima 10 times larger, to make Project Whitecard 10 times larger. That's what we really need.

Mr. David Wilks: Can you give me an example of that?

Mr. Khaled Shariff: I'll give you an example, and it speaks to everything across the board, including what Judy talked about.

If you go down to Palo Alto, they're creating IT. In Palo Alto there were people from all over the world. I sat in on a pitch session and I pitched as well. Each one of these people from around the world had a unique idea that they pitched to billionaires from around the world, and everybody was going to work in Palo Alto. Any individual idea that was funded for \$10 million or \$100 million then hired all of those people.

Part of the conversation today was about skilled people. If you could hire them as Pierre would like to do or as Electronic Arts would like to do, and there were no impediments.... They talk about the same thing in California. Why are there impediments to bringing in skilled IT? It's about those key personnel. Those are unique people in the world. You want them to choose Canada to live in. That's what brings the industry.

Mr. David Wilks: Thank you.

Mr. Lutz, you alluded to Bill C-11, our government's bill that was brought in last year, and you said it was a good first step. You went on to say that SR and ED was imperative. I wonder if you could elaborate on that, please. Then I'll come back to Mr. Moisan and another question.

•(1700)

Mr. Jonathan Lutz: Yes, absolutely.

Obviously our intellectual property is the lifeblood of our industry, and so we welcome any legislation that continues to help us, along with all creative authors, to protect our copyright from any copyright infringement. We were happy to see that Canada is taking the issue seriously and beginning to put some steps in place that help us to enforce that.

In terms of the SR and ED credits, we do apply for federal SR and ED in pretty much every jurisdiction we're in, and it's a key incentive for us to be able to accelerate our company's research and development investments in Canada. One of the things we do in EA, given our global nature, is to actually have a stack rank list of every location in the world in which we have studio operations, ranked by cost per staff month and next by any tax credit benefits or any other financial incentives available in each jurisdiction.

What I was alluding to earlier on is that more and more it's becoming a document we refer to when we decide where we want to green-light production of the next big project. One example of a big loss to Canada happened two years ago when we moved our basketball franchise out of British Columbia and down to Orlando, Florida, where we felt we would have equally good talent, as we already had a studio there, but the incentives were much better in Florida than they were in British Columbia.

Mr. David Wilks: I just wanted to remind you that the Raptors did beat Orlando last night, just so you know.

Mr. Jonathan Lutz: Yes, anyway, those are the points I'd like to make.

Mr. David Wilks: Thank you.

Mr. Moisan, you mentioned at the beginning of your speech, with regard to marketing access, that many countries are coming into play. That seems similar to a lot of other industries. How does Canada continue to stay on the upper hand? As you mentioned with wages, where, for argument's sake, a company in India starts up and says, "Here's the money," how do you keep those people here? I understand it's a challenge, but where do you see yourself?

Mr. Pierre Moisan: The danger is real and it's increasingly present. We can feel it. Before, we used to say that the salaries were low in China and India, but they were not creating... You know the kinds of prejudices we can have. Nowadays, it happens more and more that I lose a contract because I was too expensive compared to them. Now my technology has to be superior, my workforce has to be more productive and creative, and I have to be on the cutting edge because otherwise, ultimately, I will lose the cost war.

Mr. David Wilks: Thank you, Mr. Chair. I believe I'm just about out of time.

The Chair: Thank you Mr. Wilks.

Now it's on to Mr. Harris for eight minutes.

Mr. Dan Harris (Scarborough Southwest, NDP): Thank you to everyone for being here.

Mr. Moisan hit the nail on the head about being cutting edge. While Canada is a world leader—we're number three in the world in game development; we're first per capita—and that was the result of our having many years of competitive advantage, it's important to realize that's no longer the case. We do not have many of those competitive advantages anymore, and the rest of the world is working hard to catch up to us and overtake us.

Mr. Lutz, you were briefly talking about the FIFA franchise, which is actually the only sports game you developed that's still on PC, and that's because of how strong it is worldwide. As I understand it, you're in Burnaby and you're actually competing with the other EA development shops around the world. New Zealand, for

instance, has a more streamlined temporary foreign workers program that you could take advantage of, and is pitching really hard to take some of those games away from Burnaby and develop them there. Now you even have companies that are competing internally with other jurisdictions, and if we lose those jobs, those franchises, that's going to be a serious economic hit.

It's really important to see how critical this is, because these are jobs that pay well above the national average salary. They're family-supporting jobs. They're high-skilled, high-valued jobs. The world is not going to get less digital in the next 20, 30, 40, 50 years. The United States has an even bigger problem than we do, where there are 150,000 programming jobs being created there each year, but only half that many people are actually graduating in that field. We have a similar problem in Canada, where we're actually not able to keep up for the talent. Educationally speaking, we have to work hard to get more people into those areas. Familiarity with computers and educational programs certainly helps.

Mr. Shariff, earlier you were talking about the CSA and NASA cutbacks to 0%, and that you are now focusing more on commercialized products. As a company, that's the decision you have to make because you have to bring enough money in.

• (1705)

Mr. Khaled Shariff: Yes.

Mr. Dan Harris: Is that actually hurting the educational components?

Mr. Khaled Shariff: It's a good question.

To create a sustainable model for education, I believe, is the correct path. I've been doing this for eight years. The Canadian Space Agency's first contract with Project Whitecard was six years ago. You can't just throw money at the problem. We need natural selection to improve the education in North America, and we need it faster than it's happening. We've made a decision to go into for-profit, sustainable product. NASA made that decision before we did. They said, "We're going to give you our brand, and you build a game and sell it." That's good. We will see how we do.

I don't like competing just for grants. I would rather that this just caught fire and that we created a method to go forward.

Mr. Dan Harris: Believe me, we would all appreciate it if educational gaming caught fire, but most people, when they are looking for their gaming, are looking to escape that kind of stuff.

Mr. Khaled Shariff: That's right.

Mr. Dan Harris: It's always a push. Of course parents will push the kids in front of the educational programming, the educational games, but at the end of the day, the kids will want to play the first-person shooter games or other things.

That's a larger, broader issue that exists in this sector.

Mr. Khaled Shariff: You have to be about four times better. I mean, look at something like Minecraft being used for education. That's maybe the best-selling game in the world, and it's used for education.

Mr. Dan Harris: Yes. That was a pit I managed not to fall into myself with "mine-crack".

I already have far too many games and not enough time to play them.

Monsieur Moisan, we're talking about all the different platforms—I'll follow up later with Jonathan—and about cross-platforms and importing. In order to get a program out to each platform, how many more staff do you need, how much more difficult is it, and how much money do you have to spend generally?

Mr. Pierre Moisan: We need a small team per platform. We have a core team for the main game. Yes, we spend, my God....

Usually it's worth it for a platform, though. Importing is not like developing from scratch. It's worth it to do that, and it's technology that's worth being used.

I'm sorry, Mr. Chair, but I have to make a short comment. I have a plane to catch at 6:30 p.m., and I'm afraid the time is now too tight. I will have to excuse myself.

Thank you for your attention. I will be available to answer your follow-up questions.

Thank you very much.

The Chair: Thank you very much, Mr. Moisan.

Mr. Dan Harris: Jonathan, I'll follow up with you on that specific question about cross-platforms, because obviously EA does a number of different games on all kinds of different platforms. Really it means having a team that's dedicated to making it work on each platform.

If you wanted to chime in on what you think the challenges are that Canada is facing vis-à-vis temporary workers in the skilled area, that would be important. I would just reiterate that with the temporary foreign workers program there have been a lot of difficulties with it, a lot of problems, a lot of miscommunication overall with the program itself. Some companies, unfortunately, have used the program in order to avoid higher Canadian wages.

I want to be clear that this is not the case in the entertainment software industry. These are highly skilled, highly valued people, and it costs the company a lot of money to bring somebody from halfway across the world to come work here. They would much, much rather be hiring Canadian talent born and bred, but there might not be that person here.

As I understand it, there are some other changes to the program coming that might actually lengthen the amount of time it takes to get somebody here, with more stringent requirements for how long somebody has worked for a company before they are eligible to come here.

Will that hurt EA, Jonathan?

• (1710)

Mr. Jonathan Lutz: Yes, absolutely it will.

I think you are referring to the ICT program. There are a few different things being discussed there, such as increasing the minimum years of work experience from one year to three years, asking us to pay 30% or more higher salaries to ICT workers, and then basically a clause that may say that companies employing too

many foreign workers will forfeit their eligibility for the ICT program altogether.

All three of those are problematic for Electronic Arts. If we're unable to efficiently and quickly get the world's best and brightest people into these leadership positions that we need, it will seriously jeopardize our productivity.

FIFA, by way of example, is an absolutely massive project every year. To your point, we pump out a new version of that on multiple different platforms every year, and we can't miss a beat. Having to wait an extra week in some cases for that senior programmer or that senior producer can put the entire project at risk. The dates don't move because the soccer season doesn't move.

The Chair: Thank you very much, Mr. Lutz. That's all the time we have there.

We'll now go to Madam Bateman, for eight minutes.

Ms. Joyce Bateman: I want to thank my colleague for sharing the time. I really appreciate that.

Mr. Shariff, I want to go back to the comments that you made. I'm going to lay out a couple of questions I'd love you to speak to.

First, where we left off, you were talking about your one and a half year old, and your colleague Pierre Moisan had mentioned FarmVille. I'm reading a book called *Citizensville*, which draws parallels to FarmVille, albeit in the political world. He explains the difference between digital natives, which is your one and a half year old or my 22-year-old son, versus anybody who's over 30 who is a digital immigrant. I think that's a market opportunity for developing because we digital immigrants approach technology in a very different way.

I think educationally.... I remember my 22-year-old when he went away to university at 17, Grandpa bought him a nice new Mac. We'd never had a Mac in the house. He just sat down with it, played with it, and became quite an expert in no time. I would have had to get out the guide book. I think there is an opportunity there, which I'd love you to speak to.

You spoke about your project with the University of Winnipeg. I'm very interested in hearing about that because again, the CEO of GE was talking about the importance and the synergy that can grow from business working in partnership with universities. It's a win-win situation. It's a win for all of us. I should say it's a win-win-win because the economy benefits enormously too. He used Stanford as his ideal model that we're all striving for. Who knows what's involved.

There were comments about competing with big companies and winning. I think that's an important thing. I'd be very grateful for comments on that. You filled out some forms for the Government of Canada. I also want to hear if there are opportunities for improvement so that we can make it more economically centric and growth centric. I think in one of your comments you mentioned to tie it to the market.

• (1715)

Mr. Khaled Shariff: Tie it to the market, yes.

Ms. Joyce Bateman: We may be in a totally different universe than the market with what we're asking business people, due to our caution with taxpayers' money, which of course is always going to be there. Your comments would be so appreciated.

Mr. Khaled Shariff: I'll just say about that last one, tie it to the market; tie it, if possible, to venture capital.

Ms. Joyce Bateman: Or results.

Mr. Khaled Shariff: I'll talk about digital natives first of all.

I'm a digital native. What does that mean? It means that when I went to the University of Winnipeg many years ago, 1994-95, and the University of Manitoba, and said I wanted to learn about this thing called the Internet, there were no programs to teach me HTML or Photoshop. I set up shop at the University of Manitoba in the television station and learned Photoshop and learned how to create HTML pages. My first occupation was for Manitoba Telecom from 1996 to 2000. I created all their Internet. I created the first CBC streaming media news. Soon after that I was hired in Toronto and did that from 2000 to 2004. Half a generation of a lifetime is doing that.

I was a digital native. It's like that today. I will hire people who are 22 years old, who are home-schooled, because they are really good. I did hire twins last year who were just very good at their programming language and understanding the art end of things and at being highly skilled IT labour. It's extremely important for the universities to keep up with that.

Fortunately, in 2006, I was able to study at the University of Winnipeg. Then after that, they had me teach there. I've been doing that on and off since then for eight years as I grew my company. We created a number of programs there. I contribute to the Internet systems specialist development program, which is a one-year development program that lets people get some accreditation for how amazingly clever and skilled they are, and then get out into the workforce. It's good for everybody. We also have a serious games certificate program at the University of Winnipeg that Project Whitecard created and it delivers all the courses. Specifically, serious games are another way that you address educational games—

Ms. Joyce Bateman: How long is that program? I heard a young gentleman in my riding talking about it.

Mr. Khaled Shariff: I think you can do it over about a year and a half. If you did it full time, it would take you about a year to do, I believe. It includes about 10 courses. We hire people to deliver them. I don't have time anymore, but last year I delivered the introductory course.

This all ties into the question, what is an environment? This is nowhere close to where we want to be, which is to have your young people growing up in an environment and being exposed to business opportunities and feeling that they can go forth and start their own companies and do so earlier and earlier. You have, for example, native Californians doing that. I spoke about my three months at

Plug and Play Tech Center in California. You also have people from all over the world going there, and they intersect. We all know stories of Apple and everyone else who comes out of that area of the world.

The model would be.... Fortunately, the Canada Media Fund has identified this. They created an accelerator pilot program this year, and I think only seven or eight companies were accepted into it. My company is one of them. I'll be able to work with Thompson Dorfman Sweatman in Winnipeg and LaunchPad in Winnipeg, a start-up sort of initiative, with my own lawyer as a mentor and along with access to venture capital to finally be exposed to saying, "Here's our business plan; what do we do; and let's see whether it works."

What that means is simply now I can emphasize the take-to-market idea. Sure, we're going to create a product. We need to reach 10 million players—that's what we want to do—and we have nine months to launch the product. We're starting that program. This week we will write our take-to-market plan and will work very closely with mentorship, some of which we will import, from people who have a track record of putting that kind of success out on the App Store, where Apple takes its 30% and you get your 70%. I think there was a question about that earlier.

Or we have software on a system called Steam, for the Mac and PCs. Steam is one of the biggest software distribution of games in the world, if not the biggest. It's by a company called Valve.

We've had success. We did a kick-start campaign. We were successful with it. We have people in New York who promote us. That's what this would be.

But let's not put emphasis just on what the concept is. Let's put more emphasis on how to take it to market, and let's try to reduce.... Writing thousands of pages over the last three years was tough—it did, as I say, hone us—but I'm sure we can reduce the application process for the federal incentives we have, for which people compete desperately. I think this increases people's competitive edge.

• (1720)

The Chair: Thank you very much, Mr. Shariff.

Ms. Joyce Bateman: Thank you so much.

Mr. Khaled Shariff: You're welcome.

The Chair: Thank you to Mr. Henderson as well.

Ms. Morton and Mr. Lutz, thank you very much. I hope you can make it from wherever you are in a snowstorm back to wherever you need to be.

We're going to suspend for one minute and go in camera. This means that anybody who is not a member of Parliament or staff thereof needs to exit the room.

[*Proceedings continue in camera*]

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