HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Industry, Science and Technology

EVIDENCE

Wednesday, February 26, 2014

Chair

Mr. David Sweet

Standing Committee on Industry, Science and Technology

Wednesday, February 26, 2014

● (1530)

[*English*]

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

Welcome to the 12th meeting of the Standing Committee on Industry, Science and Technology. Today, pursuant to standing order 108(2), we're continuing our study on the entertainment software industry.

Before us, we have three witnesses from two organizations. One is Execution Labs and Jason Della Rocca, who is the chief executive officer.

We have Ubisoft Entertainment Inc., with Geneviève Poulin, advisor, corporate affairs, as well as Nathalie Verge, senior advisor, corporate affairs.

Welcome, folks.

I take it that you have 10 minutes for your opening remarks. I'd keep them as brief as you can in that window. I just wanted to ask Ubisoft, are you splitting your time, as far as your opening remarks? You are.

We'll begin with Mr. Della Rocca.

Please go ahead with your opening remarks.

Mr. Jason Della Rocca (Chief Executive Officer, Executions Labs): Thank you very much for having me. It's a great honour to be here.

I've been part of the video game industry for nearly 20 years. Most of that time, in fact, has been in roles that have been supporting and building the game industry, here in Canada as well as abroad.

I was the president of the International Game Developers Association for nearly nine years. That is the industry association that game developers from around the world belong to. I did that from Montreal, although it was a California-based entity. Also, for three years I consulted with governments from around the world, specifically on how to grow and foster their game industry in whatever particular region or country they were. It made for a lot of air miles, but it was interesting to see the globe and the different game ecosystems and challenges that existed abroad, and as a Canadian I was comparing that to what we have here.

More recently, I co-founded Execution Labs. Execution Labs is an incubator where we fund and mentor start-ups in the game industry, specifically making mobile games. It's a completely venture-funded incubator. Although we will eventually take advantage of the tax breaks or tax credits in Quebec, currently it's a privately funded entity. It has gotten recognition globally in terms of being a pioneering and innovative model to support start-ups in the games space.

As a side note, I'm also on the ICT advisory board for the Department of Foreign Affairs, Trade and Development, which has given me an interesting opportunity to see how certain parts of the government support and operate around the game industry. One of the things I noted in advising DFATD was that their metrics for success are limited, meaning they are very much focused on job creation, which of course is wonderful and great, but it's not sufficient in terms of when you're thinking about a content-driven sector, an IP-driven sector. I think that there needs to be a more holistic view of the game industry and the economics around games.

I would like to posit that the true value of the game industry, value in wealth, comes from the creation of new intellectual property, original intellectual property. That IP or intellectual property is made by talented developers, of which we have many in Canada...but that we treat them more so as careers as opposed to jobs. Those creating games are doing so at start-ups so we can take advantage of entrepreneurship within the game industry and grow start-ups.

I'll tell you a story from Finland. While we can beat them easily in hockey, from the game industry point of view, they are really dominating the globe at this point. There is a company named Supercell based in Helsinki, founded in 2010, so less than four years ago. It was created or founded by some game industry veterans with a few other studios in Finland as well as folks from Nokia. Around that time Nokia was going through a lot of trouble, not unlike BlackBerry these days. It was seed funded with around $2 million, give or take, in 2010. About two years after that, its next round of funding was $780 million.

It had two games within its short lifespan, two games that were generating more than $1 million a day of revenue. These are a special kind of games in the sense that that you play the games on your mobile phone and they are free, meaning you can download them and play them for free. But then once you're in the game playing there are opportunities to pay for a fancy sword, or accelerate with some bonuses, etc. But essentially, they are free games. They are making $1 million a day with a free game.

They had about 125 staff working on those two games, and by comparison, Electronic Arts, one of the big behemoths of the game industry in that timeframe, with their over 800-game library and 5,000 or 6,000 global staff, was not generating anywhere near that level of revenue. In less than four years, and this is roughly, I think it was around October-November timeframe, Supercell sold 51% of its shares to some investors from Japan for $1.5 billion.

● (1535)

A couple of guys starting up in Helsinki in 2010, with two games and original intellectual property, were able to flip themselves after a round of $780 million for another $1.5 billion. They were so proud of themselves and the revenue they generated. It should be noted that Finland does have various government supports, R and D funding mechanisms, etc. They put an advertisement in the newspaper with their tax bill of $345 million. They were proud to give back their share of taxes from their proceeds to their country.

That's just one example of a start-up made from some entrepreneurs creating original IP and generating tremendous wealth. Of course, that's an exception. Not every start-up is going to result in the same things, but we have to ask ourselves, how do we take the experience and the momentum that we have built in Canada and ensure that we can continue to grow, succeed, and create the next big thing?

Canada is vulnerable. We have been doing well, but if we look at Vancouver, in 2008-09 Vancouver lost about half of its workforce because of hard economic times and because many of the studios there were focused on big budget, big console games. The industry there was decimated from about 5,000 workers to roughly 2,000 to 2,500 workers.

In general, when you talk to folks in Silicon Valley, they often look at Canadian entrepreneurs as not being ambitious enough, not being entrepreneurial enough. We need to think about that. How do we not be counterproductive towards entrepreneurship?

Here are some examples. We need more seed funding and early-stage funding opportunities for young and start-up studios. We need to embrace systems that enable failure to occur, but that failure to occur quickly and inexpensively, and to think of failure more so as the process to discover success. We need to think about the educational system and not just training for jobs, but training for entrepreneurship and nimbleness and giving students outlets to be entrepreneurial. We also need to focus on retaining talent and investing in talent, and thinking of talent as workers, as people we want in the industry for long-term careers, not just jobs. More importantly, we need to think about new metrics in terms of how we think of success in the game industry, new metrics being: what's the volume of new intellectual property that's created; how many new start-ups are being created, as well as investment dollars and venture capital dollars?

I'm very surprised that DFATD does not consider VC dollars as a foreign investment. So if you're able to win some VC dollars from the valley, they don't count that as FDI, as foreign direct investment. Foreign direct investment only counts if a foreign company comes, like a Ubisoft, and sets up in the studio. I thought that was particularly bizarre.

These are just some quick thoughts. I think from a "key message" point of view, we really need to think about how we create new intellectual property, because that's where the true value and wealth comes from in a content-driven industry. How do we build that IP with talent that we retain on the long term, and think of them from a career point of view? As well, how do we support start-ups to drive and build that IP?

In closing, I would say, I would be happy to sign a cheque for $345 million to pay my taxes, if such an event were to occur.

Thank you very much.

● (1540)

The Chair: Thank you very much, Mr. Della Rocca.

I would imagine that you would be very happy to do that.

Now we will go to Ubisoft. Is it Ms. Verge who's going to begin?

Ms. Nathalie Verge (Senior Advisor, Corporate Affairs, Ubisoft Entertainment Inc.): Yes.

The Chair: Okay. Please go ahead.

[*Translation*]

Ms. Nathalie Verge: Good afternoon, everyone.

Mr. Chair, ladies and gentlemen, we are pleased to be here today. We will talk about the good things we are doing at Ubisoft, in Canada, and about what we could do better for our industry. We will tell you a bit about Ubisoft and our presence in Canada, locational and growth factors we consider to be positive, and, briefly, our challenges. Geneviève and I will make our presentation together, and she will begin.

Ms. Geneviève Poulin (Advisor, Corporate Affairs, Ubisoft Entertainment Inc.): Ubisoft is a French company. It is a leader in video game and interactive software development, publishing and distribution. We are present in 28 countries, and we have 9,200 employees, about 3,350 of whom are here in Canada. We have offices in three Canadian cities—Quebec City, Montreal and Toronto. The Canadian studios are working on high-profile projects, referred to as AAA projects, which have large budgets and involve our leading brands. You may be familiar with Assassin's Creed, Tom Clancy's Splinter Cell and Far Cry.

Ubisoft is the biggest employer in the video game sector in Canada. The industry is extremely competitive. In order to develop games that meet players' very high expectations, we absolutely have to focus on a key consideration—the talent of our creators, artists, designers, technicians and programmers. That is the real key to success. We also have to maintain a balance between more and less experienced employees in our work teams to ensure the quality of our games. Here are some more details on that.

Ubisoft has been present in Canada for about 17 years. We first set up shop here in 1997, when we founded a Ubisoft studio in Montreal. That is Ubisoft group's largest studio and among the largest video game studios in the world. The Ubisoft studio in Montreal currently employs 2,650 people. You may have heard the announcement made last fall that we are planning to create 500 new jobs over the next 7 years.

Our workforce demographics are the following: about 80% of our employees are Canadians or permanent residents, and about 20% of them are foreign nationals with a work permit.

We opened our second studio in Canada in Quebec City, in 2005. It has about 325 employees, 90% of whom are Canadians and permanent residents. Last month, the Quebec City studio announced that 100 new jobs would be created over the next three years. In addition, more than $30 millions will be invested to upgrade equipment and produce even more modern new generation games.

The Ubisoft family opened its last Canadian studio in Toronto, inaugurated in 2010. That studio has 300 employees, and that number is eventually expected to reach 800. We are pledging to bring the total to 800 employees by 2020. At the Toronto Ubisoft studio, 80% of the employees are Canadians and permanent residents, and 20% of them have a work permit. Ubisoft Toronto just launched its first AAA game this summer, after it opened.

● (1545)

Ms. Nathalie Verge: I will tell you about factors that helped Ubisoft take such strong root in Canada and that explain our company's significant growth. In 17 years, we have rather quickly created just over 3,000 jobs in a fledgling industry.

I assume that we will all tell you the same thing—that the main factor is workforce availability and skills. When Ubisoft made the gamble of coming to North America, it set up shop in Montreal because the city had a pool of artistic talent. The large number of artists was a very important factor.

Bilingualism was also a factor. For a French company that was operating on every continent and decided to set up in North America, it helped to have people who could speak French and English with ease, so that we could work with other studios.

Montreal also had a pool of telecommunications and software development companies. At the time, Softimage and Téléglobe were leading Montreal companies. The potential was good. Those were the key factors behind our decision to come to Canada.

Over time, we developed talent. In 2005, we realized that there were less junior resources than we had thought. We needed to train a lot more people to continue to grow. As a result, we built the Ubisoft campus. When I say built, I don't mean to say that we built something from scratch. We partnered with colleges and universities, so that our employees would directly provide their students with information on some of our realities, such as production areas and the multidisciplinary teamwork between artists and programming engineers. Through that initiative, we have trained over 400 new workers, 50% of whom have come to work for Ubisoft. The other half found jobs throughout the industry, either in Montreal or elsewhere in Quebec. So that helped increase the junior workforce pool, which is made up of recent college graduates.

In addition, we launched Academia, a competition where a number of universities from Canada and abroad compete, make prototypes and work in teams to build the best possible game. Ubisoft has been organizing Academia for a few years. We have also hosted immersion camps, where young people learn what goes into making a video game. The camps are also designed to show their parents that a career in video games is lucrative and promising. As Mr. Della Rocca was saying, this is not just a job, but a long-term career.

In Quebec, there is also a sectorial committee on workforce called TECHNOCompétences. That committee provides professional development, especially for small and medium-sized companies. Its goal is to provide continuous training and increase the workforce's skill level. In brief, it's a matter of never losing the edge.

Tax incentives are obviously another factor that convinced Ubisoft to set up in Canada and continue to grow here. In 1997, it was very risky to give a company a 50% tax credit on payroll. However, the challenge was accepted, and so the growth continued. Companies came to set up in Canada and Quebec. In addition, all the other provinces have followed suit by developing their own initiatives. The research and development tax credit also contributes to success and innovation in our industry. Governments have always been responsive to our company's modernization and growth projects.

The business environment is the third factor. Financial institutions and governments understand us well. We are a high-risk industry, an entertainment industry, and there is always some risk involved. We are storytellers. That's what we do. However, our industry is now fairly well understood, and that helps growth.

Finally, the last factor is the global ecosystem. That includes educational institutions, research centres that are always pushing us to take things further, the presence of many start-up studios and others.

Those are all factors that contribute to our growth.

Ms. Geneviève Poulin: Despite the favourable environment in Canada, some issues should be pointed out. We will highlight three of them, starting with the main one, which is often talked about— labour mobility. I think it's very important to mention that our company—and the industry as a whole—is investing a great deal of time and money to develop the skills of young Canadians, students, and of our own workforce. We are really working hard on recruiting in Canada. Despite that, we are experiencing a significant labour shortage, especially at intermediate, senior and expert levels.

Given that reality, we have to seek new employees abroad, even though that costs our company a lot of money. Hiring people abroad is the only way to ensure the quality of our games and to meet consumers' very high expectations. However, international recruit-ment does have one benefit. The experts we bring in provide training for Canadians, here. So our workforce can be developed here and acquire expertise that is not available in Quebec or Canada.

We face some obstacles in the international recruitment process, including long delays in obtaining labour market opinions—especially since the expedited process was suspended—proposed constraints to the intra-company transfer program, a four-year limit for work permits, delays and unequal treatment in embassies, and so on. All that greatly complicates the process used to find those resources, which are really essential for us.

The second point has to do with the research and development tax credit, which is clearly more beneficial for Canadian companies than for foreign ones. It would really help if the difference in treatment between Canadian and foreign companies could be reduced.

● (1550)

[*English*]

The Chair: You're way over time at the moment.

We're now going into our rotation round. If you have more points you'd like to make, I think you'll have a lot of opportunity to fill in the gaps as my colleagues ask you questions.

This is the second execution of our new program of time. It will be eight minutes for everybody all the way down the line.

We'll start with Mr. Lake for eight minutes.

Hon. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): Thank you, Chair.

You know what? I'll do something a little different and offer you the opportunity to finish your comments, if you have a few more comments to make. We have lots of time to ask questions, so you can use the beginning of my time to just go ahead and finish what you were saying there.

[*Translation*]

Ms. Nathalie Verge: In closing, you can see that many very different factors promote company growth and location. We have talked about labour, research, training, international mobility, workforce renewal, tax credits, taxation and business partnerships.

Since those factors are all present but are very diversified, we think it would be beneficial to establish a more comprehensive and long-term strategy that would take those factors into account. That would help us see where we are going and which areas require an upgrade. Such a game plan would help establish a long-term perspective, and ensure sustainability and company growth. That national strategy would complement the strategies that already exist and are working in the provinces. A more comprehensive long-term perspective could greatly benefit the industry.

[*English*]

Hon. Mike Lake: Okay. Now I have some questions for you, if I may.

I actually had the opportunity in July to visit the office in Quebec City. That was a pretty cool experience. It was neat to see not only the jobs that were created there but the environment in which people work; very open, very collaborative. It seems like it would be a pretty cool place to work. It makes me wonder why you would have trouble finding good people to work. There's no shortage of young people with experience in playing video games. You would think it

would be an environment that would be pretty exciting to work in for a young person with the skills that young people have nowadays.

What is the challenge? What would you say leads to the challenges in terms of finding those young people who are interested in going out and getting the education required to work for a company like Ubisoft?

● (1555)

Ms. Nathalie Verge: Yes. Well, you're right.

[*Translation*]

The environment is indeed very interesting.

However, we are competing with many other industries involved in the programming and computer fields. Telecommunications and information technology industries are huge. They are much bigger than the video game industry. The level of competition is high.

Moreover, few people think of enrolling in skilled trades such as the level designer program, which is fairly specialized. Those who want to enrol in such programs are not necessarily accepted. We are talking about highly sophisticated professions, which are experiencing a shortage, especially at intermediate, senior and expert levels.

Canada's industry is young; it's perhaps 15 years old. It's difficult to find talented employees with 10 or more years of experience who are experts in their field. There aren't too many such individuals in Canada. Some junior employees with 10 years of experience are currently coming up. They are found in a growing number of companies. We are no longer alone in the area. There are so many other companies. Many of those experienced individuals decide to start their own business. So companies are competing for those talented employees' services. All those factors—professional specialization, competition and experience—are contributing to the current shortage.

[*English*]

Hon. Mike Lake: Jason, do you want to weigh in too?

Mr. Jason Della Rocca: Let's put it in context there. Imagine we were sitting in Hollywood, and you were talking to some studio executive, and he said, "Hey, there are kids who love watching movies. How come you have trouble finding people who are going to make movies with you?" It's true, it does drive a certain volume of bodies into the industry, but as you go up the pyramid of the people involved in very high-level tasks, you wouldn't take a kid that likes watching movies and ask him to be your cinematographer. It's a very specialized, very—let's call it—high-end role that you have to have years of experience in designing shots and making movies to do that.

The game industry is very similar in that way with the level of experience, the level of specialization, and the mix of science and art. It's not just, "Hey, there's a bunch of kids that love playing video games, let's just throw them into the studio."

Hon. Mike Lake: I think that what I was getting at, though, is that the pool that you're drawing from would be larger than a pool for—I'm not going to even name an industry because I don't want to go down that road—some other industries that might not be as exciting or seen to be as exciting.

I worked for the Edmonton Oilers before I got elected. We had a much larger pool of people to draw from because people wanted to work for the Oilers. They thought that would be pretty cool. We still wanted the best, but our options were a lot broader because there were more people interested in doing that. I would imagine the same would exist in your industry.

Mr. Jason Della Rocca: You're absolutely right. I think to a certain extent it's a question of the recognition of games as a potential career. Certainly, I think, there are parents that would pressure their children if they said, "Yeah, Mom, I want to go to university to learn how to make games." I certainly hear that from people, where they have to struggle against social pressure to not go into a frivolous industry like the game industry, because people don't fully understand the weight and economic size of the industry.

Hon. Mike Lake: I want to elaborate on the second part of what Nathalie was saying.

You talked about the real challenges being at the mid-level and senior management side. I'm just going to take a guess that part of the challenge is that people who are really good at designing games, once they get up to that level, need some business experience as well. You're talking probably about management, human resources, and some of those things. They may not have those same skills. Is that part of the challenge? Do you need a much more comprehensive skill set at that point?

[*Translation*]

Ms. Nathalie Verge: At some point, we realized that our managers were not really managers, but rather game developers who were leading increasingly large projects. With studios around the world, everything was becoming businesslike for our company. So we have been working with institutions like HEC Montreal to provide customized MBA-type training to our most promising managers. The idea was to achieve the level of a 3,000-employee company and maintain leadership of our games—our brands—in Canada.

As Mr. Della Rocca was saying, this is very relevant. In our industry, the value of a company, game or industry is in the brands. Whenever we are able to maintain the leadership of a large brand, we become something of a small headquarters for that brand. We provide work for branches around the world. The work is no longer provided by the head office, but rather by the studio itself.

Therefore, we need leaders and managers. We are working within the company and with HEC Montreal to train our future managers.

● (1600)

[*English*]

The Chair: Thank you, Mr. Lake.

Now on to Mr. Harris.

Mr. Dan Harris (Scarborough Southwest, NDP): Thank you very much, Mr. Chair. Thank you everyone for coming here today.

Following up on the conversation about the difficulty with the high-level talent. There is that limited pool, and they're very sought after. It does happen from time to time that someone will get snatched away at a critical moment in a project.

Jonathan Lutz from EA was commenting on it Monday. When you have certain high-level games, like a franchise game like NHL or FIFA where you have a specific calendar—or in Ubisoft's case, Assassin's Creed—you lose one of those high-level people and it can derail the entire project and potentially cost the company millions of dollars if they can't find someone to replace them in a very short period of time.

In a company like Ubisoft that operates around the world, they might have that talent located in one of their other offices that's elsewhere, not in Canada, but then they're having difficulty actually bringing that one person over at that critical juncture.

I just wanted to ask because there are some changes coming to the programs where employees might have to be employed for three years instead of one. Does Ubisoft see that as something that might help or hurt your ability to bring talent from elsewhere?

[*Translation*]

Ms. Geneviève Poulin: That's certainly something that could hurt. We use the intra-company transfer program a lot. Our three Canadian studios use that program for about 50 projects a year. That's a lot because it accounts for almost half of our projects.

Our industry sometimes views one year of experience in a specific technology as extensive because the technologies are changing very rapidly. If we can find someone abroad with a year of experience and bring them to Canada quickly, that really helps with our projects. Extending that period to three years would definitely limit our flexibility. We actually told CIC about this issue recently. The constrains are a concern for us.

Mr. Dan Harris: Is access to talent a factor that influences Ubisoft's decision on where to launch a project?

Ms. Geneviève Poulin: If we see that it's very difficult to bring people into certain countries, we may call some projects into question.

[*English*]

Mr. Dan Harris: Merci.

As Mike was saying, he had fun going to Quebec City. I got to go to Montreal last year, to the studio there, the fantastic things.... I mean the 3-D studio in particular. Ubisoft attracted 3-D design folks from Industrial Light & Magic, which is seen as the top of the industry.

It's just great to see the depth that's going on in gaming nowadays. For anybody who does play video games, it's incredible the level of detail and the depth of games nowadays, and how realistic they look and feel. That's something. Those are skills that are also transferable into other industries when you're looking at 3-D modelling, when you're looking at simulators, whether you're talking about aviation or others.

I'm going to move over to Jason now because the incubator effect...and you're part of a company now that helps to bring along small companies. Of course, we need to have a lot of start-ups and have a lot of entrepreneurs and have a lot of people developing games in order to continue to grow the industry, because you're going to have to have a lot of different companies before one of them actually breaks out.

How important is it that we actually foster that entrepreneurship and give the opportunities for new companies to form?

Mr. Jason Della Rocca: It's critical. There's a whole movement towards start-ups, entrepreneurship, where we're seeing a lot of activity, even at the federal level in terms of providing venture capital funds, etc. Not a lot of that comes to the game industry. Games have been in their silo to a certain extent. We have been a successful industry, taking our products to market without the need for venture per se, but there are definitely shifts in the industry that are occurring away from the large console games towards mobile, free-to-play, online, etc. That does open the door to VC investment, etc.

Interestingly enough, in the teams that we support most of the talent is coming from the larger studios. They have their own dreams and ideas that they want to produce. It's not the next Assassin's Creed, and they want to do either ninjas or robots or whatever, so they break free and come to us. The biggest gap in skills that they have is entrepreneurship, just understanding how to run a business. They worry about how a game is going to make money, PR and marketing, all those kind of elements.

They may be a wicked good programmer or designer artist, but completely lacking in entrepreneurial skills, to the extent that over 80%—I think even more—of the Canadian workforce works for the large production studios. Our talent base is lacking in those entrepreneurial skills.

Amazingly it is relevant both to the start-ups as well as in the context of a large studio that has people who are more entrepreneurial. It goes both ways.

●(1605)

Mr. Dan Harris: I think you'll find similar parallels in a lot of different industries; people have the talent to either make something or market it. There's not a lot of crossover without more experience. In terms of getting games out there, obviously in the mobile market it's a little bit simpler, but not by much.

How difficult is it for start-ups to actually get published? In the one experience I had working for a small start-up—I actually did voice acting, ironically enough—it took them eight months to find a publisher to actually be able to get the game out there. By then the technology was somewhat dated.

Mr. Jason Della Rocca: It's a great question. In fact we try to eliminate the publisher as an intermediary between the game and the market. The beauty of digital marketplaces, like the Apple App Store and Google and Facebook and so on, is that as a developer you can go straight to the market without a publisher if you have your wits about you and the means to do so.

The challenge there, of course, is discoverability. If everyone can go straight to the market, then you are among a million others who have done the same thing. You then have to be smart about marketing and PR and how you acquire users, etc.

So there's still a challenge there, but the challenge is less about "I'm a developer with a product and I have no publisher to save me", than it is about "I'm going straight to the consumer so I'll have to fight it out with all the other people who went straight to the consumer." How do I get noticed in all that noise?

It's a separate discussion about the evolution of the role of the publisher, more so as a partner for marketing and discoverability, but no Canadian studio should be sitting around saying, "No publisher wants me." We should be sending them all straight to the market.

Mr. Dan Harris: At the time, of course, that was before Steam and Google Play and all of those.

Mr. Jason Della Rocca: Sure. It's definitely an ongoing evolution. It shifts.

Mr. Dan Harris: Well, I mean....

Thank you, Mr. Chair.

The Chair: Thank you, Mr. Harris. That's appreciated.

Mr. Van Kesteren, you have eight minutes.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you, Chair.

Thank you all for coming. I'm not a regular member of this committee; however, I find this fascinating.

I checked the statistics on corporate rates. Finland has a corporate rate of 20%. In Canada we have a federal rate of about 15%, and then provincial, depending on the province, of about 10%. Do you get a tax break on the provincial end for corporate taxes?

Mr. Jason Della Rocca: Yes. The tax break that we talk about in the gaming industry is on labour. In Quebec it's 37.5% on labour. If I spend $1 million on programmers, artists, designers, etc., at the end of the year, when I file all my paperwork, I will receive $375,000 back from the provincial government.

So it's not based on how much profit I made, that if I made some, I get some; it's purely a refund based on the spend on labour.

Mr. Dave Van Kesteren: How do we rate in regard to the rest of the world?

I'm sorry, is your parent company in France, or...?

Ms. Nathalie Verge: Yes.

Mr. Dave Van Kesteren: So France, and....

Mr. Jason Della Rocca: We're Canadian.

Mr. Dave Van Kesteren: You're Canadian. How do we rate as compared with the States, for example?

Mr. Jason Della Rocca: In terms of tax incentives?

Mr. Dave Van Kesteren: Yes.

Mr. Jason Della Rocca: The U.S. would not be comparable because they are not particularly heavy on providing tax breaks and incentives. There are a few states that provide tax breaks, but they're generally linked to film-based incentives, and they're not very useful for the game industry.

Canada, I would say, is a leader in terms of tax-based incentives on labour. There are analysts who have done grids of which countries provide which incentives and so on. Most countries use Canada as a benchmark, as a model.

● (1610)

Mr. Dave Van Kesteren: I gathered from your presentation that you work in collaboration with the universities. Are there programs within the universities—centres of excellence, for instance—that help you along and give you new ideas where you're able to move forward?

That question is for either party.

[*Translation*]

Ms. Nathalie Verge: Initially, we mostly worked with colleges—CEGEPs—in Quebec because they offer technical programs. We are working with them on adapting their programs to the rapidly changing industry reality.

We are currently working with universities, especially those that offer programs in computer engineering, software engineering and mathematics.

We are also working with research chairs in artificial intelligence. Some of our research projects are exploring ways to use cameras to read players' emotions. A lot of work is being done at the university level. Our collaborations with colleges, universities and excellence research chairs are definitely helping us stay ahead of the curve.

[*English*]

Mr. Dave Van Kesteren: Chair, how much time do I have? I'm splitting my time with Mr. Maguire.

The Chair: You have four and a half minutes.

Mr. Dave Van Kesteren: Just a quick question, I'm going to date myself and go back to remembering the days of Texas Instruments and somebody saying how that was actually the spawning of much of the modern technology.

What's new on the horizon? What's happening? What have we spawned, and have we spawned some of that stuff here in Canada?

Mr. Jason Della Rocca: If we had a crystal ball, well, that would be a whole other story. I think what's interesting from the game industry point of view is that it's not just about technology. I really view games and the game industry through three lenses. One lens is technology, which is chips and hardware and all that kind of stuff, and the prediction is it'll be smaller, cheaper, and faster, just sort of an upward, Moore's Law type of trajectory.

Another filter or lens that I look through is the business lens. I think the game industry in particular has massive amounts of innovation with regard to business models. Following this discussion we were having about free games and so on, look at the movie industry, which has completely collapsed based on the shift that has occurred because of digital and online, whereas the game industry

has embraced that and has created billion-dollar companies on the backs of those kinds of evolutions.

Then the other filter is from a design point of view, the design and cultural aesthetic. We are really at the forefront of human expression of interactivity, of immersion, and of telling stories through systems that you can play with. So it's not just about guns, race cars, and stuff, but there are games now that touch on a myriad of subjects, essentially, every element of the human condition. So to me the really interesting innovation comes from there. Think of where films were 100 years ago and what they meant to culture, humanity, and society, and we're on the cusp of that from a game point of view.

Mr. Dave Van Kesteren: Thank you, Mr. Chair.

The Chair: Thank you, Mr. Van Kesteren.

Mr. Maguire, you have two and a half minutes.

Mr. Larry Maguire (Brandon—Souris, CPC): Thank you, Mr. Chair.

Thank you to Mr. Van Kesteren for giving me a few moments. I just have a couple of questions.

I'm really interested in this and I know some extended family who's interested in this particular part of the industry, so it's pertinent to be able to have the opportunity to ask you some questions.

You've indicated that even though we have a good tax credit program for seeking out new employees to come into companies and the labour that you can hire, we're still short of people in the industry to come forward. I believe that's what you indicated.

How do you see us being able to change? What else could you change and what else would be an incentive to get that extra? Are you doing all of the training yourselves of the people that you have? You're picking up from foreign countries, people coming in as well; 20% in Ubisoft's case. How else can we get the people trained who you would need to hire?

Mr. Jason Della Rocca: There are a lot of elements to that. One, I think it's important to recognize that tax incentives are almost irrelevant from a start-up and entrepreneurial point of view. For tax breaks you have to have money, spend money, and survive for 18 months; then you get a cheque. Much of the best kind of training you can have is on the job in the studio working on stuff.

I think to a certain extent the more we can do to support start-ups and entrepreneurship, the better, because that's where a lot of the talent will have their first chance coming out of school. In some sense the big studios like Ubisoft don't necessarily want complete rookies, and to the extent that they can learn and grow on their own, then you get the advantage of some fluidity of talent.

I would look at not necessarily thinking of the tax break as the thing we need to optimize, but more diversifying the types of programs and things you do to intervene in the industry to kind of balance out, not only tax incentives but also prototype funding and early-stage investment, etc.

● (1615)

The Chair: You have 30 seconds more.

[*Translation*]

Ms. Nathalie Verge: I think strategies have been developed across Canada to attract more young people to sciences. That will help all kinds of industries, both in health and in video games. We are trying to educate young people and their parents about the importance of studying mathematics and taking business courses. As Jason pointed out, business skills are a requirement in our industry today. That's also the case for large companies. Our games have to make money. The challenge lies in learning to develop free games that can make money.

[*English*]

The Chair: Thank you, Ms. Verge.

You're over time on that.

Now on to Madam Sgro for eight minutes.

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

Again, welcome. It is fascinating, as my colleague said. It's an industry that I think we all see a bit of whether we're on a bus, or on subways, or looking at our own kids. Everybody seems to be playing a game one way or the other. It's certainly quite an industry and it's great to hear so much about it. It's very promising.

What would you estimate the value of the industry is in Canada today?

Mr. Jason Della Rocca: There was a recent study done by the Entertainment Software Association of Canada. I think it's $2.9 billion...?

[*Translation*]

Ms. Nathalie Verge: Its value is $3.2 billion.

[*English*]

Mr. Jason Della Rocca: It's $3.2 billion. There's a contribution to GDP of $3.2 billion from the Entertainment Software Association of Canada.

Hon. Judy Sgro: What provinces, other than Quebec and I'm assuming Ontario, offer provincial tax credits?

Ms. Nathalie Verge: British Columbia and Manitoba do, and some of the maritime provinces also—P.E.I. and Nova Scotia, I think. Alberta doesn't have one yet. No.

There's a lot of competition. Everyone looks at everyone and....

Hon. Judy Sgro: How important are the tax incentives when it comes to companies like yours that are already settled in Quebec, in Montreal, or in Toronto, as an example?

[*Translation*]

Ms. Nathalie Verge: The situation is probably different for start-up companies, but for subsidiaries of large corporations like ours, those incentives are very important because we are taking huge risks by developing video games, as we don't know whether they will sell. Their development takes several years, and that requires large investments. Some games don't work out at all. As in the movie industry, some of our products flop.

Those incentives are very important because they enable companies to take risks. Our industry, which is creative and innovative, must take risks.

[*English*]

Mr. Jason Della Rocca: Just to corroborate that, in terms of the foreign direct investment efforts of the various provincial bodies, as well as the Department of Foreign Affairs, tax breaks have been absolutely critical.

From a start-up point of view, they have no impact. In fact, when I was doing consulting with governments around the world, they would often look at the success of Canada, see the tax breaks, and assume that was the silver bullet. Most of my effort as a consultant would be to get them off the idea of worrying about tax breaks, because they had no industry, no ecosystem, and no talent base. There were a hundred other things that they had to do and resolve before a tax break even became relevant.

I think it's important for the committee to recognize. It's an ecosystem. There are synergies between the big and the small, and everyone all sort of works together, but from a business structural point of view, how you incentivize and promote start-ups is dramatically different from what you do for large companies.

●(1620)

Hon. Judy Sgro: Yes, very much so.

What role would you see the Government of Canada showing in response to a growing industry? Or do you see a role for the Government of Canada?

Mr. Jason Della Rocca: Yes.

Voices: Oh, oh!

[*Translation*]

Ms. Nathalie Verge: Geneviève talked about workforce mobility, which is of the utmost importance. Research and development credits are also essential. We have to convince our head offices that research and development—which increases our products' value—must be done in Canada. That's an important factor.

We need a national long-term vision to develop young talent and careers. The video game industry in now fairly large in Canada. A comprehensive Canadian strategy would help us. The provinces have taken on such important roles in this industry, so the strategy should be developed jointly lest it become a Tower of Babel.

[*English*]

Mr. Jason Della Rocca: Again, given my opportunity to see other governments and industries around the world, definitely the ones that had rich collaboration and communication among industry, government, and academia were the ones that were the most healthy and moved the quickest. Absolutely, there is a role to play.

Hon. Judy Sgro: Do you ever have the opportunity to participate in round tables where you have all of those different partners together?

Mr. Jason Della Rocca: Do you mean governmental...?

Hon. Judy Sgro: Yes, governmental, academia, and businesses like yourselves on the entertainment issues.

Mr. Jason Della Rocca: I don't know about Ubisoft, but it's hard to get all of them in the room at the same time.

I'm very fortunate that I do cross into many different fields. We get us in the room at one time and we get all the industry in the room and all the academics. I'm leaving for Toronto tonight because there's a research consortium board meeting of all the universities across Canada doing games-related research, but it's a bunch of academics and one or two industry people. It's challenging.

[*Translation*]

Ms. Nathalie Verge: There is still work to be done in that area, but everyone today understands the benefit of developing those types of relationships.

[*English*]

Hon. Judy Sgro: The issue of internships is another opportunity. If you're having a meeting with universities, would there not be an opportunity to start talking about internships? It sounds like an industry that a lot of people would be interested in getting involved in, and internships provide that opportunity.

Do you provide internships currently?

[*Translation*]

Ms. Geneviève Poulin: Yes, Ubisoft has an excellent internship program. We host over 200 young interns every year, and many of them are hired by our company later on.

[*English*]

Hon. Judy Sgro: That's wonderful.

Thank you very much.

The Chair: Thank you very much, Madam Sgro.

Now on to Ms. Bateman, for eight minutes.

[*Translation*]

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

I want to thank all the witnesses. This is an incredible and very interesting industry. If I have understood correctly, it contributes $3.2 billion to our economy. That's amazing!

I have a few questions for you mainly about growth factors.

Ms. Nathalie Verge: Yes.

Ms. Joyce Bateman: Ms. Verge, you mentioned a few growth factors. I am very interested in that. We on this side of the table are part of the Conservative government that is targeting economic growth, job creation and long-term prosperity. So I am very interested in your growth criteria. Can you please tell us again what those factors are?

Ms. Nathalie Verge: Workforce availability and skills, as well as tax incentives, are factors we consider.

● (1625)

Ms. Joyce Bateman: Do you have an example?

Ms. Nathalie Verge: One example, of course, is the provincial payroll tax credit.

Ms. Joyce Bateman: Yes.

Ms. Nathalie Verge: That's essential. Another consideration is tax credit for research and development and anything related to project support in terms of modernization, such as in the manufacturing sector. We have the same types of projects. We have to modernize our technologies and offices. We have to expand them, and increase the electrical and Internet capacities, or set up server farms. We have to keep step with industry developments by lending money to companies or buying shares.

The business environment is the third criterion. Financial institutions must be business partners that understand our industry, and understand that a project may take four years to complete. They should also understand that failures are possible, that all this is normal and that confidence must be maintained. This is not an industry....

Ms. Joyce Bateman: You need patient investments.

Ms. Nathalie Verge: Exactly. That's available for big companies. I think that, for smaller companies, acquiring funding for start-up activities and prototypes, and securing patient capital is essential.

The last factor is the industry ecosystem. That's sort of what we were talking about. This encompasses universities, research centres, smaller studios and companies that produce technological tools that can help us—audio tools for our games.

Ms. Joyce Bateman: That's part of my second question.

Your colleague, Mr. Della Rocca, talked about the collaboration between all levels of government and the university world. Of course, that's a challenge. What do you think would be the ideal environment for creating another Standford University around your industry? What are the key ingredients? You can talk about this for as long as you want.

[*English*]

Mr. Jason Della Rocca: That's a great question. How do you create a Stanford or a MIT Media Lab type of environment?

We have some of that to a certain extent already in Canada. Obviously, there's a lot of activity in Waterloo, in Communitech, and the University of Waterloo is very popular. In B.C. there's UBC and Simon Fraser, etc. In Montreal you have some of the universities there; Concordia in particular has a Technoculture, Art and Games centre that does research around games.

I hinted just before about a research consortium that exists in Canada, called Grand, G-R-A-N-D, like *grand*, which stands for Graphics, Animation and New Media. It is federally funded through the NCE, the Network of Centres of Excellence. It's a consortium of 25 universities across Canada. I happen to be on the board and for the next two days I'll be in Toronto for a research management committee, where we decide which researchers and universities get more or less funding.

Ms. Joyce Bateman: Which ministry funds that?

Mr. Jason Della Rocca: I don't know which arm the NCE, Networks of Centres of Excellence, comes under. I'm not a federal.... So the degree to which the researchers collaborate with industry—in fact Ubisoft is listed in some of those research projects as collaborators and industry partners—has a direct impact on who we fund more or less, because we want to make sure that researchers aren't up in the ivory towers just pontificating but are doing stuff that's relevant to industry.

That I think is quite unique to Canada. I don't see in my worldly travels many consortiums of that degree. They're funded $25 million for five-year chunks and are actually doing their renewal right this summer so hopefully we'll get another $25 million to keep going.

This linkage between industry and academia is critical. I think to also touch on the—

Ms. Joyce Bateman: How do you facilitate that? Through your group, you're funded through this grant, the NCE, which will....

Mr. Chair, if we could do more research on that at some point and get more information on those two programs for the committee that would be wonderful.

What's the magic? What creates this—

● (1630)

Mr. Jason Della Rocca: The magic is games, as cheesy as that sounds, because games are this wonderfully interdisciplinary artifact. You have people from the business school, you have architects, people from the arts school, and the engineering department who are passionate about working and studying and understanding games, and research on games. They go out into the real world and knock on the door of Ubisoft and try to work together.

Ms. Joyce Bateman: I've graduated from a business school. I'm a chartered accountant, and the interesting thing is that we always used to say, if you want to kill entrepreneurial spirit go to business school. I know that doesn't happen in every case, but you can point to a lot of entrepreneurs who don't go to business school. So where is the synergy that makes it—

Mr. Jason Della Rocca: Yes, in many ways we consider our incubation program as the new MBA, but that's a whole other discussion.

I think it just provides a rich opportunity for people to break through the normal academic silos and reach across all the other departments, because inherently they're just people who are passionate about this art form, and they go seek it out. You would be surprised. You talk to any academic and they will tell you the war stories about fighting with the deans and the chairmen about crossing boundaries, but they did it anyway because they loved it. Then when they go and they talk to a Ubisoft or us and they're so excited. Then money starts entering the academic sphere and it's, oh, oh, wait a second, there's opportunity here for industry collaboration, and like magic it just happens, because games are, again, this wonderful interdisciplinary artifact that people are just passionate about.

The Chair: Thank you, Madam Bateman.

[*Translation*]

I now yield the floor to Mr. Côté for eight minutes.

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

I will first turn to Mr. Della Rocca.

You really focused on small companies and start-ups. As you said, the overall fiscal framework is not necessarily adapted to their reality.

I would like to talk about patient venture capital. In Quebec, we do have a very special experience with labour-sponsored funds. Monday, we actually talked about that with Mr. Moisan, of Frima Studio. He was very clear. He thought that the abolition of the tax credit for labour-sponsored funds—such as CSN's Fondaction and the Fonds de solidarité FTQ—could hurt companies in this sector.

Do you think that applies to small companies and start-ups? We know that the labour-sponsored funds developed an expertise on companies located outside the major centres, as well as on small companies that were not able, despite their best efforts, to partner with someone who would be prepared to take on the risk and invest.

[*English*]

Mr. Jason Della Rocca: We've had some discussions with Fondaction and FTQ just as two examples of *fonds de travailleurs*. They play an important role in the Quebec economy, but they are not very active at the start-up stage.

There are different stages where you have investments. At the very earliest stage it's what you would often call "love money" because someone has to love you to be crazy enough to give you money. So it's angels and it's rich uncles and that kind of stuff.

Then you have seed stage, or early-stage investment. In Montreal an example there would be Real Ventures, which was quite active in developing the start-up ecosystem. It's not until you are sort of profitable and you're generating revenue and now you need growth capital, that's where you see Fondaction and FTQ coming in at that stage.

It's far too risky for them to be playing in the love money and early stage because the level of failures is quite high and the bets are much smaller. So generally they're doing bigger checks at a later stage.

So they're an important part of the economy. Not that I'm super familiar with all their statistics and I think they contribute to a great degree, but it's not really relevant at the early-stage start-up level.

[*Translation*]

Mr. Raymond Côté: Okay.

Ms. Verge, this was brought up before the meeting started. You talked a bit about the scientific research and experimental development program. Two years ago, the federal government made some major changes to the program.

Could you tell us how this new environment has changed your approach? Has it influenced the decisions you could have made or those you will have to make in the coming years?

● (1635)

Ms. Nathalie Verge: That's one of the factors, but the changes have not prevented us from pursuing some fairly intense research and development projects. However, the credit should not lose too much of its competitiveness compared with what is being done elsewhere in the world because some of our studios are in a good position to land major projects. We need to think of our company as being in competition with itself, since Ubisoft is present in 28 countries. Our studios are competing amongst themselves.

The credit should not fall below a certain threshold so as not lose Canada's competitiveness, but I cannot tell you what exactly that threshold is.

Mr. Raymond Côté: I would now like to talk about the workforce issue.

Labour mobility has been discussed. When Mr. Dupuis appeared before the Standing Committee on Canadian Heritage, he talked about major issues in terms of processing times for entry applications and in terms of just bringing in immigrants to help sustain your activities. We know that job qualifications are often so specific that candidates cannot be found in Canada right away. So the company has to seek help abroad, where various sectors are competing for a handful of experts.

Has the situation regarding processing times gotten worse? Is it still as difficult to convince candidates to come work on projects in Canada?

Ms. Geneviève Poulin: In recent years, things have not been easy for us in terms of labour mobility. Delays are getting longer every year, so it is very difficult to know when people will be able to start working on our projects. They sometimes arrive too late. This has been a topic of discussion for a number of years. The workforce issue is still very current. Sometimes, changes are made that help us in one area and hurt us in another.

A few issues have had an especially strong impact on us recently. Authorities take a very long time to issue work permits, both here in Canada and in various Canadian embassies. In addition, there is a lot of red tape standing in our way.

All kinds of other measures have been implemented recently. For instance, work permits are limited to four years, and constrains have been proposed to the intra-company transfer program. All those things complicate the situation in terms of labour mobility.

Again, hiring abroad is really our last resort. The process is extremely expensive and long. If we could find people locally, we clearly would.

Mr. Raymond Côté: Family reunification is another important issue. People who have been living for years in my riding, that of Beauport—Limoilou, or who came to Canada hoping to bring their wife and children here, are facing undue delays.

Regarding recruitment, is the fact that those individuals cannot bring their family to Canada an important factor in the loss of expertise? Have the conditions deteriorated?

Ms. Geneviève Poulin: We don't really have any problems when it comes to that, but the permanent residence process is cumbersome. We strongly encourage well-integrated individuals who decide to stay here to become permanent residents. Of course, we do not force them. However, the process is very long. Few people complain to us about family reunification issues. Most of our employees are qualified workers for whom the permanent residence process is facilitated and whose family members can become permanent residents under the same process.

However, there are some problems for Canadian experts returning to the country. They cannot automatically obtain a work permit, like foreign workers who come to Canada, so that has caused us some problems. We sometimes have a hard time convincing a Canadian expert who, for instance, has been living in Romania and has a Romanian wife to come back to Canada. Their wife will only be able to obtain visitor status, and it could take up to 18 months for her to become a resident. That's something we have seen over the past few years.

Mr. Raymond Côté: Thank you very much.

Thank you, Mr. Chair.

● (1640)

[*English*]

The Chair: We're way over time. We now go on to Madam Gallant for eight minutes.

Mrs. Cheryl Gallant (Renfrew—Nipissing—Pembroke, CPC): Thank you, Mr. Chairman.

I don't have a lot of hands-on experience playing these games myself, Mr. Chairman, but I do have a constituent, a local app developer, Red Barn Games, which recently launched What a Wonderful Word on the App Store. I may, for the purposes of research, investigate this. They're down in a very rural and farming community called Westmeath.

I guess you have as many four- to nine-letter words as possible, using jumbled letters and so on. They're actually selling this, as opposed to offering it for free and then charging more as you want to get it faster, such as we heard about in previous testimony.

We've heard a bit about the need for tax credits. In what ways can the government promote the video game industry in Canada, other than through tax incentives? Are there any barriers to new development?

I'll hear from each of the companies.

Mr. Jason Della Rocca: Yes. Particularly for a start-up like that one, working on games for the mobile devices, tax breaks aren't terribly relevant. They need to survive for the next 10 to 12 months to even file their taxes. In those cases, whether or not it's through the federal government, they need more early-stage opportunities, such as venture-oriented funding or programs like the Canada Media Fund that are providing dollars to actually produce stuff at the start.

A young start-up has no money, and they don't have a foreign head office investing in the region and planting and building up a studio. They are just five guys in a basement with a dream. To the extent that there are support mechanisms, a big part of it is access to capital. That would constitute one thing that would certainly help to generate new start-ups that create new intellectual property. Concerning the IP you mentioned, if the word game that is Canadian-owned makes millions and millions of dollars, that money is going to flow back into the Canada ecosystem and economy. That's one piece.

Then, you can start looking at other areas: linkages with universities, which we touched on; having more entrepreneurial-oriented educational programs, so that when these kids come out of university they can contemplate starting something of their own and generating their own media games; funding research. There's a lot of stuff that could be done.

Certainly, on the funding side, facilitating access to early-stage capital would have a dramatic effect on the volume or velocity of start-ups and the creation of new intellectual property.

Mrs. Cheryl Gallant: Did anyone else want to add to that?

[*Translation*]

Ms. Nathalie Verge: Funding should be provided for incubators like Mr. Della Rocca's company, for people who provide very small companies with guidance and mentorship, help them secure funding, develop marketing skills, and so on. Those are also ways to encourage small networks of small companies that will become large. So I think incubators have a role to play in Canada, as well.

● (1645)

[*English*]

Mrs. Cheryl Gallant: I note that in budget 2014 we have funding for business incubators and accelerators. I don't know that this company, Red Barn Games, is still considered a start-up, given that in addition to the word game I mentioned it also has Rodger Dodger, Egg Foo Yung, and Good Ol' Days Soapbox Racing.

We have that in the budget. Additionally, we have some regional development corporations.

For example, in Ontario we have FedDev. They have a variety of programs that any entrepreneurs can access. In eastern Ontario we have the eastern Ontario development program, which is specifically designed to increase capacity and jobs. It's not just jobs for as long as the grant lasts; it's to provide capacity so that the businesses will grow and need more jobs. I have an idea, if developers come asking for some access to capital, where to direct them.

In the news these days there has been quite a bit of ink devoted to this currency called "bitcoin". Do any of you accept that currency, or is it impacting upon your companies currently, or do you see a potential impact in the future?

[*Translation*]

Ms. Nathalie Verge: I don't think we accept Bitcoins, and I don't think that will have an impact. Of course, if virtual money someday became popular and sustained by a market, gaming companies would explore that market, I am sure. That's what we do. We explore anything new. This is currently not an issue in my company.

[*English*]

Mr. Jason Della Rocca: This is a secondary level. I think the question is more relevant to someone like Apple or Google. If all of a sudden Apple accepts bitcoin payments through their App Store, then all of a sudden we're all going to be using bitcoin. We don't generally take money directly from the hand of the consumer. There is usually an intermediary, such as Apple with the App Store. The consumer is paying Apple. Apple is keeping its slice and then sending us the rest, so most game companies are not touching bitcoin.

We are somewhat at the mercy of these larger platforms' deciding to use it or not. I think in the future it will become pervasive. Is that two years from now or 20 years from now? Who knows?

Mrs. Cheryl Gallant: What percentage of the cost or the price of the game does the App Store take?

Mr. Jason Della Rocca: It's 30%.

Mrs. Cheryl Gallant: Thirty per cent.

Mr. Jason Della Rocca: Yes. In the case of the start-up you mentioned—Red Barn Games—for every dollar they make on the App Store, they're only getting 70 cents. That's pretty standard. The cut that Apple takes is the same cut that Amazon takes; it's pretty much the standard.

Mrs. Cheryl Gallant: For tax treatment, they would receive the same considerations as other small businesses, would they?

Mr. Jason Della Rocca: I would imagine so, yes.

Mrs. Cheryl Gallant: Are the employees treated the same as any other employees? Would they would have the source deductions made from their...?

Mr. Jason Della Rocca: It depends on the nature of the company. Some companies will use freelance labour or contractors. The majority of Ubisoft workers are probably on full-time salaries, from which they pay deductions at source as appropriate. It really depends on the nature of the business.

Mrs. Cheryl Gallant: Thank you very much.

The Chair: Thank you.

We'll move on to Mr. Larose for eight minutes.

[*Translation*]

Mr. Jean-François Larose (Repentigny, NDP): Thank you, Mr. Chair. Just so you know, I will share my time.

I want to thank the witnesses for joining us. Your honesty is refreshing. I will begin with two questions.

There is an institution in my riding you may be familiar with. It recruits young people and trains them. I am talking about the Centre de formation professionnelle des Riverains. This centre provides professional level training. Earlier, you talked about all the mechanisms you are using to recruit people, but I did not hear anything about options outside the mainstream. These people are doing an excellent job. Their skill level is even above that of college and university professionals. They are working very hard.

I belong to the generation of

Timex Sinclair 1000.

[*Translation*]

That was a very long time ago. I also have a friend who has continued to develop his programming skills. He can teach artificial intelligence at the PhD level.

What does the current process consist of? You are talking about recruitment. Do you have any programs for attracting people from institutions other than colleges and universities? All kinds of factors have made many people move around a lot without ever attending a university or a college. They may have become professionals, and would need to be recruited in a different way.

● (1650)

Ms. Nathalie Verge: Ubisoft does provide those people with opportunities, but probably less so today. Our company is large. It takes up space and is well-known, as are its brands.

Generally speaking, people who like video games and have developed programming skills on their own over time instinctively come to apply. So that is the kind of reach we have to do. However, we reach less accessible people through our games, reputation, social networks and gaming communities.

Mr. Jean-François Larose: What percentage do those people account for?

Ms. Nathalie Verge: I couldn't tell you.

Some of them are working for Ubisoft. We also have many artists who are not trained in visual arts. We have had employees with no formal training in programming. Today, I don't think we are hiring many programmers without a university degree. However, we do reach those people through our brands and gaming communities.

Mr. Jean-François Larose: You talked about that earlier.

Do you have anything to add on the topic?

[*English*]

Mr. Jason Della Rocca: It's an interesting question.

I think the game industry is particularly good at attracting people who love games, and they come to us. We're not especially good going into other industries like aerospace or.... Okay, we do in film, but going into other sectors that have relevant skills and jobs, and saying, "Hey, you're a really good ballistics engineer, come to games because, guess what, we're making a virtual...". We're not that great at doing that.

Mr. Jean-François Larose: I'm trying to understand, on the one side you're saying there's a lacking, in a way, but on the other you're saying people are coming to you. Is there more that can be done?

[*Translation*]

Could more be done? Could you look more into this sector beyond universities and colleges?

[*English*]

Mr. Jason Della Rocca: It comes down to quality and qualifications. There is almost literally a lineup of gamers outside the door of Ubisoft who are knocking, wanting to go in. Are those the people who you can have work on a $100-million franchise? Again, it goes back to my analogy of the film industry. How many people go to Hollywood wanting to make movies and have the skills or aptitudes to do it with any degree of skill?

It's one of the challenges of the game industry that it's so driven by passion, yet it is an extremely difficult skill set to learn, this mix of art and science. Passion alone is not sufficient to get the job done.

[*Translation*]

Ms. Nathalie Verge: There is another pool of people we are starting to draw from. I am talking about eSports, which are games communities of people are playing around the word. People become champions, challenge each other and compete amongst themselves. The players are not always programmers or industry people, but they are extremely good.

We sometimes receive suggestions from people. They develop characters and tell us about them. We advise those people and can now identify them and talk to them. They are sometimes 17 years old and come up with some amazing characters. They have obvious skills and talent. We ask them whether they have ever thought about working in the video game industry and whether they would like to visit our studio. If so, we tell them about the programs available to them.

We are starting to build gaming communities, visiting them and hiring people we probably would have missed or who would not have enrolled in customized programs. They can become employees.

Mr. Jean-François Larose: Thank you.

That brings me to the next question. This is a rapidly evolving market. Earlier, we talked about Timex Sinclair 1000, but that is clearly in the past. The same goes for games like Frogger.

Canada is among world leaders in video games, and we are practically ahead of the movies in terms of visual effects and interaction. The industry has become very large. What needs to be done to ensure that Canada stays on top over the next 20 years?

Of course, we are talking about tax credits and recruitment, but what are the risks involved in that? Since things have gotten a lot easier, what emerging countries could take our place? What areas should we keep an eye on? What should we do?

● (1655)

[*English*]

Mr. Jason Della Rocca: That's a very difficult question to answer with any degree of certainty. There's a great book, however, called the *The Innovator's Dilemma*, that was written by a Harvard professor about 10 or 12 years ago. It has nothing to do with games. It's about innovation and technology.

The summary of *The Innovator's Dilemma* is that the very things you do to succeed today are the things that prevent you from succeeding tomorrow. It's your own success that blinds you to those shifts and disruptions that are occurring. The best way to counteract the innovator's dilemma is to have and support start-ups that are not encumbered by the rules of success of yesterday; that can explore and experiment and fail; that can become the new big thing. To the extent that all of the resources and all of the attention goes into supporting the current paradigm, we will be completely lost when the paradigm shifts.

Sorry for the cheesiness of "paradigm shift", but I mean, it's true.

We have to balance supporting and extending and benefiting from the success that exists today by not being blind to the disruptions and all the things that are coming. The best way to do that is to not predict it but to let the market predict it by providing early-stage capital, by providing entrepreneurial opportunities, by supporting start-ups.

For all the success that Ubisoft has had, they're not necessarily going to be the ones who will discover the quasi new thing. It will be somebody else who just comes out of nowhere, who's not encumbered by the same budgets and constraints. They will find the next big thing.

That's true of everything, not just games. As a nation we have to be able to support that kind of exploration process. That's done more so at the start-up level, with early-stage funding and entrepreneurship. Tax breaks are not relevant to do that kind of exploration—

Mr. Jean-François Larose: At that level.

Mr. Jason Della Rocca: —at that level.

The Chair: Thank you—

Mr. Jean-François Larose: So we need to be more aggressive.

Mr. Jason Della Rocca: I would say balanced, more balanced.

The Chair: Thank you very much.

I didn't think "paradigm" was cheesy. As soon as you said "innovator's dilemma", I whispered that "paradigm paralysis" was what we always said back in the eighties when we were talking about frameworks you can develop that prevent you from success tomorrow.

Mr. Holder, you have eight minutes.

Mr. Ed Holder (London West, CPC): Thank you, Mr. Chair.

To our guests, thank you for your testimony thus far today. I must apologize that I missed the first hour. I'm sure it was scintillating. If I cover a bit of ground that's already been covered, please forgive me. It's my way to try to understand a little bit more.

I've decided, Chair, that this committee is all fun and games as a result of this.

The Chair: [*Inaudible—Editor*]

Mr. Ed Holder: It is.

We have two very different types of organizations, and I'm trying to understand a little bit more. I'd like to go back and forth, if you'll allow me, so that I can understand better.

Mr. Della Rocca, according to what I've read about your organization, Execution Labs—"execution" is an interesting word —you're a hybrid game incubator and a go-to-market accelerator. You probably already covered this in your opening comments, but perhaps in just a line or two you could tell me exactly what that means.

Mr. Jason Della Rocca: We consider incubation as going from initial concept to a shippable product. If I have an idea for ninjas on the moon or whatever, it should take roughly six months to—

Mr. Ed Holder: But this is people coming to you.

Mr. Jason Della Rocca: Correct. We have experienced developers, who often are working at some of the larger studios—

Mr. Ed Holder: So where do they come from?

Mr. Jason Della Rocca: They come from all over Canada.

Mr. Ed Holder: And beyond?

Mr. Jason Della Rocca: No. We can only take folks who are legally allowed to be paid in Canada. We have immigration issues that are completely separate and that I don't think are solvable, but that's a whole other discussion.

But no, it's primarily Canadians or—

Mr. Ed Holder: Let's not solve those issues today.

Mr. Jason Della Rocca: No.

It's primarily Canadians or people who have residency status, etc., from all across Canada. They're experienced developers with generally five to ten years of experience. We are not taking students.

Mr. Ed Holder: But they come to you because...just fill that line. Give me a thirty-second elevator—

Mr. Jason Della Rocca: It's because they have a vision of a game they want to create and they want to do it on their own. So we provide the seed funding as well as the mentorship and guidance and development resources to enable a team of four or five experienced developers to start something new.

● (1700)

Mr. Ed Holder: So how big is your organization to do all those interesting things?

Mr. Jason Della Rocca: We've only been around for one year and we've touched eight different teams.

Mr. Ed Holder: Are you the only one doing this in Canada?

Mr. Jason Della Rocca: We're the only ones doing it in the world. No one else is doing what we do anywhere in the world.

Mr. Ed Holder: Is that because you're the smartest guy doing these things? Why is that?

Mr. Jason Della Rocca: I'm not sure how I should respond to that.

Voices: Oh, oh!

Mr. Jason Della Rocca: We were inspired by other incubators and accelerator programs from around the world, for example, Y Combinator's a very popular accelerator in Silicon Valley, Communitech here in Waterloo. Those incubators are generally all encompassing, meaning it's technology—

Mr. Ed Holder: And you saw a gap?

Mr. Jason Della Rocca: We saw a gap to do that kind of role specifically and only for the game industry.

Mr. Ed Holder: Okay. I'm going to stop you there for a second. That's a good start.

Madame Poulin and Madame Verge, thank you as well.

It's interesting, I had a company come to my city of London, Ontario. We're the 10th largest city in Canada and we're very proud of our university—we talked about universities before—and our digital gaming centre of excellence in London, Ontario. I had a representative from Lockheed Martin come to my city who said he was really interested in London because of its strategic position as a centre of excellence in digital gaming, and because they like to hire those people.

Ladies, does that happen a lot? You get some pretty bright kids—you're all kids to me, at my age—and then they get hired away by industry? Do you find that a big risk?

Ms. Nathalie Verge: Yes, as I said before—

[*Translation*]

As I was saying earlier....

[*English*]

Sorry about the French and English.

[*Translation*]

Mr. Ed Holder: Go ahead in French, please.

Ms. Nathalie Verge: Our industry is competitive. Our market encompasses anything to do with high tech development, such as simulations at Lockheed Martin and CAE. So our industry also has resources from the engineering and innovation sectors. People working in the video game sector have a very high income, but so do those working in other industries.

[*English*]

Mr. Ed Holder: With private industry as well....

We've all seen the movies about Apple and all these groups, and I imagine all your staff are under 23 with blue jeans and nerdy glasses —that may not be fair—and exceptionally bright people. Maybe that's the only part I got right, they're probably very bright people.

But I understand that in Quebec and Montreal you have very high employment, but your company is from France. Why Canada? Are we just going to close down France and move everything here, which would be okay?

[*Translation*]

Ms. Nathalie Verge: I don't think that the French would agree with you. At first, the French industry had access to a very talented workforce and had a solid pool of businesses. Over the past few years, the industry has been split into two sectors. Why did we choose to set up in Canada? Because Canada, especially Montreal,

has a good pool of artistic talent. As Jason was saying, not only programming and technology go into the making of video games. Artistic work is also involved. The artistic component is very important. In North America, we found a good pool of artists in Montreal, along with a vibrant cultural scene, five universities in the same city, and a French-speaking workforce that is also bilingual. So Montreal was our first choice. Moreover, thanks to tax credits, operational costs seemed very competitive to us.

[*English*]

Mr. Ed Holder: Are you talking about the federal tax credits?

Ms. Nathalie Verge: The provincial.

Mr. Ed Holder: The provincial.... Does the federal tax system help you at all?

[*Translation*]

Ms. Nathalie Verge: Yes, the federal government provides the research and development tax credit. A few years ago, France enhanced its research and development tax credit and, this year, it improved its tax credit for video games. France justifiably sees Canada as a competitor, but the factors that brought Ubisoft to Canada are the ones I talked about at the beginning.

[*English*]

Mr. Ed Holder: Mr. Della Rocca, I'll go back to you again, please.

My colleague behind me was kind enough to make some notes. He mentioned that—and I want to make sure I have this right—you may have indicated that DFATD doesn't have the metrics to evaluate the importance of the entertainment software industry. If I got that right, what was the context of that comment?

● (1705)

Mr. Jason Della Rocca: The context is.... I mean, what they're measured on primarily is job creation. That's not just DFATD. I think that many arms of government are really just looking at that as the sole metric to measure themselves against. That may be relevant when you're talking more about old industry, about factories with how many workers inside that factory, etc., whereas when you're dealing with stuff like intellectual property with content-based industries, that's not necessarily true.

You missed the story I gave about a company in Finland that, with 125 workers, was able to sell half the company for $1.5 billion after having games that generated a million dollars a day of revenue. They paid a tax bill of $345 million. It's not comparable. It's apples and oranges.

I'm on the advisory board of DFATD on their ICT practice, and when we go into an advisory board meeting, everything is driven towards jobs, jobs, jobs. I'm trying to say, well, listen, we should find and create opportunities where these kinds of companies are able to generate that level of revenue to create new intellectual property, to have a higher degree or volume of start-ups, so that we can have those kinds of hits, let's call them. It's not just workers in the factory.

Mr. Ed Holder: Thank you very much.

The Chair: With the indulgence of my colleagues, I just have one question. I remember that 20 years ago there was a little game called "Typing Tutor". That's actually how I learned to type, going from the usual male one finger to this.... It was quite extraordinary.

Hon. Mike Lake: You were 45 then...?

Voices: Oh, oh!

The Chair: No, I wasn't 45 then, Mr. Lake.

We talked a bit with the last witnesses about the educational aspect of gaming. How big a growth area do you see for it in the future in terms of using entertainment software more and more for educational tools, not only for youth but also even for those people who are what we'll call middle-aged? I think a high density of your users are right up to 35 and 40 years old presently, correct?

Mr. Jason Della Rocca: Yes, 50 to 60 years old. Again, Mr. Holder kind of created a bit of a stereotype there in terms of 22-year-olds and jeans—well, we all wear jeans—but the average age of the worker in the industry is about 30 and the average age of a gamer today is about 35. The demographics are quite diverse, both gender- and age-wise.

Games and play are fundamental to learning. It's in our human nature. To learn something is to play with it. Games—video games, digital games—are excellent at recreating certain systems. In fact, some of the best ways to understand systems are through playing with them through games.

My belief, and not only my belief, but it is certainly an opportunity.... I think the challenge from an educational point of view is more so the gatekeepers, and just the bureaucracy of the academic world, in regard to being a company that creates something that is actually useful and relevant and getting that into students' hands, getting that into the learners' hands. I think that while there is opportunity there to innovate from a design, innovation, and functionality point of view, progress in that sort of games and educational space will be stalled because of just the general red tape around the academic world. That's sort of my two cents.

The Chair: I'm glad you mentioned that.

I have just an aside, and then I want to give you some time to close up. Two years ago, I began to be a user of Khan Academy. Actually, I put that onto my kids. They didn't know about it. I think there's probably a lot of intervention directly to parents who want their kids to succeed without going to the traditional learning institutions.

We have the luxury of time to have two minutes each to wrap up if you have some comments that you'd like to make sure we hear before we end this meeting, so I'll give it to the Ubisoft ladies first and then go to Mr. Della Rocca.

[*Translation*]

Ms. Nathalie Verge: Thank you, Mr. Chair.

I hope that we have successfully conveyed to you how particular our industry is. It is neither solely technological nor solely artistic in nature. It is rather a combination of many aspects. I also hope that we have managed to raise your awareness of the challenges we face, be it when it comes to labour mobility, recruitment, workforce renewal or, for some of us, funding. Jason talked about this, as well, and I am

sure of the importance of striking a balance between the biggest and the smallest developers. The latter will create tomorrow's trends and find new ways to do things, so that large studios with many employees like ours can follow suit.

I think that, by maintaining a balance, we will manage to create a long-term vision and achieve industry sustainability in Canada. We have to stay competitive, but we also have to remain open to innovation, both in its smallest and its largest forms. This is a big challenge, but I think we have everything we need to take it on.

●(1710)

[*English*]

The Chair: Thank you very much.

Mr. Jason Della Rocca: Just on a quick note, some of you have mentioned visiting different studios and such. If any of you are in Montreal, by all means you're welcome to look up and visit Execution Labs and see our workspace.

Also to the clerk, I can make an introduction to GRAND, which a few of the members were quite interested in learning about.

Games are an amazing business, an amazing art form, and really it is rare that we have the opportunity to witness the creation of a new art form, of a new form of human expression. Games in many ways will become the most dominate art form of the 21st century—it's considered by some that they already are.

Canada does have a leadership role today, and I certainly hope that we can all work together, industry, academia, and government, to ensure that's the case.

It is a complex industry. It's exciting. There's a lot of stuff going on. There are no magic bullets. There's no one solution that is going to fix everything, and it does require understanding the space and understanding the economics. I think it's wonderful that you're asking us from the industry to provide input and insight, and I'm honoured that I've had the chance to do so.

Thank you.

The Chair: Thank you very much.

On behalf of my colleagues, I want to say thank you for some great testimony. You've educated and illuminated us, and this business is an extraordinary contributor to the gross domestic product.

Thanks for travelling here, and being with us.

Mr. Côté.

[*Translation*]

Mr. Raymond Côté: Mr. Chair, I have a point of order.

On Monday, we looked at Ms. Charlton's motion, but we did not unfortunately manage to vote on it. Normally, the vote should have been held at that meeting.

[*English*]

The Chair: Mr. Côté, there was no business scheduled for this meeting. It was strictly to hear witnesses.

If you want, I would suggest some conversations directly offline, and schedule some business for next time when there'll be agreement.

[*Translation*]

Mr. Raymond Côté: Okay. So we will make sure to do that at the next meeting. Thank you.

[*English*]

The Chair: This meeting is adjourned.