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Chair

Mr. David Sweet

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● (1530)

[*English*]

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

Bonjour à tous.

Welcome to the 14th meeting of the Standing Committee on Industry, Science and Technology where we're continuing our study of the entertainment software industry in Canada. Before us is the Entertainment Software Association of Canada. We have Jayson Hilchie, president and chief executive officer, along with Julien Lavoie, who is the vice-president of public affairs.

Mr. Hilchie is going to be beginning his opening remarks and both will be available for questions.

Colleagues, we have to keep it pretty tight. We are going to have bells at 5:15 so we have moved some timing around a little bit and I have to do some math.

We'll let Mr. Hilchie go ahead with his opening remarks and then I'll advise you about how much time you'll have for questions.

Please begin, Mr. Hilchie.

Mr. Jayson Hilchie (President and Chief Executive Officer, Entertainment Software Association of Canada): Thank you.

Good afternoon and thank you very much for having me here today.

My name is Jayson Hilchie and I am the president of the Entertainment Software Association of Canada or ESAC. ESAC represents a number of leading video game companies in the Canadian industry from multinational publishers and console makers to local distributors and independent studios. I'm joined today by Julien Lavoie, our vice-president of public affairs.

With my opening remarks I'd like to provide you with an overview of the industry in Canada, but we'd be happy to get into specific issues with you and answer your questions after my remarks.

First off, I'd like to thank the committee for devoting time to studying and better understanding the Canadian video game industry. It's an exciting and dynamic sector that is at the vanguard of Canada's growing digital economy. The video game industry alone already directly generates $2.3 billion of Canadian GDP. The video game industry is the fastest growing entertainment industry globally. The global market is currently estimated to be worth $77 billion U.S. in 2014. That's bigger than box office revenues for movies worldwide. By 2018 it is predicted that the global industry will be worth as much $100 billion as a result of an expanded market and new technologies such as Xbox One, PlayStation 4, and Nintendo Wii. You've heard some earlier witnesses cite some of our stats from the latest research, which reveals that collectively the industry in Canada employs approximately 16,500 people at nearly 350 companies nationwide.

Canada has currently the world's third largest video game industry in terms of number of employees or is in first place on a per capita basis depending on how you look at it. Canada has had tremendous success in the past with big budget video game blockbusters and we're known the world over for franchises like NHL and FIFA, Mass Effect, Assassin's Creed, Splinter Cell, and Batman: Arkham Origins, to name just a few. We're also well known for successful indie titles and critically acclaimed games that are enjoyed the world over. We've seen tremendous growth in this sector over the past few years. From 2011 to 2013 we saw a 5% growth rate in terms of jobs, which is more than double the average Canadian labour growth rate during the same period. The types of jobs that are offered in the video game industry are truly the jobs of the future: high-paying, knowledge-intensive, innovation-driven, and at the cutting edge of creativity and artistry. These jobs include computer programmers and software engineers, 3-D artists and designers, game play analytics professionals, and monetization experts just to name a few.

Our industry comprises a unique mix of artistic and technological professions, and the collaboration of these two areas is what produces truly innovative products. But it also fosters the creation and development of many different multi-functional skill sets such as art and design, animation, visual effects, game design, sound design, motion or performance capture, computer programming, narrative development, and business and marketing. These characteristics contribute to and constitute the types of transferable skills that can be used to grow various subsectors of the Canadian knowledge economy.

In fact, talent, skills, and experience with emerging technologies are at the heart of our industry. Without the hard-working men and women who pour their hearts and souls into these playable stories and innovative, interactive entertainment, there wouldn't be an industry in Canada. It's our reputable know-how and proven track record that is fueling the development of games across this country. The workforce is also young and dynamic. In fact, the average age of a video game industry employee is 31 years old, which represents a key demographic necessary for the growth of the Canadian economy. With an average salary of just over $72,000 a year, Canada's video game professionals are earning well above the national average and helping move this country forward economically.

The video game industry is constantly changing. The traditional console market has seen some consolidation due to the rising costs of production but also the shift of users to mobile devices. This consolidation was also caused by the fact the previous generation of consoles had been on the market for close to eight years. However, with the launch of powerful next generation boxes such as the Xbox One and PlayStation 4, which in some ways are redefining the living room experience, we expect to see a steady resurgence in the importance of console gaming.

The rise in the number of companies developing games for hand-held devices has largely grown out of an exciting new opportunity on the mobile front and the challenges associated with risky, big budget titles that take hundreds of thousands of dollars more to produce and many years compared to lower costs of production time for mobile or more casual types of games. Our latest economic study shows that the average mobile game costs roughly $300,000 to develop, consisting of a team of seven professionals and taking five months to complete. Compare this to the average console game, which costs roughly $9 million to develop, requires a team of 65 professionals, and takes over a year and a half to complete. Some of the biggest titles available on the market can dwarf this average when development costs and marketing budgets are taken into account.

● (1535)

Innovation is a key component of our industry. We make significant investments in research and development to continually advance the technological underpinnings of our games. Our consumers are demanding better, faster, bigger game-play experiences, and our industry is responding by investing in technology in a concerted way. Games are also increasingly evolving in real time, with new content being added after launch, and are being updated to respond to consumer demand. Our 2013 video game industry study found that companies on average are investing 21% of their production costs in research and development, and that companies spent 48% of their company expenditure on development and creation of new intellectual property.

Our industry takes advantage of federal government incentives, such as SR and ED tax credits; however, this program does not treat all companies on a level playing field. R and D conducted by global firms in Canada—even those with significant production facilities here—contributes to this country's innovation and is conducted by Canadians residing in Canada. Levelling the playing field on SR and ED would help drive innovation and increase R and D in our industry.

To maintain a strong video game industry, Canada must seize the opportunity to establish itself as the world leader in this innovative and cutting-edge sector. But to do this, we need access to the best talent from Canada and from around the world. As our industry continues to grow and the required skills continue to evolve, we increasingly find that in order to fill intermediate and senior-level positions—those jobs requiring 5 to 15 years of experience—we must look outside of Canada. There is significant pressure on our labour pool at that level of experience, given our position as the largest industry on a per capita basis.

Locating and hiring junior-level employees is not the issue; with roughly 65 educational programs in Canada graduating students with video-game-specific skills, we have access to this level of talent. But due to the size of our industry and its relatively young age in Canada, we suffer from a shortage of labour at the more experienced levels. Changes to the temporary foreign worker program have resulted in significant delays in accessing the talent we need, which puts our competitive position at risk. Being able to access global talent in an efficient manner is paramount for the continued growth of our industry.

We have a comprehensive list of recommendations to make to the committee on specific actions that could be taken to continue to create the right conditions for success in the video game industry in Canada. We will be submitting these recommendations to the committee at a later date.

Those are my remarks. We would be happy to take your questions.

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

I think we'll be able to get seven rounds apiece. Remember, colleagues, that we're just going to go straight through, with seven minutes for each person. I'll have to keep it pretty tight.

Mr. Lake.

Hon. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): Thank you, Mr. Chair, and thank you to the witnesses today.

This will be easy, with just one organization, and that the organization that represents all the companies.

You mentioned that Canada is third in the world—in terms of the number of employees, I believe you were saying—but first per capita. We've heard time and time again in this committee, even before this study and during it, about the strength of the Canadian industry.

Give us the reasons. Why is the industry so strong in Canada?

Mr. Jayson Hilchie: We've really narrowed that down to two major points. We've recently quantified this in our research, but we knew it before qualitatively anyway.

Canada has a great talent pool. I know that I talk a lot about access to talent and the senior and intermediate talent that we need. But when this industry began in Canada—it's really been here for less than 20 years, in terms of the overall growth that we've seen get us to the point we are at now. The quality of talent that's available in Canada and government support and policies that have helped to essentially create winning conditions here are the two main forces that have helped our industry get to the point it is at now.

● (1540)

Hon. Mike Lake: Okay.

In regard to the other largest players globally—you said there are two countries ahead of us in terms of number of employees—what other countries are strong?

Mr. Jayson Hilchie: The United States and Japan are the two biggest. The United Kingdom, in fact, used to be the third largest video game industry in the world and is now fourth, possibly fifth; I don't know. A lot of expats from that industry have helped contribute to the Canadian industry, because that particular industry was a lot stronger at a much earlier point in time than ours was.

But there are a number of other countries. Korea is also a large and growing industry. We assume that China's industry is growing as well; however, there's no substantive data for that.

Hon. Mike Lake: Among the countries you listed, you said the U. K. was higher and has moved down a little bit. Are there countries that are significant threats to the Canadian industry?

Mr. Jayson Hilchie: Countries such as Korea and China—those types of emerging economies—certainly are growing at a rate that I believe could in the future threaten us.

Hon. Mike Lake: You talked about the strengths within the industry, the reasons we're so strong here in Canada. What would be the threats on the horizon as we consider the future of the industry? What ought we to be concerned about as a country?

Mr. Jayson Hilchie: The biggest threat to us, and this is one of the reasons for many of the meetings I have here in Ottawa and for many of the comments you hear from our organization, is focused on continued access to the high-quality talent that we need to be able to continue to grow.

Look at the growth of our industry and the number of people we employ now. We're the third largest industry in a country with a population of 35 million. The U.S., with 320 million to 330 million people, has roughly 30,000 employees in their industry. So we're considerably punching above our weight, but because of our low population, it is a very difficult prospect for us to continue to fuel our industry's growth. Being able to access the best talent in the world that we can, both domestically and globally, is a huge factor in the continuing competitiveness of our industry in Canada.

Hon. Mike Lake: What was the number of employees in Canada, again? You said it in your opening comments.

Mr. Jayson Hilchie: It's 16,500.

Hon. Mike Lake: As you consider that threat on the labour side— and we get lots of people coming to us suggesting what the government should do—what is the industry itself doing to address that issue?

Mr. Jayson Hilchie: Our members do a number of things. They're doing everything, from grassroots-level consulting with universities and colleges to make sure that the curriculum is up to date and that they're graduating students with the skills our industry needs today.

We're a fast-paced, innovative industry that is constantly changing. I know you've heard this from other witnesses before me, but in order to ensure that the graduates continue to come out with the skills that our companies need, our companies spend significant amounts of time working with those universities, taking on interns—students who are still in school—and giving them opportunities to work on blockbuster games that are going to be released worldwide.

Some of our members do everything from running internal university programs for their employees to making sure that they're constantly being upgraded with skills that are needed for the new platforms they're working on or the new games. There is a wide range of initiatives that our members undertake, everything from grassroots to institutional initiatives that provide competitive advantages for those individual companies.

Hon. Mike Lake: If you had the opportunity to speak to a young person coming out of high school and interested in a career in the gaming industry, what would your advice be, in terms of the path they should take?

Mr. Jayson Hilchie: That's a good question. For me, it would be to go to a school that has a reputable curriculum, that is known for producing graduates who are going to the companies that are making the games.

First of all, they need to figure out what it is they want to do. Do they want to make games? Do they want to be an artist? Do they want to be a producer? Do they want to be a computer programmer? The answer to that question would cause considerable divergence in the paths such people would travel. We have school programs in Canada that graduate artists that are considerably different from the university programs that graduate computer engineers and software developers. You would need to really understand what it is you wanted to do in the video game industry. One of our strengths is that we are at a convergence point of so many different skill sets that there are many different things you can do.

So figure out what it is you want to do and then find the best school that graduates students in that area.

● (1545)

Hon. Mike Lake: I have less than a minute, so I'm going to wrap up now. I'll come back to this in the next round.

The Chair: Next we have Mr. Harris for seven minutes.

Mr. Dan Harris (Scarborough Southwest, NDP): Great. Thank you for coming in. It's nice to see you both again.

I'm going to jump right back into the temporary foreign workers and other programs that exist. We heard from other witnesses on Monday that when you bring that upper-level person in from elsewhere, they then are also able to train the Canadians so that they can eventually take on those jobs, which will help to continue to grow the industry.

There are some changes to interchanges between employees who work at the same company. Ubisoft and EA are examples of companies that make use of these. There are changes, we heard, coming down the pipe, changing the requirements from having worked there for one year to having worked there for three years.

Is that change going to negatively impact the industry's ability to bring in talent?

Mr. Jayson Hilchie: Yes, absolutely; if those changes go through, they would significantly impact some of our global companies that have locations in other countries. It is an issue on which we have been quite proactive and for which we have been advocating. We met with the Minister of Immigration just last month to talk about this specific issue.

At the time, it seemed to me that the conversation was quite positive; that potentially these changes would not be as nuclear as you're suggesting. We're obviously continuing to monitor this situation, but maintaining the existing regulations would obviously be in our best interest.

Mr. Dan Harris: Great.

I've mentioned it before on this study and it's worth mentioning again because of issues that exist in other sectors with the temporary foreign worker program and the ability to either drive down wages for Canadians or take advantage of people from elsewhere. In the gaming industry this has absolutely nothing to do with that and should not get wrapped up in that conversation.

Every company we've heard from has said that they'd love to hire Canadians because it's cheaper to hire somebody here than it is to actually displace somebody from elsewhere. Of course with average salaries being in the $72,500 range, these are good family-supporting jobs that we need more of in Canada.

Mike started talking about who is coming up behind us. Whenever you're ahead in the race, that means there are more people behind you trying to catch up. He asked about a couple of things.

Which country do you think would be next in line to try to overtake us, and what competitive advantages have they put in place?

Mr. Julien Lavoie (Vice-President, Public Affairs, Entertainment Software Association of Canada): The U.S. is actually a threat in the sense that many jurisdictions—states within the U.S.—are looking at some of the incentive programs that some of the Canadian provinces have and are looking to either replicate or copy some of the successes we've had here, because they are also looking for employment strategies that include some of these very desirable jobs. That is something we're keeping an eye on in terms of what's happening in the North American context. The industry is more or less concentrated in Texas and in California, and somewhat on the east coast of the U.S. as well, but a lot of other states in the U.S. that you wouldn't think would be players are trying very aggressively to attract companies as well. So that is something we're watching.

Mr. Dan Harris: Another stat mentioned a few minutes ago is that companies are spending up to 21% on research and development. That's just huge because when you look at Canadian companies on the whole, they're spending between 1% and 2%. It's a testament to the evolving nature of the industry and the huge technological leaps that keep happening. A job that didn't exist yesterday will be there tomorrow.

There are the SR and ED tax credits that have been reduced over the last couple of budgets. We've heard that is hurting the industry.

But for small players, new players, the entrepreneurs, the person who worked at one of the big companies and goes to start off the next big thing, the SR and ED tax credits don't really help them out. What kinds of measures would you like to see in place to help us incubate those small new companies?

Mr. Julien Lavoie: I believe that some of the smaller companies do access the SR and ED credits.

Mr. Dan Harris: I just mean a brand new company that has never filed taxes before. What other measures can help out beyond SR and ED?

● (1550)

Mr. Julien Lavoie: I think you've heard some other witnesses talk about marketing as a big hurdle for the industry, especially on the smaller-size games where they're fighting to break through the noise and be noticed. Help on that front could be helpful for some of the companies.

But even some small companies need access to the right talent. Oftentimes these teams are cobbled together, but if they had a reliable system to bring people onto the world stage, if they had better access to workers from all over the world, they could compete with the world more quickly.

Mr. Dan Harris: That's great.

We had ACTRA here on Monday and even they spoke about performance arts and the development of talent. Canada does have a great talent pool in performance arts, but they need specialized training in some cases to work in a motion capture studio because of the different demands. This goes back to training and labour.

Of course we have 16,500 employees there now. We have difficulty with some of the talent levels, but if we want to continue to grow and continue to be a world leader we have to be graduating more students and having more people getting the kind of training they need.

What could the federal government help do on that side of things to actually improve the access to education and training that Canadians will need?

Mr. Julien Lavoie: When we're talking about skills, that's not an easy answer. But it really needs to start a lot earlier than it is now.

We hear a lot about STEM education—science, technology, engineering, and math—which is something that can't just be tacked on at the university level. If we are to build a digital economy in the proper sense of the word, we need people to get into these university-level programs with training in the advanced high school maths and sciences they will need in order to be competitive in the job market in the future. It's a longer-term problem than just post-secondary education programs or even at the high school level. We really need to start kids coding basic things at the primary level so they are computer literate and media literate at a much earlier age.

I know that's not something that the federal government necessarily has a role to play in—

The Chair: Mr. Lavoie, sorry, we're way over time so I just need to cut you off there. Thank you.

Mr. Lake.

Hon. Mike Lake: If you have anything to add, you can continue with my time.

Mr. Julien Lavoie: That's okay. I think I mostly completed my point.

Hon. Mike Lake: You're good? Okay.

Continuing with my line of questioning from earlier, talking about post-secondary institutions and the types of programs that students might want to look at to play in this industry, I guess, are there institutions particularly successful in Canada that you could highlight for us? Are there institutions that have programs or approaches in this industry that would be particularly effective?

Mr. Jayson Hilchie: Sheridan College is known the world over for its 3-D animation department. You could probably go to any video game studio in this part of the world and find a graduate from Sheridan College. So on the artist side of things, it's definitely been around for a while. You can highlight a number of video game programs that do coding, all the way from Acadia University in Nova Scotia—UPEI has a video-game-specific program as well—out to the Centre for Digital Media at the Great Northern Way Campus in British Columbia, which is becoming well known with their digital media master's program. There are a number of schools. Even Waterloo, which is not necessarily known for video games, produces world-renowned software engineers who are well suited for our industry.

Hon. Mike Lake: You talked about the different aspects or different roads that students could go down to get that education, depending on what their interest is, whether they're artistic or more on the technical side or even the business side, I guess. Where is the biggest need in terms of employees? Or is it across the board?

Mr. Jayson Hilchie: There's a big need in intermediate- to senior-level employees across the board, but I think computer programmers are always people that our industry is competing for, for a couple of reasons.

One, it's because the dot-com bust in 2000-2001 considerably shrunk enrolments in most computer science programs in Canada, where this industry was getting up to a point where CS programs at universities were building new buildings for themselves and getting to a point where this was the next thing. After the bust, the enrolment in a lot of these programs just went nowhere. That created a bit of a gap over the last half-decade to a decade.

But in addition we're also competing globally for these people. All you have to do is look as far as Waterloo in the BlackBerry situation, and Apple, and Google, and some of these companies setting up career fairs for these people who have been laid off. There is a global talent competition for these types of people.

I often talk to colleagues who work in the San Francisco Bay area, in Silicon Valley. Their comments are, "We can't find a computer programmer, and if we could, we can't get them for less than $125,000 out of school", because Apple, Google, Facebook, HP, and all these leading companies have every computer programming graduate basically within a 100-mile radius already hired before they come out of school.

So there's a global competition for software engineers, but also it's that bit of a gap after the bust. I would say those two have really contributed to the challenge that we have with that particular skill set.

● (1555)

Hon. Mike Lake: When you say intermediate or senior positions, are you talking about in terms of experience, or are you talking more in terms of the education level?

Mr. Jayson Hilchie: I'm talking about experience. This is something that we wanted to make sure we clarified today as well, because we did listen to the previous committees. There is a sincere difference between skills and experience. They may all have the same university degree and the same basic skills, but there is a distinct difference between those people who have five, ten, fifteen years of experience working with those skills and honing them on projects that cost $100 million to make, than somebody who just comes out of school.

Our industry really has not a lot of challenge with finding those people who have just come out of school. The challenge is to find those people with more than five years' experience who want to work on those types of games. That's the kind of issue we have. It is very much an issue of experience, yes.

Hon. Mike Lake: Further to that question, is the issue just simply time in the industry? Or are there programs needed to augment the skill sets of these people who build that time? So you put in five or ten years, are you looking for situations where employees go for MBAs that would help them? Is that what the problem is, or is it just simply time?

Mr. Jayson Hilchie: I think it's the rapid growth of our industry over the last 15 years versus the number of people who we have. I'll go back to the population comment that I made earlier in regard to the "number one per capita" industry in the world.

We have a lot of video game employees for the number of people who live in this country, so that alone is one of the basic problems we face when we're always out trying to find labour. However, we're realists, too. We work in an industry that has exceptionally transferable skills. That's one of the things that's great about our industry. We create employees who can work in a variety of other industries. Sometimes they do; sometimes they leave. Sometimes, again, we're in competition with other companies for them. So our members and our companies do everything they can to retain their employees, because it's in their best interest, but just like any industry, or any company, it's always the employee's choice as to where they work or who they work for. That creates a problem, too.

Hon. Mike Lake: In previous committees there has been a lot of focus on temporary foreign workers and issues there, but when I listen to you, it doesn't sound as though on the labour side the issue is a temporary one. It sounds as though it's going to be a long-term issue, so perhaps the approach we need to take should be more focused on actual immigration, long-term immigration to the country and the skills you need, as opposed to a temporary foreign worker solution.

Is that accurate?

Mr. Jayson Hilchie: There is probably a mix. I would agree with you that the term "temporary foreign worker" probably doesn't typically define every situation. We've stopped using that term internally and have started referring to them as "global workers", but in some cases these workers are temporary. They're here to work on a project for two years, transfer their knowledge, learn skills themselves, and then go back to where they're from.

Our company has also used the nominee program to bring people in. A lot of the temporary foreign workers who come into our companies end up becoming permanent residents and Canadian citizens afterwards, so some of those who come in under the temporary foreign worker program end up using the nominee program.

Hon. Mike Lake: Thank you.

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

We now go to Mr. Regan for seven minutes.

Hon. Geoff Regan (Halifax West, Lib.): Thank you, Mr. Chair.

Thanks to the witnesses for coming.

What would be an ideal system for you with regard to immigration or a combination of immigration and temporary foreign workers, and how would you change the temporary foreign worker program?

Mr. Jayson Hilchie: The foreign worker program works well when it's used properly. We completely understand why we are in the situation we're in with the changes that were made and the problems that arose last April. There is no illusion on our part as to what the problem is.

However, our industry uses the program responsibly. As Mr. Harris said, we pay more to get a foreign worker to come to work in Canada than we would pay if we had to hire somebody who was down the street. There is a considerable amount of cost involved.

Our biggest issue with the program right now has to do with delays in processing labour market opinions and then work permits. Because of some of the challenges with the temporary foreign worker program that have presented themselves, delay times for processing LMO applications have increased considerably.

●(1600)

Hon. Geoff Regan: How long does it take when you're trying to bring someone into the country to work for you, not as a temporary foreign worker but as an immigrant? What's that like?

Mr. Jayson Hilchie: That's a good question. We do have some statistics on the processing times for work permits and LMO applications in a white paper we recently did with ITAC.

For an LMO application—not a work permit but a labour market opinion—the current processing time could be up to four months. You have to understand that in our industry—

Hon. Geoff Regan: That's not normally for someone who's going to be a permanent resident in any event though. That's for someone starting out as a visiting worker, right?

Mr. Jayson Hilchie: Under the previous IT workers program that existed up until three years ago, those employees who fell under the IT workers program were actually exempt from LMOs, so there was no wait. Since that program was cancelled and in light of the recent problems with the temporary foreign worker program, we're now up to four months from a period of zero. If you look at how fast our industry moves and how much these games cost, if we're waiting for a senior programmer or a team lead producer or something like that, that could result in a delay of the game, or it could simply result in the game being made in another county.

To answer your question directly in regard to what an ideal system would look like for us, it would be one that allowed us to access the talent we need on an efficient, timely basis.

Hon. Geoff Regan: In view of the number of people who are graduating from community colleges and universities with some of the skills sets you need but with not as much experience as you need, what's your sense of how many people we are short of in terms of experienced workers in Canada each year?

Mr. Jayson Hilchie: Do you mean in our industry?

Hon. Geoff Regan: Yes. How many is it right now?

Mr. Jayson Hilchie: I would say it is probably close to 5% of the total workforce. We did have statistics in our study about the number of open jobs. I think it was something like 1,200 open positions in the next 24 months.

Hon. Geoff Regan: We have 65 institutes in Canada producing people who are skilled workers for your industry, so what proportion of that 1,200 are people you can't get in Canada because you need people with experience?

Mr. Jayson Hilchie: It is a small number. It is not a large number. Most of the employees we hire in our industry do come from Canada. It's in our best interests to do that.

Hon. Geoff Regan: You wouldn't need to bring in more than a couple hundred probably if you had—

Mr. Jayson Hilchie: It could be more than that across the country. Like I say, 5% seems to be a number that's being kicked around.

Again, to go back to your example of the kids graduating from college, they aren't the problem. Graduating students from university is great, but without the senior people to train them and to lead the teams and lead the games, oftentimes the demand for those people becomes less than it would be if we had a full complement of people at the senior levels.

Hon. Geoff Regan: That's the point. There aren't enough of those people in Canada. Is that what you're saying?

Mr. Jayson Hilchie: That's right.

Hon. Geoff Regan: Let me turn to something else. What's the potential impact of advertising, do you think, on mobile gaming? For example, there's been news recently that the Flappy Bird game has had very good success in terms of its revenues. Where do you see that going?

Mr. Julien Lavoie: Flappy Bird is really an exception to the rule in terms of a popular game that goes viral.

A number of different business models are being tested or used in the video game industry on the mobile side to try to monetize the creations. Advertising is just one of the ways that the companies are finding to recoup their investment. There are many others. In-app purchases is another one. Charging for the game up front is another one. Subscription models are also heavily used in the video game industry. There are many different models, and advertising is just one of those models.

● (1605)

Hon. Geoff Regan: I think you talked about marketing being one of the challenges you face. If that's the case, what mediums or programs can you imagine that industry and government can cooperate on that might assist in this regard?

Mr. Julien Lavoie: The Canada Media Fund has an experimental stream that video game companies can access. However, I think you heard from other witnesses that the program is highly subscribed to and does not fund everyone who applies, nor should it, probably. Even increasing the number of eligible projects in that program would help smaller companies for sure with some of their marketing or development costs.

Hon. Geoff Regan: As you look ahead to what you see as the evolution of the video entertainment industry over the next decade, what do you see happening? As you look at it, what do you think is needed for Canada to maintain its competitive advantage?

Mr. Julien Lavoie: Ten years is a long window in the video game industry. Things change very quickly, so it's hard to really know where things are going. However, I think it's safe to say that we're going to see more integration between various forms of media for video games. You'll be able to play a game on a mobile device or maybe on a console and continue it on your PC. Also, these game experiences are going to be even more immersive than they already are. That's perhaps a glimpse into the future.

In terms of maintaining Canada's competitive edge, the provincial tax credit programs are quite critical to our competitiveness nationally, and then on the federal side, keeping programs like the SR and ED tax credit program keeps Canada competitive as well. It keeps us on the map as a good place to make video games. Combined with educational institutions continuing to train the right kind of people, that's really what's going to keep us at the forefront of this industry.

The Chair: Thank you very much, Mr. Lavoie and Mr. Regan.

Now we'll move on to Mr. Holder for seven minutes.

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

I'd like to thank our guests for being here today and sharing their thoughts.

As I read your book, which I found very interesting, it almost seems that we should have had you first, because I think that if you're the godfather of all the organizations—

Voices: Oh, oh!

Mr. Ed Holder: I'm not sure if that's exactly appropriate.

According to the booklet, you've indicated that there are 329 companies that are gaming industry-type companies in Canada. Are they all members of ESAC?

Mr. Jayson Hilchie: No.

Mr. Ed Holder: How many would be members of ESAC?

Mr. Jayson Hilchie: We have close to 20 members.

Mr. Ed Holder: Because I noted that you had some on the back....

Mr. Jayson Hilchie: Yes. We represent a lot of the major companies, but we also represent a number of some of the smaller companies as well, and we're constantly diversifying our membership.

Mr. Ed Holder: Is your goal to be the godfather of the industry?

Mr. Jayson Hilchie: I don't know if I'd use that term, but our goal is obviously to be the credible representative—

Mr. Ed Holder: Godmother? I don't know what the right term is.

Voices: Oh, oh!

Mr. Ed Holder: I don't want to be incorrect.

Mr. Jayson Hilchie: Yes. I think our goal is to be the best credible representative of the industry that we can be.

Mr. Ed Holder: I ask this question because, Chair, I'm trying to understand a little bit.

Are there other...? We've heard from the Canadian Interactive Alliance and some other firms that are either gaming companies or.... We've heard from Electronic Arts and Execution Labs, some that seem to act as either.... Aside from the gaming industry direct programming, they do some kind of consulting or they do some.... Who would your competition be in terms of trying to lay claim to being the spokesperson for the industry?

Mr. Jayson Hilchie: I don't look at it as competition. Electronic Arts, for example, is our member, so we represent them in Canada in government affairs issues like this. Execution Labs is an accelerator incubator program for start-up companies.

Mr. Ed Holder: Forgive me, because maybe we didn't get all the....

I'm trying to understand. I'm sure no one is comparable to you in what you do, but if somebody was close, who represented other industries you don't represent, could you name a name? I hate naming the competition, but I call it that in a sense because you talk about how competitive the industry is.

Who else would be there that represents gamers in the Canadian industry?

Mr. Jayson Hilchie: As you mentioned the closest thing would be your guest on Monday, the Canadian Interactive Alliance that represents interactive digital media, which is a broad overview of a number of different subsectors. Video games would be one of them.

Mr. Ed Holder: I'm not trying to make any kind of negative connotation that you don't represent all 329 of them, but I wanted to get the focus of it.

It's rather interesting because when I look at it, you have some pretty serious players here. Warner Brothers games are in here and Nintendo and Microsoft and Sony and Disney, not small players in the industry, so you act for these folks.

What's your smallest client?

● (1610)

Mr. Jayson Hilchie: We have a member in Halifax, Nova Scotia, that has 12 employees.

Mr. Ed Holder: Is that so? How do they feel when they hang out with the folks from Microsoft and Nintendo?

Mr. Jayson Hilchie: I would imagine they—

Mr. Ed Holder: Pretty good, I'm thinking.

Mr. Jayson Hilchie: They are paying members of our association so they obviously value that.

Mr. Ed Holder: I'm still struggling. I'm just learning how to do the solitaire thing on the computer so I'm not the best to get into how it all works, but it strikes me you mentioned there are 65 educational institutions. You're the first that has articulated a number. We heard about Sheridan College, and we had a great representation from there.

How many grads would the 65 institutions spew out in a year?

Mr. Jayson Hilchie: We're the first to articulate a number because we did a—

Mr. Ed Holder: Spew is a bad word. I'm sorry.

Mr. Jayson Hilchie: That's okay. We did a study where we consulted across the country. We researched internally, and then we consulted with our member companies as to the schools they used.

Mr. Ed Holder: Do they have any rough...you don't know?

Mr. Jayson Hilchie: The scope of our research was to get the number of programs they offer, not the number of graduates.

Mr. Ed Holder: Wouldn't that be useful to you?

Mr. Jayson Hilchie: It would be useful.

Mr. Ed Holder: So why don't you ask them?

Mr. Jayson Hilchie: We very well should.

Mr. Ed Holder: If you do would you let us know? I'm quite sincere. I think that would be useful for the committee.

Mr. Jayson Hilchie: Yes, absolutely.

Mr. Ed Holder: The industry is how old in Canada?

Mr. Jayson Hilchie: I think EA bought Distinctive Software in Vancouver in 1991. Distinctive was one of the earliest video game companies. Then 1996-97 was the Ubisoft investment in Montreal. That's where that—

Mr. Ed Holder: So 15 years give or take. The reason I'm focusing on the grads is that if we have 65 institutions that are graduating these pretty bright kids to do the kind of stuff you want to hire, and it strikes me the other 309 organizations across Canada that you don't represent have probably been doing that for a while, or do you even know that? I don't know.

Mr. Jayson Hilchie: A lot of these video-game-specific programs are relatively new in the last five years as the industry has grown in Canada. The number of institutions offering specific skills to our industry has obviously grown because there is a market demand for that.

In some cases the enrolments in computer science programs have increased because they are offering video games programs.

Mr. Ed Holder: What's the average years of experience of gamers in Canada, if you had to guess? Take a belly button guess.

Mr. Jayson Hilchie: It wouldn't be much more than the 15 years.

Mr. Ed Holder: But you said what you're looking for are folks with five to fifteen years' experience.

Mr. Jayson Hilchie: On average.

Mr. Ed Holder: Wouldn't they be there without having to go to temporary foreign workers because my concern of course is that if we don't need to go outside Canada, if we have the best and brightest in Canada—I'd like to think we do. I hope you believe that as well— why do we need to go outside Canada to get these really bright people?

Mr. Julien Lavoie: I think we would need to come back to the notion of experience because again the industry changes so rapidly. There are hits like Flappy Bird or other hits in other places where companies may want to poach a specific talent from another country.

We're competing on a global scale with every other country that's making video games. We're not making video games for the Canadian market by and large, so having access to global workers in a global industry is really important.

Mr. Ed Holder: You won't be surprised by this next question if you have been paying mind to the testimony from folks, and some of the questions.

Could you survive as an industry without SR and ED credits and federal funding?

Mr. Jayson Hilchie: Yes, this industry grew globally long before that. However it's not the issue of surviving. It's the question of growth and competitiveness on a global basis.

There is no question these tax credits are vital to the continued growth and success of this industry in Canada. You only have to look as far as Quebec to see an industry that has grown in 15 years to be the largest cluster of video game companies in the world. It was also the first tax credit that was introduced for our industry.

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

You are done, sir.

Mr. Ed Holder: I'm done?

The Chair: Thank you very much. It is always the case with the clock. I'm sorry, folks. It's always our enemy.

[*Translation*]

Mr. Côté, you have the floor for seven minutes.

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

I would like to thank the witnesses for being here today and answering our questions.

To follow up on the questions of Mr. Holder and Mr. Harris, I would like to come back to research and innovation.

There has been much discussion about tax credits. However, as you probably know, there have been cuts in real dollars to the scientific research and experimental development program. In other words, there has been a drop in this funding. In fact, the funding is no longer following the curve of economic activity in Canada. We are also talking about money that could be paid directly.

Does this situation have an impact on your sector?

● (1615)

[*English*]

Mr. Jayson Hilchie: The cuts to the SR and ED program? We also represent a number of global companies that access SR and ED as well. As you may know, the percentage that this class of company can claim is actually considerably lower than other companies can claim, even though the research and innovation work that's being done here in Canada can be quite substantial.

Anything that can be done to improve a level playing field, and SR and ED for all companies would be something that we would like to see.

[*Translation*]

Mr. Raymond Côté: Another aspect was addressed on Monday by Jocelyn Benoît, namely, the fact that the amounts granted were increasingly being directed toward applied research to the detriment of basic research. Mr. Benoît said that basic research in video gaming is still essential.

What do you think?

[*English*]

Mr. Jayson Hilchie: I think that any change to a program that our industry takes advantage of that reduces the envelope of eligibility is bad for us. Obviously the more flexible the regulations are for these programs, the better it is for us.

[*Translation*]

Mr. Raymond Côté: Thank you.

You spoke earlier about changes to marketing and platforms. We are moving more and more toward mobile platforms. As you said, we are even talking about complementarity or multi-platforms for a single product.

The difficulty of obtaining skilled staff to do this marketing is also a major challenge. We spoke about this earlier in the week. As noted by Mr. Landry of the Canadian Interactive Alliance, this is a gap in the industry. It was also an opportunity to clash with my friend Ed. I should mention that we worked together on the Standing Committee on International Trade.

When I asked him about marketing in foreign markets and in emerging markets, among others, Mr. Landry told us that to sell a product, you need to interact with people and know the people on the ground. This is what he had to say about it, "…whether in Beijing, in Accra, Ghana, or in Stockholm. It takes people who know the local people, people who can open doors to those markets for you".

The Standing Committee on International Trade was already concerned about this. The Trade Commissioner Service has unfortunately had to face a decline in its activities and a restriction of the coverage of various markets. In particular, I could mention the case in Osaka where the consulate general was closed. It is a dead loss that was poorly received in Japan.

Do you think it is a problem that the Canadian government is limiting its support of international marketing?

Mr. Julien Lavoie: This problem probably affects many kinds of companies depending on the type of products they are trying to market. Regardless, any measure to support the marketing of

products is profitable for an industry with a global approach that wants to sell its products internationally.

Mr. Raymond Côté: Does the Trade Commissioner Service in its current form meet the particular needs of your industry? It is in fact a special industry, both in its line of activity and its type of products. We are talking about marketing knowledge more than concrete products and objects.

In your opinion, are there any other measures that could be taken to foster the development of expertise, train our trade commissioners and support your industry?

Mr. Julien Lavoie: The foreign services do a lot to attract investments to Canada. I am less familiar with their activities, gaps and competencies when it comes to market access. It would be difficult for me to answer that question.

● (1620)

[*English*]

Mr. Jayson Hilchie: I can respond to that just a little.

Actually, we're going to San Francisco in a week and a half to the Game Developers Conference, and the Canadian trade commissioner service has a large presence there this year. I know this because we've been in contact with them on this. They're working to match Canadian companies with foreign companies, and they're also working to, I believe, promote Canada as an investment destination as well. I don't know the ins and outs of the meetings and the details, but I know from my past experience attending that particular show that there is quite a reasonable presence there from the trade commissioner service.

[*Translation*]

Mr. Raymond Côté: How much time do I have left, Mr. Chair? You're saying I have only 30 seconds left? I'll wait for the next round and let the witnesses answer questions.

The Chair: Thank you, Mr. Côté.

Mr. Leef now has the floor for seven minutes.

[*English*]

Mr. Ryan Leef (Yukon, CPC): *Merci.* Thank you.

I'm subbing in on this committee, and interestingly enough, last fall I subbed in on the Canadian Heritage committee, and you were testifying at that one on the exact same thing. Lucky me, I can tell you that my son's pretty jealous. He was the last time. He's a 13-year-old kid and like all his buddies, he's highly involved in these games. He'd probably be better sitting in this chair asking you questions than I am. He'd have a million for you.

Ed Holder and I are just waiting for you to come up with probably your next best seller of our video game on question period.

Voices: Oh, oh.

Mr. Ryan Leef: You'd have quite an interactive battle there. I think it would be a number one hit. Get some direct involvement in democracy in Canada. We could have people crossing the floor. I'd play it.

Anyway—I noticed on your map—it's great to see involvement right across the country, save for being right there in the three territories. But I'm just curious; if I missed it, what would you define as sort of the number one drawing card for establishment in each province? I suppose I get Quebec and Ontario kind of dominating a bit of that market, but you see Manitoba has 20 and Alberta has 20, and then Saskatchewan has one sandwiched in between there. Is there some variable that's more attractive in Manitoba, Alberta, and B.C. than Saskatchewan or just in terms of general selection right across the country that projects the growth of the business?

Mr. Julien Lavoie: I think it's helpful to look at some of the bigger clusters where most of the employment is, which is British Columbia, Ontario, and Quebec. In terms of British Columbia, it shares a time zone with California, which is very important for a lot of companies that have headquarters or other operations there. It's also closer to the Asian market and Asian companies as well. There are a lot of Asian companies set up in British Columbia.

Ontario is a bit of a newer player and has a tremendous number of indie companies, a few of the larger types of companies, but mostly it has a burgeoning indie scene. Quebec is the dominant player in terms of the large companies. A lot of the big players are there.

In terms of Alberta, in Edmonton there's one very large studio, but for the most part small and micro-sized companies are situated in some of the other provinces that you mentioned.

There are some tax credit programs across the country. Manitoba has one, Quebec, Ontario, and B.C., all have some manner of credit that does help attract some companies to that jurisdiction.

Mr. Ryan Leef: There's some provincial influence on that.

Mr. Julien Lavoie: That's right.

Mr. Ryan Leef: Sort of on a different vein here, I think it's impressive that you have the third largest video game development in the world, particularly when you look at the global players you're up against. It's neat.

Interestingly enough, one thing that I shared with my son after the testimony at the Canadian Heritage committee that he didn't seem to know, and he's immersed in this stuff to the point where I'm constantly trying to kick him out the door....

Is there a labelling or a marketing strategy? It's great for us here, and I think a lot of us go, "Wow, that's interesting", but when you're so big and such a prominent player in the world, why does the average Canadian not really grasp that just yet?

Mr. Julien Lavoie: It is a global industry and when someone likes a video game they don't always know where it's made. That's obviously something we know is a problem. We feel that it could be a source of tremendous pride for Canadians to know that we are one of the dominant players in the video game industry.

Aside from maybe a few titles that are clearly identifiable as being made in Canada, these products are made for the global market anyway. So they're not uniquely Canadian in the sense that they don't necessarily feature beavers and Mounties that would make them recognizable as a Canadian game. These games are to be sold on a global market in the U.S., Europe, and other places.

It's the same thing for the smaller products. We do talk about the console games, but even on the smaller casual games on a mobile device the same thing is true. Those developers are hoping to not access just the Canadian market but the global market. It has an impact on the fact that the product's not looking Canadian so people don't always make that association.

●(1625)

Mr. Ryan Leef: Would there be an advantage to having the Canadian product synonymous with quality and expertise, and then the government can play a role in branding? So globally, people know this is another Canadian game, another Canadian innovation, another Canadian product and we know Canadians are doing a really good job of this. Would that help, or is it just something you're not trying to stream down?

Mr. Julien Lavoie: Absolutely. The industry has partnered with other groups for the Canadian Videogame Awards and that's a uniquely Canadian video game award show that honours the best in Canadian video games. A lot of the other creative industries, whether it's music, movies, or film, all have award shows on a somewhat national basis in different languages. We felt it was important that video games also be recognized by Canadians...for Canadians to recognize and promote some of these products.

We'd love it if the federal government was more involved in the Canadian Videogame Awards as a concrete way to promote the innovation and the games that are made here.

Mr. Ryan Leef: I sit on the natural resource committee and we talk a lot there about social licence of things on a totally different scale. Of course like a lot of parents they're concerned about the kids. The general perspective is that you're spending too much time on video games, get out there. You must deal with a bit of that. Is there a message that you have, or sort of that social licence that you're giving? What give-back activities are your companies involved with in the community to balance that responsible utilization of video games and the health and welfare of the youth in Canada?

Mr. Julien Lavoie: As an association we've been well involved with media literacy initiatives trying to educate people about media. We just completed, not launched yet, but very shortly we'll be launching some new videos on our website that help parents access some of the parental control features on the major video game consoles. Parents can sometimes feel a little bewildered with the technology so we have step-by-step instructions on how to access some of the parental controls on some of the video game consoles.

We advocate for parental involvement and parental responsibility. The parents really need to know what kinds of games their kids are playing, and help kids make decisions when purchasing games. The rating system is very important. On every box there's always a rating signed by the Entertainment Software Rating Board that helps parents know what kind of content will be played by the kids.

The Chair: Thank you very much.

On to Mr. Masse now. I understand there's going to be some juggling so go right ahead, sir.

Mr. Brian Masse (Windsor West, NDP): Thank you.

Thanks for being here. We've come a long way from Pong, my original console. It's been a great adventure actually through Intellivision, Sega, and now a PlayStation that I have.

One of the things I'm a little bit worried about is that we are focusing a little bit on protecting the industry, but I'd like to go on the offence. So a city like mine that has access to Detroit and Chicago has a lifestyle element that the artists and the rest of the creators could enjoy. Also, we're located in a very low-cost jurisdiction. What advice would you give to me in terms of the top three things that we could change on the government side federally that would open up and maybe gain some market from the United States or somewhere else?

I'm from the auto industry and I'm tired of being cherry-picked all the time. So I'd like to go on the offence on this. What would these top three be?

An hon. member: He's a goalie on the offence.

Mr. Jayson Hilchie: I can give you a bit of a unique background on this, only because before I took this job I worked for a provincial government trying to do just that, which is build the video game industry. So I have some first-hand experience with starting from scratch, almost. It was in Nova Scotia. We had one video game company. There are now something close to 18 or 19 companies there.

I think in general you have to really look at the two things that I talked about earlier as to why in Canada this industry is as big of a success as it is. It comes back to producing the right people, having access to the right people, and then having a government that wants to put the right economic policies in place to create the environment that's necessary for the industry to grow.

Going back to some of the things that Julien said earlier about the threats that our industry faces, if you look in the U.S., there are something like 25 states in the U.S. that now have digital media or video game credits that help entice production to set up in that state. So those types of things are necessary because they are now commonplace and very competitive. Without them you don't get your foot in the door. Having a tax credit does not make you the number one jurisdiction, because there are a lot of other things that go into it.

Having universities—obviously you have a very good university there, and college programs and things like that. That's step number one, making sure you have the right people coming out of school. But then having government support, and a simple focus on wanting to do it—you have to really want to do it because there is so much competition out there. Again we go back to the fact that our industry has a demographic of 31 years old and $72,000 a year. It is a piece of economic development, I guess I could say, that governments look at as being very viable for themselves.

●(1630)

Mr. Brian Masse: Thank you.

Mr. Dan Harris: Following up on your earlier point about the transferability of skills, whether it be into aerospace, simulations, or high-end programming for database and other technologies, Mr. Leef

was asking about excellence and about reputation. Maybe it perhaps hasn't gone through the general public, but certainly within the industry itself Canada is very well known as being a centre of excellence for development, so that's great. That's the first battle, because people have to want to come work here. It's great that the Videogame Awards try to actually break out of the mould and reward those Canadian achievements, certainly because there's another wall that has to be broken down in regard to people viewing a job in the video game industry as a career rather than something you do when you're young before you get your adult job, because it's absolutely not that. That's one thing.

We also have a gender barrier there in terms of the industry itself. There are still not enough women working in the industry. People are always constantly shocked about the percentage of female gamers. Of course you've done research on that, so what is the breakdown between male and female gamers?

Mr. Julien Lavoie: It's almost 50% now men and women, 54% to 46% at last count, but that was a few years ago. As the industry has changed and the product offering has changed and diversified, that has brought in not only a better gender mix but also quite a broader population set. We've seen tremendous growth in gamers over the age of 55 and other even younger players, almost toddlers, sometimes playing some very simple games on mobile devices as well. This is something that is fairly new.

Mr. Dan Harris: To show us also the power of the tax credits and some of the competitive advantages—and I mentioned it Monday—there are even, in special effects, picketers at the Oscars picketing against the tax credits that Canada gives that attracts jobs here in film and TV and specifically special effects, which again is transferable into the video game industry. They certainly would like us to stop doing what we're doing because then we'll lose that competitive advantage.

Speaking about temporary foreign workers, how do we fix the problem at home, all these things. You mentioned that it's a mix. Some of that is, you've mentioned also, that there was a bit of a gap in the workforce that was created by the dot-com bubble bust. Part of the problem will resolve itself probably in the next five years just because the people working there now having five years more experience; some of it. But some of it will.... With the labour market opinions, four months doesn't seem like a long time, but if you're working at EA and you're working on the next NHL, to use the very Canadian example, you have a fixed date that the game has to be out by. If you lose a high-level person and you can't get somebody else in, it could derail the entire project.

You mentioned the games being made in other countries. When we sat in my office and we were meeting and talking with Electronic Arts, they were talking about how, of course, they have shops all across the world and within the company they are competing for the projects themselves. We heard that there's a lot of competition in New Zealand now because they've made changes to immigration and the folks at EA in New Zealand are trying to get EA to move development of games that are done here to there.

●(1635)

The Chair: I'm sorry, you've exhausted your time.

Now on to Madam Gallant.

Mrs. Cheryl Gallant (Renfrew—Nipissing—Pembroke, CPC): I just want to say one thing and then I'm going to be sharing my time with Mike.

First of all, you're looking at new graduates and then foreign temporary workers when you have a pool of talent that I think you're completely overlooking. We have our military who use simulators when they're deployed. They play video games, so they're users as well as designers of software. They have top talent in programming and they have the maturity. Many soldiers join in their late teens. They put in 10 years by the time they're in their thirties, and they're looking for something new to do. Even with a full pension at 20 years, people are looking at something to do in their forties. In some cases, they're probably fully trained and just don't know about you.

We also have soldiers who are medically releasing, and the government pays them to learn a new career. There are other people who are being medically released not because there is anything wrong with their capabilities but because we have a rule that in order to be in the military you have to be deployable. These people just cannot do that. They're still very capable in doing their jobs; they just can't be sent overseas.

My belief is that they don't know about all these opportunities that you're referring to. It probably wouldn't be a bad idea to contact the military unit that is in charge of the joint personnel support unit. That's where the people who are transitioning out or trying to get better to go back into the military reside. Maybe even propose working toward a partnership with the military. We have Helmets to Hardhats. Yours could be the war games to video games. They truly do understand the different aspects of what you've described you're looking for, and perhaps you can work towards a software game or program that would help heal the soldiers suffering from operational stress injuries.

Thank you.

Hon. Mike Lake: Thank you, Mr. Chair.

I'll continue on that. I had a couple of different places to go with questions, but in regard to underutilized resources in terms of skills and talents, one of the areas that the government has been focused on is people with disabilities.

I have an 18-year-old son with autism, as most of the members around the table know. There are particular skill sets that line up with the IT industry particularly, but also the creative arts side of things lines up very well with high-functioning people with autism. It's very tough for them to get through interview processes sometimes, though, and deal with some of the social aspects of employment. I wonder if the industry as a whole has considered looking at that as an option for solving some of the labour issues. I recognize that's not going to help you with the experience side of things, obviously, if you're looking for people who are experienced in the industry. As you grapple with retention issues, some of the employees of the companies themselves right now...that's maybe where your experienced pool comes in, but you're going to need people to replace them as they move up too, as the industry continues to grow....

I throw that out as a option.

We have a panel that's federally funded that is actually working with employers specifically to increase the job prospects of people with disabilities. I'm sure they would very much welcome the opportunity to meet with you and talk about your industry and the opportunities that exist within it.

I don't really need you to respond to that unless you have anything to say to that.

●(1640)

Mr. Jayson Hilchie: It's definitely something we can discuss at our next board meeting with our members and look into the information, and give that to them. I don't know what our individual members have done with respect to that. It's not an issue that I'm necessarily educated on. It's certainly something we can bring to the forefront at our next meeting.

Hon. Mike Lake: It's something that I've had the opportunity to talk to individual employers within your organization about as well. I'd be glad to connect with you offline at some point.

Mr. Jayson Hilchie: Yes, sure.

Hon. Mike Lake: We just put $11.4 million in the budget into one initiative that's specifically autism-related, and another $15 million into another vocational training program, which is more broad based, to do with people with disabilities. I think those would be interesting programs for you to connect with, for sure.

To wrap up, we've covered a lot of ground today. To carry on with Brian's line of questioning, we talk a lot about challenges and how we address challenges, but where is the industry going? I know that's a tough question for an industry that evolves so quickly, and is evolving so quickly. In the short term, we have probably a pretty good idea of where the industry is going. Where is it going in the long term? What do we need to be ready for?

Mr. Jayson Hilchie: That's a great question.

Probably the most honest answer is that a lot of people don't know. The industry today looks a lot different than it did six months ago. Six months ago, a number of investor relations individuals, pundits, and critics would have said that the console video game industry was dead and that the industry's future lay in mobile devices, in telephones and hand-held devices. Others would have said it lay in PCs, home television—smart TVs—and such things.

I think I read yesterday, however, that the PlayStation 4 has already sold seven million units in a couple of months, and the Xbox One is close behind at around five million units. The manufacturers of those console boxes are having a hard time keeping up with production to meet demand. To me it looks as though the console industry is quite alive and well.

What you're going to see is a mix between games going to mobile devices and new experiences, and going to a lot of traditional models, such as consoles that have more of an online and multiplayer experience. The Internet has really changed video games. You no longer have to play by yourself; you can play with a lot of people in your home because of the Internet.

The Chair: Thank you very much, Mr. Hilchie and Mr. Lavoie.

That's all the time we have right now. We need a couple of minutes to transition to our next witnesses. We have bells in a very short period of time.

On behalf of the committee, thank you very much for your testimony. We greatly appreciate it.

We'll suspend for three minutes, ladies and gentlemen, and then we'll come back with the officials in public.

●(1640)

———————— (Pause) ————————

●(1645)

The Chair: Ladies and gentlemen, we'll continue now with our meeting on supplementary estimates.

We have before us from the Department of Industry Robert Dunlop, assistant deputy minister for the science and innovation sector. We have from the Natural Sciences and Engineering Research Council of Canada, Janet Walden, chief operating officer; and from the Social Sciences and Humanities Research Council of Canada, Ursula Gobel, director of the communications division. We also have Gail McLellan, director general of finance branch at the National Research Council of Canada.

How many of you have opening remarks?

Mr. Dunlop? Okay, go ahead; then we'll move to our rounds of questioning.

Mr. Robert Dunlop (Assistant Deputy Minister, Science and Innovation Sector, Department of Industry): Thank you very much, Mr. Chair, and thank you, committee members. It's our pleasure to be here today to answer any questions you may have on science, technology, and innovation issues relating to the supplementary estimates (C), which you are currently examining.

I thought I might highlight a few of the programs that are involved in the main supplementary (C) transactions, by way of an introduction. The centres of excellence for commercialization and research program, or CECR, bridges the gap between innovation and commercialization. The program matches clusters of research expertise with the business community to share knowledge and resources to bring innovations to markets faster.

Created in 2007, the CECR program invests $30 million a year in Canadian innovation. The program is managed by NSERC in collaboration with the other two granting councils, and funds are appropriated to the three granting councils on the basis of competition results.

With supps (C), the subject of today's investigation, we are moving funds to NSERC and SSHRC according to the disciplines that were successful in the competitions. As a result of the latest competition, NSERC is requesting $6.1 million to support centres with activities in its disciplines, and SSHRC is requesting $2.8 million.

[Translation]

The business-led networks of centres of excellence program, sometimes known as the BL-NCE, funds large-scale collaborative research networks that bring academic and other research expertise to bear on specific R&D and commercialization challenges identified by an industrial sector. The BL-NCE program was created in 2007 and was made permanent in the 2012 federal budget, with annual funding of $12 million.

The BL-NCE program is administered by NSERC but managed on a tri-council basis. Funds for the program are appropriated annually to the three granting councils on the basis of their estimated shares, and then following competitions, adjustments are made between the three councils to reflect the actual results in each discipline. In these Supps C transactions, NSERC is transferring $1.4 million to CIHR and $238,000 to SSHRC on the basis of the latest competition.

●(1650)

[English]

The college and community innovation program supports applied research and collaborations that facilitate commercialization, as well as technology transfer, adaptation, and adoption of new technologies. It was designed to increase innovation at the community and/or regional level by enabling Canadian colleges to increase their capacity to work with local companies, particularly SMEs. The budget of CCI, in economic action plan 2013, was increased to $50 million a year.

CCI is administered by NSERC in collaboration with the other two granting councils. Funds for this program are appropriated annually to NSERC, and then further distributed to CIHR and SSHRC on the basis of competition results in those disciplines. In this case, $43,000 is being transferred to SSHRC to support two projects in the social sciences and humanities.

As part of the youth employment strategy, NRC-IRAP delivers an internship program to innovative SMEs, providing them with up to $30,000 to hire interns—who are post-secondary graduates—for a period of six to twelve months. These graduates work on innovative projects within an SME, and may participate in the research, development, and commercialization of technologies. The total budget of the NRC-IRAP youth employment program for 2013-14 is $5 million, with an additional $1.44 million provided through supplementary estimates (C).

Mr. Chair, with that brief opening remark on the main elements, we would be happy to take any questions from members of the committee.

The Chair: My math goes we'll do five, six, five, and four. We'll be beginning with the Conservative Party.

Hon. Mike Lake: Thanks, Mr. Chair, and thanks to the witnesses for coming.

Mr. Dunlop, this one is for you.

Our government has made a historic commitment to post-secondary research institutions in, of course, this last federal budget to secure our leadership in various fields of research that will have long-term economic benefit for Canada.

The Canada first research excellence fund will invest $1.5 billion over 10 years, beginning in 2014-15.

Can you tell the committee how the funding will be allocated over the years, and how the investment will benefit our universities, colleges, and polytechnics, and what the process might look like for determining the successful applicants?

Mr. Robert Dunlop: Thank you, Mr. Chair, for that question.

Yes, this is a very significant new initiative, providing $1.5 billion over the next 10 years to address the desire of Canadian universities and colleges to really move to the next level in terms of international competitiveness.

The budget announced a series of parameters, or criteria, that the ultimate program design is to meet, and Minister Rickford is now beginning work on the finer elements of the design of the program.

The critical elements here are that it will be allocated on a competitive basis; it is open to all post-secondary institutions, universities, and colleges; and it is to have an impact on areas of economic importance. We've already begun discussions with some of the main university groups, but within those parameters and with the idea that this is to have a major impact on the presence of Canadian post-secondary institutions on the world stage. Those are the parameters that Minister Rickford and officials will be working with.

Hon. Mike Lake: The budget also provided the largest one-time increase to granting council funding in over a decade. I think it was $46 million per year on an ongoing basis to boost Canada's discovery and applied research while strengthening our knowledge economy and creating jobs.

I'm just wondering if the reps from NSERC and SSHRC could tell the committee how these new investments will be used by their respective councils?

● (1655)

Ms. Janet Walden (Chief Operating Officer, Natural Sciences and Engineering Research Council of Canada): Thank you for the question.

From the perspective of the Natural Sciences and Engineering Research Council, the increase to our base budget was $15 million per year.

Those funds will be directed towards discovery-based research.

Ms. Ursula Gobel (Director, Communications Division, Social Sciences and Humanities Research Council of Canada): For the Social Sciences and Humanities Research Council, the increase was $7 million to our base budget, and that will be directed to our three programs of talent, insight, and connection. We're determining now the proportion across those three, but it will support research excellence and be peer reviewed, of course.

Hon. Mike Lake: The granting councils provide a lot of support to undergraduate, graduate, and postgraduate students in Canada to ensure our country attracts, maintains, and retains the top research talent in the world.

I'm wondering if the two of you, again, would be able to tell us how many students and researchers are supported by the councils each year?

Ms. Janet Walden: From the NSERC perspective, we're currently funding approximately 10,000 researchers and 30,000 students, both annually. About half of those students are supported through our people thrust, which is focused on scholarships and fellowships.

The other half of those students are supported through grants, which means that through the discovery grants program, through our innovation-based programs, there is significant support of students.

Hon. Mike Lake: Actually, I have just a minute left. I had a question written down here, but I'm just going to ask something for anybody who is listening to this. There are four or five people who actually listen to these things and follow. Can you tell us what NSERC's focus is and what SSHRC's focus is? If there are three granting councils, many people wouldn't really understand the differences among the three. Two of them are under industry.

Could you take 30 seconds each to explain this?

Ms. Janet Walden: NSERC, the Natural Sciences and Engineering Research Council, one of three federal granting agencies, supports research in post-secondary institutions in the sciences and engineering, including supporting students and researchers through thrusts that are people-oriented, discovery-research-based, and innovation-research-based, which means the full spectrum of research from very fundamental work right through to application into the economy.

Ms. Ursula Gobel: The Social Sciences and Humanities Research Council supports students, scholars, and emerging scholars through its three programs in the disciplines of social sciences and humanities, which cover in fact 30 disciplines across campuses. Within our program architecture we support, tremendously, the knowledge mobilization to ensure that the research and the insights that are derived through the support that we provide really get into the hands of those communities, individuals, and businesses that can benefit from that research. That knowledge mobilization entity is critical within all of our support. In addition, within the Social Sciences and Humanities Research Council, we have oversight for the three tri-council programs, which we can speak to if you're interested.

The Chair: Thanks, Ms. Gobel.

We now go to Monsieur Côté for six minutes.

[*Translation*]

Mr. Raymond Côté: Thank you very much, Mr. Chair

I would like to thank the witnesses for being here.

We don't have much time, so I'll go quickly.

The Parliamentary Budget Officer released a report on the supplementary estimates that we are studying today. This is a general comment on these supplementary estimates. He wrote:

> Parliamentarians may wish to clarify why the Government was unable to fulfill its spending commitments in the current year and seek guidance regarding when these investments will be made.

Does the Parliamentary Budget Officer's observation apply to the estimates we are studying here concerning the industry and research centres?

Mr. Robert Dunlop: To be honest, I'm not aware of the content of the report that was published today. So it is really difficult for us to answer the question. We can study it, but it's really difficult for us to answer this question right now.

Mr. Raymond Côté: You could give the committee your answer at a later date. Very well, thank you.

In the last budget, the government launched the first research excellence fund, which will be in place as of the 2014-2015 fiscal year. I had a question about that. Are there already amounts in supplementary estimates (C) that are assigned to the first research excellence fund? If so, could you specify which?

● (1700)

Mr. Robert Dunlop: Thank you for your question.

Actually, the expenses for the first research excellence fund will start in the 2015-2016 fiscal year. The budget announced the launch of the fund. We are currently working on the standards and conditions. It will officially start and the expenses will start in the 2015-2016 fiscal year. They will continue in subsequent years.

Mr. Raymond Côté: Very well, thank you very much for that answer.

This brings me to your presentation. You spoke about transfers of amounts related to SSHRC and CIHR, among others. A little later, you mentioned the college and community innovation program, or the CCI. You said that, in the economic action plan 2013, the CCI's budget was increased to $50 million a year. Are we talking about new money or money that was transferred from other sources?

Mr. Robert Dunlop: Actually, it was a budget announcement. So they are new funds. The total budget for the program must be $50 million a year, in accordance with the announcement in 2013.

Mr. Raymond Côté: Right.

That leads me to understand that it really is new money and not money that was authorized, money that would not have been assigned and would not have been spent, which is another problem.

Mr. Robert Dunlop: That's right. These are new funds for the program announced in 2013.

Mr. Raymond Côté: Okay.

In real dollars, there are cuts in the various budgets of the granting councils. Has that created difficulties with respect to assigning those funds? I am thinking of the Natural Sciences and Engineering Research Council, which receives subsidies to the tune of $1 billion, or the Social Sciences and Humanities Research Council. Have all these subsidies been assigned or do you expect that some funds won't be used?

Ms. Janet Walden: So far, we have already assigned about 94% of our funds. By the end of the fiscal year, we believe we will have spent all our funds.

Mr. Raymond Côté: Okay.

The operating budget of these councils has been cut. Can you tell us about the impact of those cuts on the operations or on the budget of the organizations you support?

Ms. Janet Walden: Are you talking about cuts to the administrative budget?

Mr. Raymond Côté: Yes, we could talk about administrative cuts.

Ms. Janet Walden: The administrative budget accounts for about 4.7% of our total budget. NSERC works in a very narrow field. Every budget cut is difficult for us, but at the same time it gives us the opportunity to be creative and innovative in changing our processes and modernizing our systems.

Mr. Raymond Côté: Thank you very much, Mr. Chair.

The Chair: Thank you, Mr. Côté, Mr. Dunlop and Ms. Walden.

[*English*]

Now on to Mr. Regan for four minutes.

Hon. Geoff Regan: Thank you, Mr. Chairman.

Thank you to the witnesses for coming today.

Mr. Dunlop, ACOA is experiencing a decrease in contributions and other transfer payments of $20.5 million, and of course, ECBC, which administers ACOA's programs in Cape Breton, has been cut $27 million compared to three years ago. What impact are these cuts having on staffing levels?

● (1705)

Mr. Robert Dunlop: Thank you for the question.

Mr. Chair, I'm afraid I'm not able to answer any questions about ACOA; the department is not part of Industry Canada.

Hon. Geoff Regan: It says here that.... We're looking at the supplementary estimates (C), vote 5c under Atlantic Canada Opportunities Agency, vote 60c, 65c, etc.

Are you telling me that nobody's here to answer questions about ACOA? Is ACOA not important enough to have someone come here to answer questions about these massive cuts? Mr. Holder's mother would be very concerned as a native of Cape Breton.

Mr. Chairman, can you explain that to me? ACOA is listed first here under the supplementary estimates (C), and there's nobody here from ACOA to answer the questions that I have about what's happening here to ACOA and ECBC. Am I missing something? Why is ACOA on here at all if we're not here to talk about it?

The Chair: I can only go by the information that I have, Mr. Regan. ACOA does not report to the department. It has its own minister and some deputy ministers as well.

Hon. Geoff Regan: Is there going to be another meeting at which someone from ACOA will be here to deal with these supplementary estimates (C)? Obviously, we're dealing with the supplementary estimates (C), and it says Atlantic Canada Opportunities Agency. They clearly report, as I understand it, to a minister, but doesn't it also report to Industry Canada? Regardless of that, the point is, they report to this committee and there's nobody here from ACOA.

The Chair: That's correct.

Hon. Mike Lake: What was the motion passed by the committee?

The Chair: It was agreed that the committee invite officials of the Department of Industry to appear before the committee on supplementary estimates before Thursday, March 6.

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

Hon. Geoff Regan: Yes, and included of course in terms of responsibility of this committee are the estimates of ACOA. If you look at the supplementary estimates (C) and you turn to the first item in here on the index—detail by organization—you see Atlantic Canada Opportunities Agency.

The Chair: They're not here.

Hon. Geoff Regan: I was anxious to talk about and ask questions about that.

The Chair: Mr. Harris, is this a point of order?

Mr. Dan Harris: Maybe a way to help resolve this a little—as much as I love beating up on the government, we did just make this decision on Monday, and we're Wednesday, two days later. We have many department officials here, but would it be possible if Mr. Regan has some questions for ACOA for them to be submitted, and hopefully get an answer back before things are tabled on the seventh? Just to try to find a way around it so that questions could still get answered.

Hon. Geoff Regan: I will ask one question at least to Mr. Dunlop. In general, in terms of the department and the programs we're talking about today, how is the government consulting with local communities and groups with respect to investments in business development?

Mr. Robert Dunlop: Thank you for the question, Mr. Chair.

It's difficult for me to answer the general question about business development programs across the department, as my area is science, technology, and innovation. I can say, for example, on the updated science, technology, and innovation strategy that the government announced in the Speech from the Throne, that extensive consultations have been held by the minister and by officials across the country. We've received over 2,000 submissions, and those are being used right now to do a detailed study of the advice of Canadians on our programs.

Hon. Geoff Regan: What proportion of the funds for those programs is spent in Atlantic Canada?

Mr. Robert Dunlop: I couldn't tell you off the top of my head.

Hon. Geoff Regan: I guess I accept that. That's it for now, Mr. Chair. I would have been anxious to ask questions about ACOA and ECBC.

Thank you.

The Chair: Thank you, Mr. Regan.

Now on to Ms. Crockatt for four and a half minutes.

Ms. Joan Crockatt (Calgary Centre, CPC): Thank you very much.

Thank you very much for coming here today to answer these questions. It's great to hear about the new investments in science, technology, and innovation. As a former CEO of an R and D company, this is particularly close to my heart.

This is a historic commitment to research. In a global sense, Mr. Dunlop, how do you expect the funds committed here to change the picture for innovation in Canada.

●(1710)

Mr. Robert Dunlop: Thank you very much for the question.

As my colleague Janet Walden has said, this commitment to discovery research is a very important one. It's always been very difficult to make a distinction between discovery and applied research. For example, in astronomy they have some of the most challenging areas of development in handling massive amounts of data, and companies like IBM and Cisco are as interested in what's happening with astronomy as people who are interested in the stars.

This provides the granting council with the ability to be flexible in what's supported with a view to the future as well as doing the applied research, which is very important. As I mentioned, it's really exciting to see the Canada first research excellence fund. It is a challenge to our universities and colleges to be really creative and to think about how they can marshal resources around a research question, or around what's available in an area to take on a bigger question and achieve a more ambitious target than they would otherwise be able to do.

Additional support has been provided to keep Canada's high-energy physics lab, TRIUMF in Vancouver, going for another five years. They played a critical role in the discovery of the Higgs boson. This is a very exciting time for us working in science and technology in the federal government, and we're looking forward to implementing the decisions that were announced in budget 2014.

Ms. Joan Crockatt: Good. So you're expecting that quite a bit more flexibility will lead to more innovation. Is that essentially it?

Mr. Robert Dunlop: It contributes to that, yes. We don't have the good ideas; the researchers do. When they come to us with a great idea, Janet likes to be able to say yes, based on the proposal.

Ms. Joan Crockatt: Okay.

I was also very impressed with 10,000 researchers being supported and 30,000 students.

Of course, we're always interested in the commercialization aspect. How do you actually get all these great ideas out into the marketplace? I see that you're expecting that a significant number of small and medium-sized businesses will benefit from this.

I'm wondering if Ms. McLellan can tell us how many businesses will be supported by the program, by the NRC's IRAP, and how many jobs were created in the recent fiscal year for this program.

Ms. Gail McLellan (Director General, Finance Branch, National Research Council of Canada): Thank you for the question.

Unfortunately, I wouldn't be able to answer that. I would have to get back to you in terms of the number of jobs for IRAP and the contributions to SMEs.

In terms of the supplementary (C)s, I can address those kinds of questions.

Ms. Joan Crockatt: Okay. If that's something that you're able to provide us with later, that would be great.

Let's go to NSERC and SSHRC, then, and talk about the students and researchers there. This is going to support undergraduate, graduate, and postgrad students to ensure that our country is going to attract, maintain, and retain the top research talent in the world. Can you talk about how many students there are and what these students and researchers are actually going to be doing?

I think that's for you, Ms. Gobel.

Ms. Ursula Gobel: Within the parameters of the new Canada first research excellence program, those will be defined as the program is developed, but we can certainly look to the successes that we've achieved here in Canada. Through the Canada excellence research chairs program, the Canada research chairs program, and certainly within the programs that we support at SSHRC, we're seeing that the talent, the level of excellence, is so significant. By having top research talent here, they're attracting those talents to the actual institution, so the learning and the research skills are being developed at a much earlier stage in the student's career and at the undergraduate level.

Those principles will certainly be taken into account as the parameters for the program are developed. How can we encourage greater opportunities—

Ms. Joan Crockatt: What I'm trying to get at, actually—and maybe I didn't phrase the question well—is, how can we expect more commercialization to happen as a result of the funds that are being allocated here?

Ms. Ursula Gobel: In terms of commercialization, each of the councils has specific programs that address that particular need. The NCE program is certainly a good example of that.

At SSHRC, our partnership program encourages end-to-end research. One key principle there, even as it applies to NSERC, is that for commercialization, innovation, competitiveness, and productivity, success in those areas really depends on a multidisciplinary approach.

You can have a terrific product and you can have a terrific marketable product, but unless you understand those markets, and unless you understand the customers for those markets, it can only go so far. That has been one of the lagging challenges for Canada in terms of growing small businesses into large competitive businesses internationally. That's where, collectively, the councils can really make a difference in creating an ecosystem that really brings the best of ideas together.

● (1715)

The Chair: Thank you very much, Madam Crockatt.

I want to thank the witnesses on behalf of the committee. We appreciate your taking the time especially as it was very limited notice that we gave you. So we appreciate your investment here in the committee to answer questions.

Colleagues, because of the nature of the next supply day, I was just advised that these supplementary estimates are deemed adopted by the end of the day today. So they're basically deemed reported back. In other words, you can choose if you want me to just submit something in the House but it's....

An hon. member: On division.

The Chair: Okay.

So even though they are deemed adopted tonight, do you still want a report in the House tomorrow, after the fact?

An hon. member: Yes.

The Chair: It's my understanding that it's done tonight. Is that a procedure we can do?

The Clerk of the Committee (Mr. Andrew Bartholomew Chaplin): Yes.

An hon. member: I thought it was by the seventh.

The Chair: Yes, the supply day was changed yesterday.

I need to go through the order here.

The chair calls vote 5c under Atlantic Canada Opportunities Agency, and votes 60c, 65c, 70c, 80c and 95c under Industry.

ATLANTIC CANADA OPPORTUNITIES AGENCY
Department
Vote 5c—The grants listed in the Estimates and contributions.........$5,294,159

(Vote 5c agreed to on division)

INDUSTRY
National Research Council of Canada
Vote 60c—Operating expenditures..........$1
Vote 65c—Capital expenditures..........$1
Vote 70c—The grants listed in the Estimates and contributions..........$1
Natural Sciences and Engineering Research Council
Vote 80c—The grants listed in the Estimates..........$5,991,056
Social Sciences and Humanities Research Council
Vote 95c—The grants listed in these Estimates.........$2,719,145

(Votes 60c, 65c, 70c, 80c, and 95c agreed to on division)

The Chair: Shall the chair report vote 5c under Atlantic Canada Opportunities Agency, and votes 60c, 65c, 70c, 80c, and 95c under Industry to the House?

Some hon. members: Agreed.

The Chair: We're adjourned.