



Thursday, August 27 2020

Standing Committee on Finance and Economic Affairs (“SCFEA”) – SMEs
Chair, MPP Amarjot Sandhu
Committee Clerk, Ms. Julia Douglas
99 Wellesley Street West
Room 1405, Whitney Block
Queen’s Park
Toronto, ON, M7A 1A2

Dear Standing Committee members,

We are pleased to submit a written submission following Interactive Ontario’s (“IO”) appearance before SCFEA – SMEs, on August 26, 2020 at 2pm.

We very much appreciated the Committee’s questions and engagement with **IO’s deputation** comprised of the following Interactive Digital Media (“IDM”) industry leaders:

- Joel Burgess, Studio Director, Capybara Games
- Jonathan Stanton-Humphreys, CEO Hitgrab Game Labs
- Lucie Lalumière, President & CEO, Interactive Ontario
- Mary Sorrenti, Vice-President, Game Pill & VRGEN

Vikas Gupta, CEO of AVARA Media and a member of IO, also conveys his thanks to the Committee. Mr. Gupta appeared before SCFEA on August 26, 2020 at 11am.

Interactive Ontario is the not-for-profit trade association formed by and for the IDM industry in Ontario. IO represents companies from Small-Medium Enterprises (“SMEs”) to multinational corporations, which produce and export **video games, virtual and augmented reality applications, eLearning content**, and other innovative IDM applications. Our Ontario companies are proud contributors to the cultural and economic fabric of Ontario. They are **techno-creative and innovative**, as they continually push the boundaries of creativity and technology to compete worldwide.

Pre-COVID-19, the IDM industry in Ontario was on a steep growth trajectory with an international market footprint, and a steady need for a young professional workforce:

- **GDP:** \$3 billion in 2017, an increase of 11% vs 2016, 113% vs 2010¹.
- **Jobs:** 22,375 in 2017, an increase of 10% vs 2016, 62% vs 2010¹.

¹ Statistics Canada, Provincial and Territorial Culture Indicators – PTCL, April 25, 2019

- Average **employee age**: 31².
- Average **salary**: \$74,000².
- **Export-driven**: 91% of revenue is from international markets².
- **Entrepreneurial**: The province of Ontario has the most video game studios in Canada³.

However, compared to more mature jurisdictions, our ecosystem of companies in Ontario is still emerging. Indeed, most of our companies are small SMEs with over a third of them having been in operation for 5 years or less². While this shows the entrepreneurial and innovative nature of our industry in Ontario, it also highlights its **greater vulnerability to economic uncertainty compared to other, more mature, jurisdictions**.

According to a Nordicity study on the impact of COVID-19 on the IDM industry⁴ conducted at the onset of the pandemic, the greatest risks to the IDM sector in Ontario are:

- **Limited cash runway:**
 - Since the release of the aforementioned study in early April, this risk has been partly mitigated by measures implemented by the federal and provincial governments such as the CEWS wage subsidy, the emergency funding programs for the IDM industry managed by the Canada Media Fund (“CMF”), and the fast-tracking of the Ontario Interactive Digital Media Tax Credit (“OIDMTC”). With respect to the latter, IO and the IDM industry thank Minister MacLeod and her team at the Ministry of Heritage, Sport, Tourism, and Culture Industries (“MHSTCI”), as well as Ontario Creates for the tremendous efforts they made to cut red tape and fast-track processing of files.
 - Cash runway remains a significant industry concern as the pandemic draws out and apprehension regarding a second wave hinders recovery.
- **Impeded business development:**
 - IDM companies need to secure work many months in advance, whether it is fee-for-service contracts or production/distribution deals for original intellectual property (“IP”). Since the start of the COVID-19 crisis, business development activities have been severely impacted with suspended or cancelled contracts, cancelled markets (now partly converted to online markets), as well as delayed or prolonged decision making of buyers due to their increased aversion to risks and/or changing priorities.
 - This is exacerbated by the fact that the COVID-19 crisis has stalled capital fundraising.

Overall, the growth of the IDM industry in Ontario has been effectively stymied, at a time when it was poised to grab a more significant piece of the global market.

In Ontario and other jurisdictions worldwide, the video game industry represents a useful proxy for the more comprehensive and fast-evolving IDM industry. Recent studies show that the **global market for video games** is estimated to reach US\$159.3Bn by the end of 2020, and will grow to US\$200.8Bn by the end of 2023⁵. Global consumer demand for game content is estimated to grow by a compound annual growth rate (CAGR) of 7.7% between 2018 and 2023⁶. To put that figure into perspective, the global economy (measured in real GDP) is projected to grow at a CAGR of between -2.1% and 1.3% between 2019 and 2024 (2nd wave of COVID-19 depending)⁶.

² Interactive Ontario, Measuring Success: The impact of the Interactive Digital Media sector in Ontario, May 2019

³ ESAC, The Canadian Video Game Industry 2019

⁴ Nordicity, Measuring the Impact of COVID-19 on the IDM Industry, April 15, 2020

⁵ Newzoo, 2020 Global Games Market Report

⁶ IMF, World Economic Outlook, Update June 2020.

This **increase in consumer demand** is propelled by the fact that video games are currently played by people of all ages and genders around the world. In Canada alone, there are 23 million gamers, half of whom are women⁷. Additionally, rather than being negatively impacted by the on-going COVID-19 pandemic, games (like other forms of digital content) are thriving. For example, spending in the United States in June 2020 on games software and accessories was at the highest level ever observed, with overall spending on games representing a 26% year-over-year growth (from June 2019)⁸. Furthermore, the World Health Organization is promoting games as a recommended safe social activity during the pandemic.

There is a clear **market opportunity**, underpinned by the IDM industry's resilience to primarily work from home. However, in order to seize this great opportunity, our Ontario IDM sector must be able to pull through the cash flow and business development challenges triggered by the pandemic, and exacerbated by the still-emerging nature of our industry in the Province. Ontario must also remain competitive at a time when competition for IDM companies and talent is heating up on the global stage.

IO and a group of eleven business leaders from the IDM sector came together under the auspice of MHSTCI – **Ministerial IDM Council** – to make recommendations aimed at mitigating the risks generated by the pandemic and also stimulating recovery and growth.

IO fully supports the range of recommendations of the IDM Council and wants to call the attention of SCFEA to one specific component of the IDM Council's recommendations, i.e. the fact that the **Ontario Interactive Digital Media Tax Credit (OIDMTC) must be improved** to stimulate growth and ensure the competitiveness of our province with other jurisdictions.

The **OIDMTC is a public policy investment mechanism** that has been instrumental to the growth of Ontario's IDM sector. But it is time to, at a minimum, catch up to the best practices that have long since been implemented by other jurisdictions. The COVID-19 crisis is inciting jurisdictions around the world to look at growth sectors that will create high-paying jobs. Therefore, **jurisdictions worldwide are tuning in to the fact that the IDM industry is an undeniably high-growth sector**. They are assertively taking actions to attract IDM companies, talent, and foreign direct investments ("FDI") to their jurisdictions with their tax credits and programmes.

Our Ontario industry is no longer competing on an even playing field in capturing the global increase in consumer demand. Therefore, industry and government must work together to refine the OIDMTC. The following are key recommendations that will allow Ontario to, at a minimum, align with best practices:

1. **Implement a service standard**, with public-facing KPIs for the issuance of the Certificate of Eligibility and tax refund.
 - a. While there has been significant progress in processing times over the last few months, Ontario must now establish a service standard similar to Quebec's Tax Credit for the Production of Multimedia Titles.
 - b. A prescribed service standard will allow companies to work effectively with the tax credit, plan ahead and re-invest in their people, products, and companies with confidence.

⁷ ESAC, Essential Facts About The Canadian Video Game Industry, 2018

⁸ NPDI Group Inc, "U.S. Total Tracked Spending Trend, June 2020", July 17, 2020

2. **Lower the threshold for annual filing** for IDM companies who attain a \$50,000 labour threshold under section 93.2.
 - a. The Ontario IDM industry applauded the reduction of the labour threshold for annual filing from \$1M to \$500,000 in the 2019 provincial budget. This was a step in the right direction. However, Ontario is still far from other competitive jurisdictions, like Quebec, that do not have a minimum threshold for annual filing. This, and the other measures explained herein, propelled the Quebec IDM industry to world-renowned success, resulting in a thriving ecosystem that employs almost 3 times the number of full-time equivalents (“FTEs”) than in Ontario⁹.
 - b. IO recommends lowering the threshold to \$50,000 in order to allow bona fide IDM companies to qualify for annual filing, instead of project-based filing applications that are only eligible once a project has been completed and accessible to the public.
3. **Enable compatibility with the federal Scientific Research and Experimental Development (“SR&ED”) tax credit on OIDMTC-eligible labour activities** similar to what the Manitoba jurisdiction offers to its IDM companies.
 - a. Technical innovation is integral to the success of the IDM industry. Other jurisdictions like Manitoba, recognize that and encourage technological innovation by allowing IDM companies to claim the SR&ED tax credit on the portion of labour that is not claimed under the Manitoba Interactive Digital Media Tax Credit.
 - b. This is another clear competitive advantage that other jurisdictions have over Ontario.
4. **Include the eligible labour activities of new Ontario residents** who establish their residency and file personal income taxes in Ontario in the year they are hired.
 - a. The worldwide competition for senior IDM talent is fierce, and jurisdictions are taking actions to attract such talent. Indeed, for each senior acquired, many juniors and intermediates can be rapidly upskilled. Moreover, in most cases, the senior talent attracted will put down roots in Ontario with their family, further increasing their contribution to the Ontario economy. Based on the current OIDMTC legislation, IDM companies are forced to delay hiring foreign talent since they cannot claim OIDMTC on new Ontario residents during the first year of employment in Ontario. This is another obstacle for Ontario companies that is not present in other jurisdictions like Quebec.
 - b. IO recommendations would qualify new Ontario residents to be claimed if they file personal income taxes in Ontario in the year they are hired. This would encourage companies to attract senior talent committed to staying in the province.
 - c. On a related point outside of OIDMTC, IO recommends that the government provide a single point-of-contact to the IDM industry to support and streamline senior-talent immigration processes.
5. **Allow for collaboration between Ontario companies**, which is currently limited by the 80/25 rule.
 - a. Ontario companies claiming OIDMTC after project completion under the specified and non-specified product stream cannot collaborate with other companies because of the current 80/25 rule. The latter also forces companies to structure their projects based on bureaucratic rules (red tape) rather than what makes sense business-wise. There are no such rules in Ontario for annual filing (point 2), nor do such rules exist in other jurisdictions like Quebec.

⁹ ESAC, The Canadian Video Game Industry 2019, November 2019

- b. Recommendation 2 (Lower the threshold for annual filing) would essentially eliminate the 80/25 rule. It would significantly stimulate growth by encouraging collaboration and innovation, which are at the core of our industry.

6. Eliminate the red tape and complexity involved in the review and processing of transmedia products.

- a. Transmedia IDM products (also called convergent or cross-media products) are innovative interactive applications that cross the boundaries between media. They extend IP across media such as film, TV, music, books, and magazines. They have the potential to bridge across all of the creative industries and will increasingly play an essential role in reaching new global audiences.
- b. The ODMTC does not currently effectively support bona fide transmedia IDM Products. The review process lacks transparency and consistency. It results in unpredictable decisions, which is not conducive to a stable business environment. IDM companies can suffer significant negative financial impacts when told, years after having invested in the production of transmedia projects, that their ODMTC claims are rejected.
- c. In the short term, IO offers to work with the government and Ontario Creates to identify obstacles to the eligibility of bona fide transmedia products that can be rectified with the issuance of a clarification memo on the interpretation of the guidelines.

Ontario has what it takes to become one of the global leaders in interactive digital media, with our diverse workforce, highly-qualified creative and technical talent, top-notch post-secondary institutions and great entrepreneurial spirit. By improving the ODMTC, we will create more jobs, attract greater foreign investment, and grab a bigger piece of the burgeoning global consumer demand. We will grow faster and contribute more to the economic recovery of the Province.

Our industry also wants to reiterate its interest and commitment to working with all sectors on the economic recovery of our Province. Ontario's IDM companies have creative and technological expertise that can be further leveraged in healthcare, training and education, industrial simulations, public governance, and many other sectors. We are also committed to working with government and academia in ensuring the development and continuous education of world-class talent.

Interactive Ontario and its members are ready to work with the Province in order to refine the recommendations mentioned above and the others recommended by the IDM Council. Together, we can return to growth and continue to significantly contribute to the economic prosperity of the Province.

Best regards,



Lucie Lalumière, President & CEO, Interactive Ontario (IO)
On behalf of IO's board, members and deputation to SCFEA

(647) 923-5717 (m) | lucie@interactiveontario.com
Twitter: @IONews | www.interactiveontario.com