

Ministry of Community, Sport and Cultural Development
BRIEFING NOTE FOR MINISTER

Ref #: 151027

FOR MEETING

Date: July 24, 2012

Title: Meeting with Ted Nugent, Genius Factor Games, July 26, 2012.

Issue: S13, S17
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Background:

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Industry Profile:

- According to the BC Interactive Task Force's May 2012 submission to the Expert Panel on Business Taxation in British Columbia, BC has become a "digital powerhouse" over the last 30 years.
- The submission states that, over the past three decades, industry growth has averaged 20%; industry GDP is estimated to be \$855 Million; and, that there are

over 85 interactive studios directly employing an estimated 5,000 full time workers earning about double the average annual provincial salary.

- BC is ranked second in Canada behind Quebec and top 10 in the world.
- Drivers of B.C.'s success are strong educational programs producing well-trained talent, geographic positioning (same time zone as U.S. video game publishers) and quality of life desired by highly skilled workers.
- Over the last few years, Canadian provincial governments have developed a range of programs applicable to video-game companies in an effort to unseat BC as the leader in digital industries growth. Ontario and Quebec in particular, have introduced aggressive tax incentives to compensate for the BC advantages and attract video-game companies:
 - Ontario Interactive Digital Media Tax Credit - 40% of eligible labour
 - Quebec Multimedia Titles Tax Credit – 30% of qualified labour
- To help B.C. remain competitive the B.C. Interactive Digital Media (IDM) Tax Credit (17.5%) was introduced in September 2012.

Families First Considerations: Jobs in this sector are generally high paying and considered to be green.

First Nations Considerations: n/a

Discussion:

- BC provides support to the digital media industry in several ways including:
 - The IDM tax credit;
 - Trade mission support through the Ministry of Jobs, Tourism and Innovation; e.g. attendance at the "Casual Connect" social media gaming conference in Seattle this week.
 - The favourable business and tax environment;
 - Educational institutions developing a trained labour force;
 - Immigration initiatives aimed at facilitating entry of skilled workers;
 - Scientific Research and Experimental Development Tax Credits (SR&ED).
- However, the industry says that the BC digital media tax credit, net of provincial SR&ED, which must be forfeited, is effectively only 5% on average, which is not enough to attract new investment or encourage expansion.
- BC has the lowest digital media tax credit in Canada. It is estimated that producing a console game in Quebec costs about \$4.0 million less than to produce the same game in BC, due to the tax incentives. For many companies, this is too much of a cost differential to be outweighed by BC's advantages.

- It appears that it is the larger console games that are being attracted to Ontario and Quebec. However, GREE, a leader in developing mobile social games and platforms, has stated that it based its recent decision to establish a studio in Vancouver on the existence of the highly qualified talent pool.

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Recommended Response:

Minister Falcon issued the following statement to “the Province” on July 10, 2012:

This government has committed to ensuring BC has one of the most competitive overall tax regimes in Canada and among the G-7 countries. Our 10% general corporate income tax rate, the small business tax rate and its personal income taxes are lower than Ontario and Quebec. In addition, BC does not levy a payroll tax on employers.

We introduced the Interactive Digital Media Tax Credit to provide a refundable 17.5% tax credit on eligible salary and wages incurred by eligible corporations to develop interactive digital media products in BC.

These tax credits and low tax rates combined with BC's other advantages including a highly skilled and well-trained workforce make B.C. an appealing location for high tech businesses – that's why industry leaders like Microsoft have chosen to set-up in B.C.

B.C. continues to be a leading global video games hub in Canada with over 85 studios employing about 5,000 full time highly-paid employees and thousands more under contract in BC.

The gaming industry can be very fluid and in any given year, we will see some companies leave and new companies set-up - over the past year we have seen several video game developers establish a presence in B.C., including DeNA/Gameview (Vancouver); Gamehouse (Victoria) and Microsoft (Victoria), among others.

This government is proud of its record of fiscal responsibility, which has made BC a safe harbour for investors and given B.C. a clear competitive advantage in today's uncertain economic climate.

Ida Chong, FCGA
Minister

Date:

Contact: Liz Lilly
Telephone: S17

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Last update:24/07/2012 - bwhyte

Ministry of Community, Sport and Cultural Development
BRIEFING NOTE FOR MINISTER

Ref #: 149072

FOR MEETING

Date: January 31, 2012

Title: Meeting with Howard Donaldson, President of DigiBC, and digital industry representatives on February 1st at 4:30 pm. Andrea Henning will join in by phone.

Issue: Meeting is to review the industry as part of updating elected government officials. The meeting will provide a snapshot of the video games sector, current challenges and recommendations to increase jobs, skills and investment.

Background:

DigiBC: Digital Media + Wireless Association of BC

- Member-supported, non-profit organization, based in Vancouver.
- Members include world-class companies such as EA (Electronic Arts), Disney Interactive, Rainmaker Entertainment, Nokia Vancouver, Sierra Wireless and others (see *Appendix One: Biography, Howard Donaldson*).
- Howard (and DigiBC) has been helpful to BC's efforts to attract new investment.

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Digital media sector overview:

- Over the past 15 years, British Columbia has become known as one of the world's leading digital media and film development centres.
- Vancouver's robust digital media sector is a major asset that will be increasingly important as film, TV and digital media continue to converge.
- There are over 1,300 companies in BC's digital media, creating products in wireless and mobile, video gaming, animation and VFX, web 2.0 and social media, interactive marketing and e-learning.
- DigiBC data measures the sector as employing 22,000 people and generating revenues of \$3 billion a year for the province.
- Each year 3,000 graduates from British Columbia's post-secondary programs will enter the digital media industry market.

Interactive Gaming:

- British Columbia has a strong cluster of small and medium sized video game publishers (e.g. Electronic Arts, Nintendo, THQ, Vivendi Activision, Ubisoft and Microsoft).

- The video game cluster spends approx \$393m per annum in BC and it provides jobs for 3900 employees. The average salary for a BC game developer is \$79,000.
- BC has produced two of the six largest interactive franchises of all time and over fifty titles selling over 50,000 in unit sales.
- From 2004 – 2009, industry employment grew by 150% (1,234 FTEs to 3,039 FTEs).
- The industry has experienced marginal growth since 2009, mostly due to competing incentives in other jurisdictions (Ontario, Quebec).
 - Ontario Interactive Digital Media Tax Credit - 40% of eligible labour
 - Quebec Multimedia Titles Tax Credit – 30% of qualified labour

BC Interactive Digital Media Tax Credit:

- Provides a refundable 17.5% tax credit on eligible salary and wages incurred by eligible corporations to develop interactive digital media products in British Columbia after August 31, 2010 and before September 1, 2015.

Families First Considerations: The interactive digital media industry generates revenue and job opportunities for BC's families.

First Nations Considerations: The interactive digital media industry generates revenue and job opportunities for BC's Aboriginal peoples

Discussion:

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Recommended Response:

- We will ensure that all areas of our Ministry, as well as government, collaborate in our efforts to support the industry.
- We want to continue working with the BC's digital media sector and to find opportunities for growth.

Contact: Andrea Henning, Executive Director, Arts and Culture
Telephone: 250-356-6614

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Appendix One: Biography, Howard Donaldson

Howard Donaldson was the former VP Studio Operations for Disney Interactive Studios. He was a co-founder of Propaganda Games, in Vancouver, one of the internal studios for Disney Interactive. Donaldson has also served as CFO for EA Canada, where was responsible for managing the company's financial performance and helped direct it to double-digit annual growth. Before joining EA Canada, Donaldson was VP Finance & Administration for Disney Interactive in Glendale, CA.

Appendix Two: DigiBC document for Minister Bell



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Presentation to...



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Ministry of Jobs, Tourism and Innovation
BRIEFING NOTE FOR MINISTER

Ref #: 64199

FOR MEETING

December 5, 2011

Issue: Meeting with Howard Donaldson President, DigiBC, and three other senior Executives from the digital media industry, December 5, 2011, 3:30pm - 4:00pm
Seymour Room, Canada Place

Background:

Topic of discussion: How the BC digital media industry can contribute to the BC Jobs Plan and create long-term jobs and investment in the Province.

DigiBC is the association that represents BC's digital media and wireless technology companies. Its mandate is to promote, support and accelerate the growth, sustainability and competitiveness of BC's digital media and wireless industry. Its members include world-class companies such as Electronic Arts (EA), Disney Interactive, Rainmaker Entertainment, Nokia Vancouver, Sierra Wireless and others.

Howard Donaldson is DigiBC's new President, joining the organization in April 2011. Mr. Donaldson was the former VP Studio Operations for Disney Interactive Studios. He was a co-founder of Propaganda Games, in Vancouver, one of the internal studios for Disney Interactive. Donaldson has also served as CFO for Electronic Arts Canada.

Other attendees at the meeting:

- **Colin Macrae**, EA (Electronic Arts) – EA is a leading global interactive entertainment software company. EA develops, publishes and distributes interactive software worldwide for video game systems, personal computers, wireless devices and the Internet.
- **Heather Price**, General Manager, Exploding Barrel Games (EBG) – EBG was founded in 2009 and is located in the Yaletown area of Vancouver. It has 25 employees and produces games for the Facebook, iPhone and iPad platforms.
- **Rick Griffiths**, PricewaterhouseCoopers – Mr. Griffiths is partner in the Technology, InfoCom, Entertainment and Media Group in PricewaterhouseCoopers, Vancouver. He is DigiBC's Treasurer and is on the Board of Directors.

Discussion:

DigiBC represents an important and growing sector of BC's economy, the high tech sector, which is one of the eight key sectors identified in the BC Jobs Plan.

- There are over 1,300 BC companies, the majority being small and medium-sized enterprises, creating innovative products in wireless and mobile, video gaming, animation, web 2.0 and social media, interactive marketing and e-learning.

- The sector employs 22,000 people and generates revenues of \$3 billion a year.
- Vancouver has one of the top video game clusters in the world, with the presence of major publishers, including EA, Nintendo, Vivendi/Activision, Disney and Microsoft.
- Vancouver is also home to major companies in wireless telecom and technology, including such companies as Telus Mobility, Sierra Wireless and Nokia.
- Digital media has a strong symbiotic relationship with the North American film and TV sector.

New Innovations in digital media and wireless technologies also support and drive further growth in other key sectors targeted in the BC Jobs Plan, including forestry, mining and natural gas. DigiBC's primary objective is to help build a leading globally competitive digital media hub in BC; that will in turn support the BC Jobs Plan.

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Recommended Response

The Province recognizes the importance of the BC digital media and wireless sector, and supports DigiBC's work to contribute to the BC Jobs Plan and create long term jobs and investment in the province.

British Columbia prides itself on being business-friendly, and the government has shown that it is ready to listen to industry concerns.

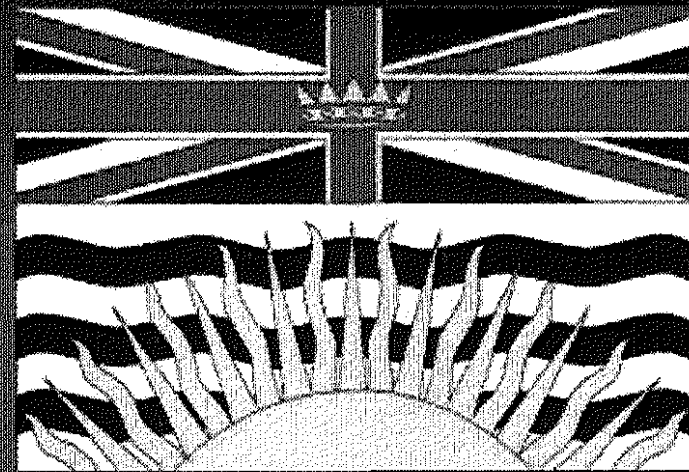
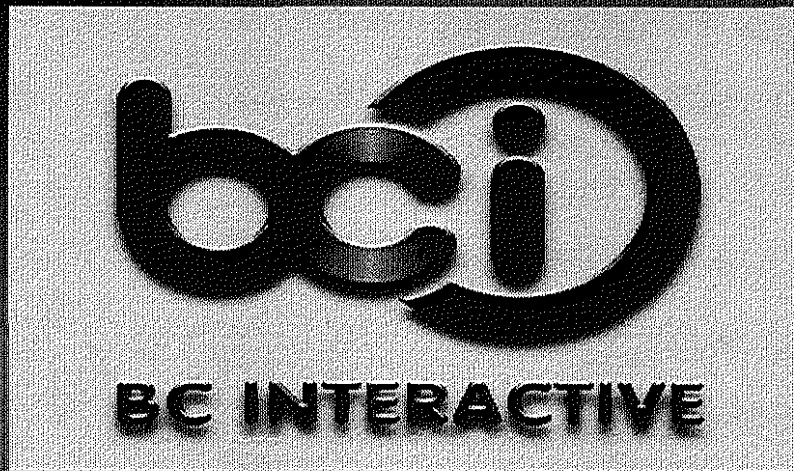
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Contact: Tim Ewanchuk, Director, Knowledge Transfer & Commercialization
Research and Innovation Branch

Telephone: 250-356-1593

Approvals			
Dir: TE	ED: MF	ADM:	DM:



BC VIDEO GAMES INDUSTRY OVERVIEW AND RECOMMENDATIONS

JUNE 9, 2011

Agenda

BC Video Games Industry Profile

Global Industry Opportunities

Challenges

- Recommendations

Two Strong Industry Organizations United in Their Missions



Its principal purpose is

- 1. establishing a strong partnership with the BC government*
- 2. a unified voice for the BC industry*
- 3. creation of a tax incentive policy to stem the exodus of jobs to other jurisdictions offering more favourable tax credit programs.*

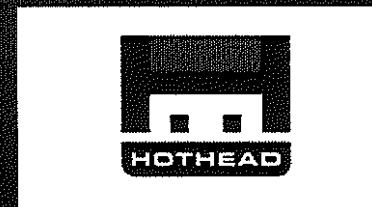
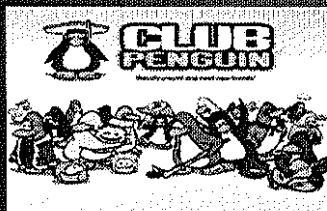
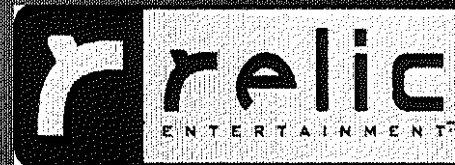


Build competitive, sustainable leading world class digital media and wireless hub in BC

BC Profile – Video Games

Criteria	Metrics
BC Industry	Leading development Centre -Canada and Global -One of three Centres in Canada
Development Studios	80+
Total employment	3,900
Ave annual growth rate to 2009	21%
Ave annual growth after 2009	Flat to 10% (Many recent staff layoffs/studio closures)
Ave annual wages	\$80K – 2X average
GDP	\$650M +
GDP per Capita	\$171,000

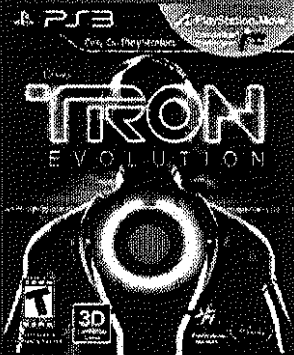
BC Marquee Studios



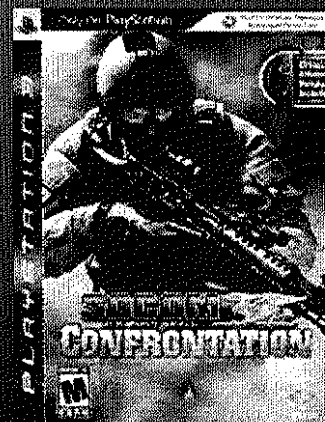
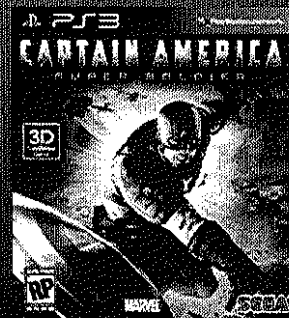
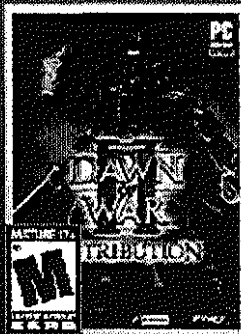
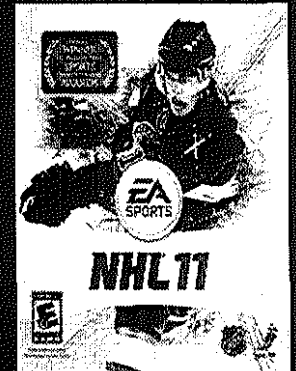
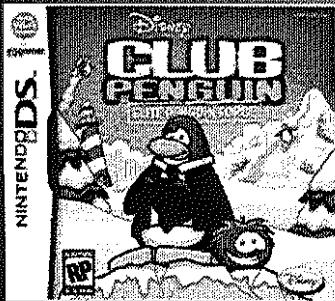


MECHWARRIOR

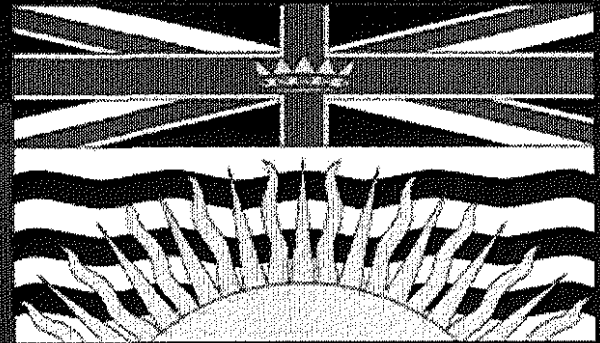
Identical to the original Mechwarrior 1, just with a new engine



Video Games Developed in BC



Why British Columbia?



Skilled and educated workforce

Transferrable skills to other knowledge based industries

Experience developing top rated games

- ◆ Strong, independent AAA dev studios
- ◆ Thriving, entrepreneurial games community
- ◆ Major universities and art/video game institutions
- ◆ Close proximity to US/West Coast; gateway to Asia
- ◆ Supportive government policies and incentives
- ◆ High quality of living

Global Opportunities

Pages 18 through 22 redacted for the following reasons:

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Challenges

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Worldwide Tax Credit Landscape



Tax Credits Canada

	BC New	Quebec	Ontario	Manitoba	Nova Scotia	Prince Edward Island
Digital Media						
Labour	17.5%	37.5%	35%-40%	40%	50%	35% of
Contract		50% incl	100% incl			150%
Refundable	Yes	Yes	Yes	Yes	Yes	Yes
Fed SR&ED*						
-Corp	20% exp	20%	20%	20%	20%	20%
-CCPC only	35%/20%	35%/20%	35%/20%	35%/20%	35%/20%	35%/20%
-Refundable						
- CCPC/corp	Yes/No	Yes/No	Yes/No	Yes/No	Yes/No	Yes/No
Other Programs	Tx Holiday Invest Tx Cr	Invest cr Tx Holiday Training Recruiting	Jobs Credit Marketing <\$100K 3 yr limit	Max \$.5M/title	Max <25% exp Marketing <\$100K Regional Cr	2 yr limit

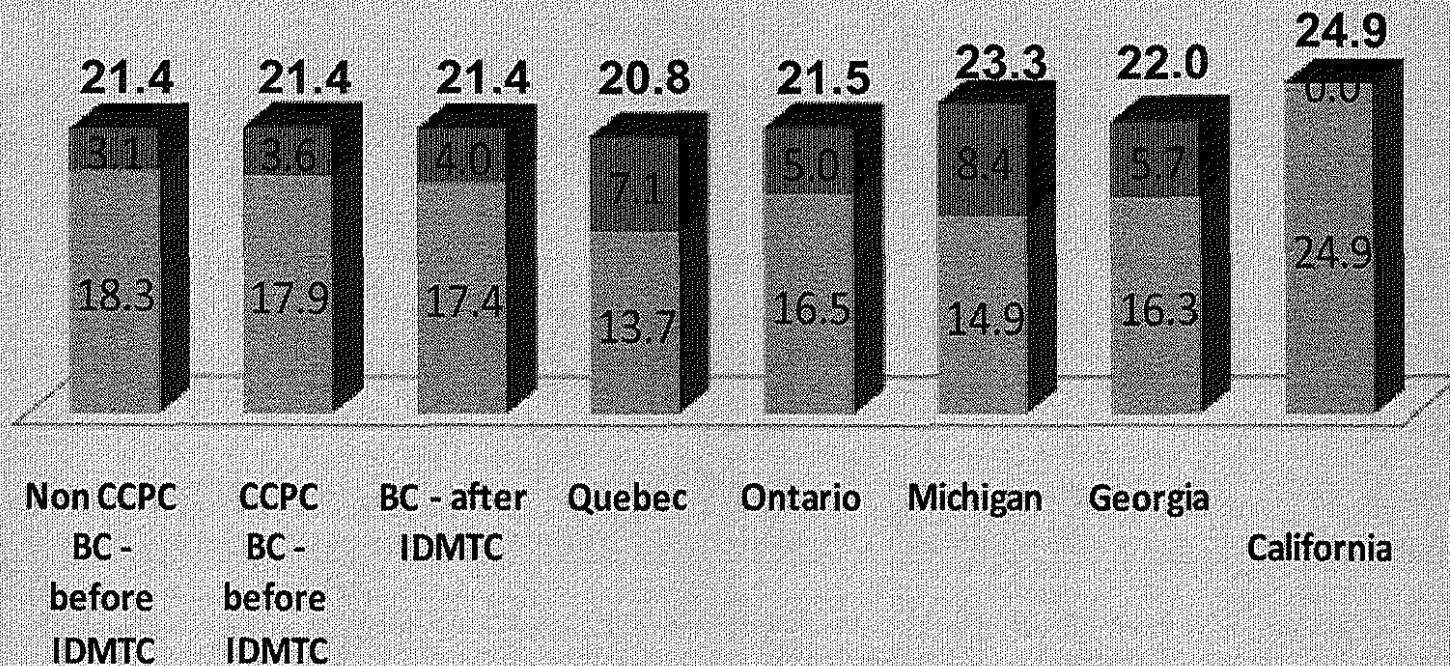
*-Credit on qualified R&D expenses only including direct labour, capital and OH factor

Title Production Cost Comparison

- Xbox 360/PS3 Game Consoles

Tax Credit Program Comparison

■ Net Cost ■ Tax Credits



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Impact on BC Jobs from Studio Closures and Layoffs

Company	Action Taken	Est Job Changes
EA Vancouver	Closed downtown Vancouver 2008 Cancelled Yaletown office 2008 QA moving to Montreal	
EA Vancouver	Job Reductions over three years	(500+)
EA Montreal	Growing Studio	800+
Ubisoft	New Studio in Toronto	800
	Montreal continues to grow	2,200
	Vancouver flat and at risk	100
THQ	New studio in Montreal	400
Disney Studio Vancouver	Closed in 2011; layoffs 2011	(200)
United Front Games	Project cancelled	(100)
Eidos	New studio Montreal	350
	New studio recently announced ?	100
VMC QA/Localization	Opened Montreal studio	1,200
Funcom	Opened studio in Montreal	150
Warner Interactive	Opened Studio in Montreal	100
Activision	QA moved to Montreal – 80% of all QA	
Est Total job creation opportunities lost over last 4 to 5 years	Combination of Studio closures and layoffs	8,000 - 10,000

Recommendations

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