FilmOntario
FILM·TELEVISION·INTERACTIVE

Driving a Digital Canada Strategy Through Content

A Discussion Paper from screen-based industry consortium FilmOntario

"While user-generated content and social networking will remain significant, success in the digital economy will come to those who can produce innovative creative content, successfully manage their intellectual property rights, and maximize their returns across all of the platforms. Canada is well-positioned to be a leading player if we can combine the entrepreneurial flair of our content producers, the creativity of our artists and designers, financial resources and supportive public policies. Finding ways to do this effectively will ensure Canada's international economic competitiveness. A Digital Canada Strategy is essential."

December 14, 2009

INTRODUCTION

Digitization is the process through which diverse forms of information, including words, sounds and images come to be represented by a single binary code, a sequence of the digits 1 and 0, which can be combined together in an infinite number of ways. Along with the exponential growth in computing capacity over the past 20 years, digitization has transformed our lives.

The digital revolution has spawned new forms of communication, new products and services, and new media. The Internet is arguably the most profound development in human communication since we first began to speak. The old economy, based on extraction and processing of finite natural resources, is giving way to a new global digital economy, based on intellectual output and creative resources. At the very core of this economy is content of varying sorts, as this diverse information is translated to and from the binary code.

In order to position themselves as leaders in the digital economy, several western nations (including Great Britain, Australia and New Zealand) have developed national strategies, which analyze their strengths and weaknesses, and outline what governments, industry, citizens and educators need to do to ensure their nations reach their potential in this new economy. On its own initiative, Nordicity, a Canadian-based creative and communication industries consulting firm released *Towards a National Digital Strategy* in September 2009. The purpose of the paper is to launch a national discussion that will culminate in the development of a Digital Canada Strategy.

FilmOntario is the private sector consortium – 30,000 strong – of companies, producers, unions, guilds and organizations within the Ontario screen-based sector (film, television and interactive media). FilmOntario congratulates Nordicity on its initiative, expresses its commitment to join the dialogue, and offers initial thoughts on what a successful Canadian digital strategy must contain and how it should be developed. Ontario is home to the leading firms in Canada's English-language creative industries. Since many of these firms, particularly in the screen-based sector, are already working digitally, it is essential for them to be engaged in the development of a Digital Canada Strategy. FilmOntario calls on its members, partners, other sectors, organizations, businesses and our governments to join the process.

THREE PILLARS OF A DIGITAL STRATEGY

Canada needs to act. While we have been a world leader in developing digital content and new communications technologies, we are losing ground to those countries that are rolling out national strategies which coordinate actions by industry, educational institutions and governments. Other governments are implementing concrete measures and providing new funds to ensure their industries and citizens can take full advantage of the opportunities afforded by the digital economy. Given Canada's position in the world, our rich diversity, our strong economy and our historical strength in the content industries, we need to develop our own strategy to regain our leadership position.

As Nordicity has pointed out, there are three pillars of a digital strategy.

CONTENT

The Internet was first embraced as a communications tool linking researchers and academics; the telephone allowed two or more people to talk together in real time; email enabled instantaneous text communication. That was yesterday. Today, more than 70 percent of the traffic on the Internet is audiovisual content, according to a Nordicity study filed in the context of the 2008 CRTC hearings on broadcasting in new media. Already by 2005, more than two-thirds of mobile phone usage in Japan was for entertainment: today, out of the top 100 most popular iPhone applications, 60 are games. Those colourful apps on your mobile phone are all content.

Our handheld device is now a telephone, television, music system, gaming device, GPS and computer. The fully integrated home theatre/computer, which can ensure our fridge is stocked and bring us instant access to a vast array of on-demand entertainment and information, is coming soon to living rooms around the world.

While user-generated content and social networking will remain significant, success in the digital economy will come to those who can produce innovative creative content, successfully manage their intellectual property rights, and maximize their returns across all of the platforms. Canada is well-positioned to be a leading player if we can combine the entrepreneurial flair of our content producers, the creativity of our artists and designers, financial resources and supportive public policies. Finding ways to do this effectively will ensure Canada's international economic competitiveness. A Digital Canada Strategy is essential.

DIGITAL LITERACY AND DIGITAL SKILLS

Workers need to acquire and maintain the high tech and specialized skills required to roll out the new technologies, and the creative skills to develop the applications that will take full advantage of them. Citizens must know how to use the digital tools and interact with each other through the new communications vehicles. While our school age children have grown up with the Internet, Facebook, iPod and interactivity, even the most user-friendly applications may be difficult for some older Canadians. As well, the pace of technological change is extraordinary; this year's leading edge may be in the recycle bin next year.

It is necessary to assess these factors in Canada and to engage schools, universities, training institutions and relevant government agencies in the dialogue to increase our digital literacy and our digital skills. Industry will also have a key role to play to ensure that all workers have access to the professional development and training they need to keep their skills current.

INFRASTRUCTURE AND ACCESS

Canada has historically been a world leader in developing and adopting new communications technologies. We were the third nation in the world to launch a space satellite, our telecommunications switching technologies remain the global standard, and we are among the most cabled countries in the world. Canadians are the leading users of Facebook and, in a global survey of Internet use in January 2008, comScore reported that Canadians spent the greatest amount of time online, 75 percent more than the global average.

But, we are falling behind in the roll-out of the next generation of high-speed systems, both wired and wireless. According to the December 2008 broadband statistics released by the Organisation for Economic Cooperation and Development (OECD), Canada ranked tenth out of 30 countries in broadband penetration, down from second spot in 2004. Just as significantly, when price and speed are combined, Canada's rank dropped to 28th. While first generation high-speed Internet service is available to 93 percent of Canadian households, only 64 percent of those households subscribe.

To make a successful transition to digital, each part of the value chain needs to have the necessary equipment and technology. As we assess Canada's preparedness, we are likely to find an uneven state of development: some sectors and firms are already prepared and operating digitally; others are lagging behind.

Canadians in some rural areas, as well as those who are economically disadvantaged, may lack sufficient access to the technologies. Since access to a computer and the Internet are now essential tools for learning, these gaps must be closed before they become a significant structural flaw. The United Kingdom has implemented a Universal Service Commitment, and Australia and others have announced aggressive targets to ensure all citizens have affordable access within the five to ten years. Canada must catch up.

THE ROLE OF CANADA'S CONTENT PROVIDERS

Creative industries are responsible for billions of dollars of economic activity annually and in excess of one million jobs. The creative industries include writing and publishing, music, film, television, interactive media, video games, as well as the arts and heritage. Canada is a world leader in many of these fields. The process of developing and managing content is a continuum potentially involving creation, production, distribution, exhibition and preservation. All of these must be part of the discussion and the resulting strategy.

The CRTC looked at new media in 1999 and again in 2008, and in its most recent report called for a national digital strategy. While it found that a portion of what was available on the Internet constitutes "broadcasting" and is covered by the *Broadcasting Act*, the CRTC has thus far refrained from applying regulations because it also found that there is a reasonable Canadian presence. We need to assess whether we are keeping up with broadcasters, the film and television industry, game developers, print publishers, and the music industry in other countries in utilizing the new capabilities to their fullest. We are just beginning to see the initial move of Hollywood to the Internet. When the final security issues are resolved, we will likely witness a rapid increase in Internet distribution of Hollywood films, initially as another distribution window and potentially as the only window beyond theatrical release. If Canada is not prepared, we risk being swept aside in this avalanche of high quality content.

Creative industry producers have always been on the leading edge of technology. Whether it was the printing press, the gramophone, radio waves or television, the full potential of each successive medium was realized only when individual artists and creative content producers began to utilize it. People did not buy television sets to see the test signal or an inanimate object; mass adoption of television began when attractive programs were offered to consumers. While this progression may not be as

4

straightforward for the Internet, in many respects one can turn W.P. Kinsella on his head and say, "if you come, they will build it." As more and more professional content finds its way to the Internet, consumers will seek it out and this will drive further adoption of the technology and create an insatiable appetite for higher speed access.

CONTENT AND DIGITAL TECHNOLOGIES

Digitization affects creative industry content in three ways.

NEW METHODS OF PRODUCTION

In every creative industry, there are new technologies that affect how works are recorded and packaged for the market. These can be as straightforward as the on-demand printing press that has given a new meaning to vanity press, or the digital devices that have significantly reduced the cost of recording high quality music tracks. The rapid deployment of high quality, inexpensive video cameras has enabled the You Tube phenomenon. But these technologies also include far more costly and sophisticated ones that are changing the film and television industries, such as high definition television, motion capture, 3-D movie systems, computer-generated imagery (CGI) and next generation computer animation.

NEW FORMS OF DISTRIBUTION

The serious decline in the global sales of music CDs in the face of digital downloads and file sharing is perhaps the starkest example of how the digital technologies have created new ways to distribute creative content. In his 2006 book *The Long Tail, Why the Future of Business is Selling More of Less,* Wired Magazine editor Chris Anderson argues that demand for media is moving inexorably from the head of the distribution curve to the tail. The era of the blockbuster is giving way to the era when a great many will sell modestly.

At the forefront of this development, we can see that the Internet has become another way to distribute audiovisual content, including television programs, movies, games and music. Older material can be repurposed in new forms and offered to niche audiences. Through the Internet, the market can now be global and licensing arrangements are increasingly respected in the online world. High speed access combines with interactivity to bring real time, on-demand capability. Books can be delivered wirelessly directly to your Kindle.

All of Canada's broadcasters have websites where they provide access to some programs; CBC radio offers podcasts and has an iPhone app. Most companies involved in production and distribution have an active Internet presence. In Canada, Cookie Jar Entertainment recently launched jaroo.com where you can watch its rich library of programs and Nelvana recently announced plans to implement its own digital strategy. The U.S. major studios are all involved in projects that will increasingly make their current productions and their film libraries available through the Internet. Spotify, with its blend of advertising-supported basic service and premium subscription option, and iTunes, with a model based on per track sales and banner advertising, are the next stage in music distribution. Amazon.com is changing the book business. Meanwhile, the television and cable industries are struggling to manage the transition from analogue, and digital audio broadcasting technology has brought an exponential growth in the number of radio signals that consumers can receive at home or work, or in their car.

NEW PRODUCTS

Renting or buying movies on CDs brought value-added content, such as additional scenes, interviews with the directors and stars, and multiple languages. The capacity for interactivity launched the video game industry. Promotional materials, value-added content and webisodes are attached to the Internet distribution of popular television series. While nascent, some companies and artists are beginning to produce content specifically designed for Internet distribution, such as Canada's Life Force Entertainment and Epitome Pictures, producers of the Degrassi series. The National Film Board of Canada was an early adopter of shorts shot on cell phones.

Outside of the rapid development of the video game industry, there is no doubt we are only at the very beginning of the development of new entertainment and information products. Since all of the material is now in an interchangeable form, digitization is breaking down the boundaries between the different creative industries, and interactivity enables a far more sophisticated relationship between the storyteller and the audience.

NEXT STEPS/RECOMMENDATIONS/CONTENT ISSUES FOR DISCUSSION

RECOMMENDATION 1

That the Federal Government take the lead to launch a process that will bring together all of the key stakeholders and result in the development of a Digital Canada Strategy.

RECOMMENDATION 2

That a Digital Canada Board be created to carry forward the discussion. The Board will have four constituencies equally represented, the three pillars of a digital strategy, as well as the Government. For content, representation will come from all of the creative industries.

RECOMMENDATION 3

That the Digital Canada Board launch a discussion of the relevant issues. Content issues to be considered in developing the strategy include the following:

1. What is the current state of Canada's creative industries? Are creators of intellectual property embracing the digital revolution as an opportunity, not only to increase the size of their audiences, but to discover new modes of expression? Are we keeping pace with the new technologies? Are there barriers to firms acquiring the equipment we need to produce the content in the most current formats and to transfer our rich inventory into the new formats?

2. How effectively we are educating students for the digital economy? Are our writers and other storytellers properly trained to take full advantage of the potential of the interactive technologies? Are there new ways to tell a story? Are graduates from schools, universities and community colleges sufficiently skilled in the latest technologies and do they have the necessary finance,

deal-making and project management skills for the digital economy? Are we properly balancing demand and supply for each sector?

3. Access to capital is a significant issue for creative industries.

    What incentives can governments provide to encourage private capital investment? Governments already provide support to research and development activities, and are looking at new ways to encourage infrastructure development. Should it also provide support to firms in the production, distribution and exhibition fields to ensure they can keep pace?

4. Is the Canadian presence on the Internet adequate? What about our presence on other distribution channels? If so, how do we maintain our position in light of the changing landscape? If not, what can be done to encourage a more robust presence and a broad array of quality Canadian creative materials? Canadian content rules for music and television were essential to developing these industries; can they be adapted to the digital world?

5. Internet Service Providers are providing a service analogous to cable companies.

    Should the CRTC reconsider its decision to refrain from introducing regulations? Should it consider requirements for Internet Service Providers to give a priority position for Canadian content? How could this be measured? Should ISPs be required to contribute financially to the production of original digital Canadian content?

6. One of the strengths of the Internet is that it has been a very public space where citizens from around the world can interact freely with each other. But, this public space is being squeezed by large commercial operations and increasing concentration of ownership. Internet Service Providers in Canada are beginning to shape and control online traffic, giving preferential treatment to certain content, users or applications.

    How can the federal government, either on its own or through the CRTC, ensure a vibrant public space on the Internet for all Canadians and equal treatment for all Internet users?

7. Traditional business models in the creative industries are breaking down, as advertising revenues of conventional broadcasters, newspapers and magazines are constrained or declining, and retail sales of books and CDs are threatened. And business models appropriate for the new medium have not yet emerged, even for the music industry, which was the first to experience a significant challenge. The new models are likely to be a mix of:
    • Free access, as a means to promote and support traditional distribution mechanisms;
    • Advertising supported, either banner ads, embedded ads, or ads targeted to the individual consumer;
    • Sales or rental to the consumer;
    • Subscription;
    • Free access to basic content, with revenues being collected for added value content. The leading examples of this model are in the gaming world.

How can we ensure Canadian content providers receive fair compensation when materials are distributed through the Internet?

8. As business models change and adapt, so do terms of trade.

    How can we ensure that the various elements in the content value chain can share appropriately in the economic returns?

9. Digital technologies make it easy to make perfect copies of the original work. As a result, piracy and file sharing are a significant challenge for some copyright holders and there should be a broad public education campaign to promote understanding of copyright. Canada has fallen behind most other countries in addressing the challenges.

    What is needed to make sure that Canada's *Copyright Act* is updated to deal with the digital economy? Can a new system that respects both the artist|content owner and the consumer be developed? How should ISPs be involved in controlling commercial piracy? What should be the role of the distributors (ISPs) in the collection of use payments and copyright royalties?

10. What should be the role of CBC, other public service broadcasters and the NFB in the digital economy? What government services should be provided electronically?

RECOMMENDATION 4

FilmOntario recommends that the Digital Canada Board consider how to encourage broader public discussion of the issues and challenges. We recommend that the Board establish a high profile speakers' bureau from the content side. We also recommend that we engage with Canadians creatively; for example, through web-based consultations and virtual conferences.

CONCLUSION

Developing a digital strategy for Canada will require us to consider a broad range of issue across a number of sectors. Each of the key players involved in the creative industries will have a role to play, both in developing the strategy and working to implement it. Artists, producers and other content creators will need to continue to innovate and to embrace change, to stay aware of the latest platforms and to be creating content for them. They will need to have the latest equipment and make sure their skills are current. Content aggregators will play a different role, and have a different relationship with consumers, than they have in the past. People entering the workforce will need the sophisticated skills required by the firms where they will work. Governments are enablers; they must create a supportive environment, lead by example and provide targeted support mechanisms that will make a difference.

FilmOntario offers these thoughts in the hopes they will generate engagement by our colleagues and contribute to a lively discussion about a Digital Canada Strategy. Please join us.