

Distribution, the 'missing link' in Canadian culture

by Marcel Masse

You recognize, as I do, the historic nature of this conference. We can assert without any hesitation that, for the first time in our history, the government of Canada and the governments of the provinces and territories have agreed to work together in a spirit of respect for their respective jurisdictions to seek effective methods of ensuring the development of two sectors of activity that are of vital importance to the future of all Canadians. Today we have, individually and collectively, a historic opportunity to act.

We must fully accept the responsibility placed upon us today. We must recognize the obligation that we have to take concrete, effective action. Holding this conference was not an objective; our meeting is, first and foremost, the result of a process of intergovernmental and industry collaboration that we initiated in February 1985 in Vancouver and of a commitment that we unanimously expressed in September 1985 in Halifax.

At the federal-provincial conference held in Halifax, we agreed to paint a realistic picture of the situation facing the film and book publishing industries, to draw up a list of our mechanisms for intervening and to identify a series of options that we, as governments, could adopt in order to achieve our objectives.

The above is a slightly edited speech Communications Minister Marcel Masse gave at the federal, provincial and territorial conference on film and books in Montreal on March 4, 1986.

I am delighted to note that these preliminary steps were successful. Over the past few months, we have honoured the collective commitment that we made to Canadians in September 1985. The Task Force on the film industry, which I set up in the fall of 1985, presented its report to me in December.

I also conducted extensive consultations with all concerned about the situation in their respective industries and about the range of possible solutions. The principal representatives of the film and book publishing industries met at symposiums held in Toronto and Ottawa and had an opportunity to consider the questions that we will be tackling today.

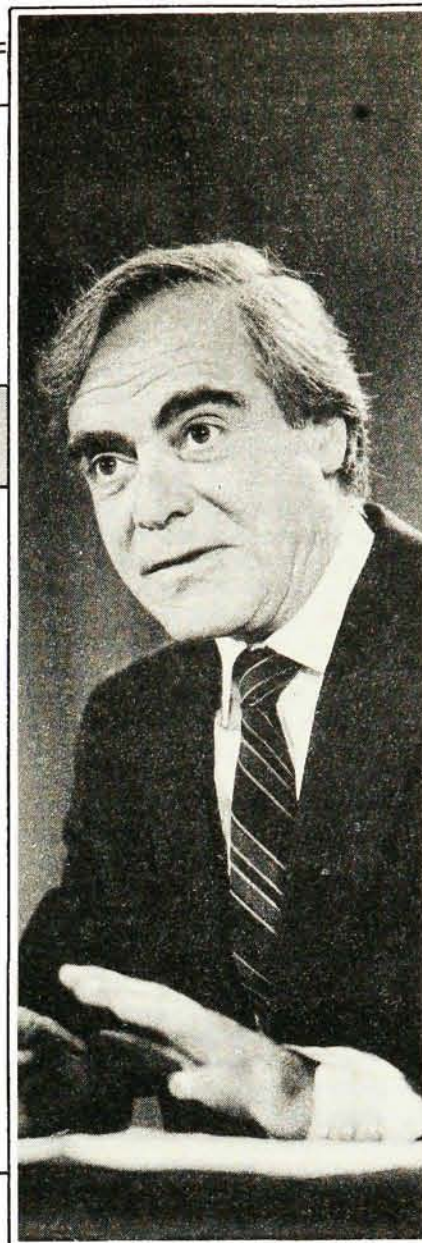
At the same time, there were meetings among our officials and I am grateful that you welcomed my representatives, Francis Fox and James Marsh, when they undertook discussions and consultation at the political level.

Culture in a modern society

The French physicist Paul Langevin wrote in *La Pensée et l'action* that "general culture is that which allows the individual to feel fully his solidarity with other men, in space and in time, with those of this generation as well as with the generations which preceded him and with those which will follow him."

It is about this culture that we have come to speak today — about its importance in our collective existence as a distinctive people and also about the elements it needs to flourish and to guarantee our development.

By our history, by our political institutions, by the existence and the recognition of our two distinct linguistic communities, by the contribution of our native peoples and by the enrichment brought to us from every corner of the world, we form a unique and mature society. We express this specific nature, sometimes unconsciously, in our daily lives. Foreigners who visit Canada note first of all the North American character of our great metropolises, but they discover their unique stamp just as quickly.



The similarities are as numerous as the differences are fundamental. Every aspect of our life is the product of an evolution which is our own and our determination to pursue our existence as Canadians continues to be expressed in our industrial products as well as in our architecture and our urbanism, for example.

This particular culture reveals itself in our art, but it is also the creative energy which actuates the whole of our activities as a modern society. Our ability to innovate in technological and industrial sectors depends on it. For instance, why are we world-renowned as innovators and leaders in the realm of communications satellites? It is simply because we have tried to respond in our own way to the challenge presented by the immensity of our territory and our sparse population.

In this modern technological environment which pushes us inexorably toward the "global village" and the standardization that results from it, every individual, every region, society and people feels this basic need to preserve a distinct and individual character.

Respect for the individual recognition of the richness which the diversity

our regions offers, and our basic commitment to a pluralistic society — these are the very foundations of Canadian culture. In fact, Serge Turgeon, president of the Union des Artistes, reminded us that "To remain a Quebecker, one must defend that which is Canadian."

To cultivate and reinforce what Northrop Frye has called "the spirit of a clearly defined environment," Canadians must be able to participate fully in this culture. The television shows and films we watch, the music and radio we listen to, the books and magazines we read, as well as the concerts and plays we attend, these are the instruments of what we share. It is by these works that we are able to know each other, understand each other and situate ourselves in the world. Canada is the most receptive country in the world to cultural influences and depends upon all peoples for its richness and diversity. Nevertheless, within this vast range of choice we must find the products which are our own and which reflect our own reality.

The structural problem

The evolution of Canada's capacity to promote its cultural identity is a function of the efforts that have been made to develop and expand the presence of Canadian products in a domestic economy influenced first by France and Great Britain and later by the United States. This has been a longstanding concern of successive generations of Canadians, and while tremendous progress has been made over the last 50 years, it still remains a fundamental objective.

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By cultural products, we mean the vast range of goods that are central to the development and maintenance of our understanding of ourselves as a people, including television and radio programs, books, newspapers, magazines, films, plays, paintings and sound recordings. It is these products which generate in Canadians of all ethnic backgrounds, living in all regions of Canada, and coming from all walks of life a sense of belonging to this country and the opportunity to celebrate a common identity and set of values.

Canadians consume a considerable quantity of foreign cultural products. In our view, this reflects not only their remarkable openness to the rest of the world, but also a confidence that this consumption does not constitute a challenge to who we are. However, Canadians have also always wanted to see a reasonable selection of truly Canadian cultural goods included among the abundance of cultural products available in Canada.

The traditional dissemination of an abundance of foreign cultural products in Canada may be explained to a large extent by the relative smallness of our domestic market combined with the great geographical size of our country. If we consider that our population, composed of distinct regional, linguistic and ethnic groups (which has not, in this case, resulted in the development of an “official national culture”), is scattered across the second largest country in the world, then it is clear that we are disadvantaged by comparison to such countries as France, Great Britain and the United States, which benefit from a much larger, more homogeneous population base inhabiting a smaller area.

The Francophone market in Canada is one seventh of France’s market and the Anglophone market is just one quarter of Great Britain’s and one sixteenth that of the United States. Under these circumstances, the cultural industries of these countries can achieve *economies of scale* and thus create and distribute products in their own countries and in Canada at a much lower cost than our own industries can. Two examples graphically illustrate this situation:

In the broadcasting sector, it is nearly always more profitable to purchase an American product than it is to invest in the creation of a Canadian product. To purchase an episode of **Dallas** from the American producer costs approximately \$50,000 (Can-

dian); to produce a Canadian episode of comparable quality would cost nearly \$1 million.

In the publishing industry, general-interest books considered to be best-sellers in the United States will have production runs of over 100,000 copies (with additional copies for Canada being produced at little marginal cost.) In Canada, however, because of the difference in market size, 10,000 copies sold will make a best-seller. Given that fixed costs are spread over a much smaller production run, unit production costs are considerably higher here.

Canadian producers of cultural products are thus faced with an invidious choice when competing with foreign producers: either they attempt to sell goods at higher unit costs or they reduce quality.

The problems associated with economies of scale are *exacerbated by the structural advantages* enjoyed by the foreign-owned cultural industries in Canada. The principal element contained in marketing strategies adopted by these firms, particularly in the film, sound recording and publishing sectors, is the need to *minimize the high risks* associated with the scale of cultural products. Indeed, the ability of cultural firms to maximize their profits depends to a larger extent than in other economic sectors on the tastes of consumers, which can fluctuate dramatically. Traditionally, it has only been possible to generate the critical level of capital required to cover losses in these industries (which often cannot be predicted despite impressive marketing efforts) by adopting a market structure characterized in the following manner:

A. Vertical Integration: This process, through which companies expand by merging with their suppliers (upstream) and their distributors (downstream), has become normal economic behaviour in such cultural sectors as the film industry, in which the costs and risks are high. Traditionally, producers have gone to great lengths to secure markets in advance of product release; vertical integration has been the preferred technique used to accomplish this. In the film industry, the American Majors (i.e., Columbia, Paramount, M.G.M., etc.) have established unified producer/distributor networks around the world. This not only ensures better spreading and sharing of risks, but also greater market control. Canadian-owned firms often find, however, that these vertically integrated foreign producers, by virtue of their control over Canadian distribution and exhibition networks (i.e., Paramount Pictures in Canada controls the Famous Players cinema chain) act to restrict access by Canadian producers to these networks in Canada, and thus to their own domestic market.

B. Horizontal Integration: This process, through which companies expand by merging with other firms producing

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the same range of commodities, is an excellent means of strengthening financial position while increasing market share. Through such horizontal integration, companies cannot only attain an optimum size for economic efficiency and improve the spreading of risks, they also have the possibility of *cross-subsidizing* their product lines. That is, they can use profits from income-generating commodities to offset losses incurred in the production of high-risk commodities. In such sectors as publishing, fiction and non-fiction aimed at the general public is traditionally financed by profits from more stable lines of business such as those for education, science and technology. Since these more stable lines of business in Canada are controlled predominantly by foreign interests, Canadian firms often do not have the ability to cross-subsidize literary or cultural works which present greater risks in terms of potential cost-recovery through sales.

These structural advantages not only serve to render foreign firms commercially superior to Canadian ones, they also effectively reduce the incentives to produce Canadian cultural products. Since foreign firms can distribute their own products at much lower unit costs, it is not surprising that corporate performance studies show that they are less likely than Canadian firms to invest in the production of Canadian goods.

Far from wanting to erect barriers to the free flow of foreign cultural products in Canada, Canadians and their governments have always sought to promote the greatest possible choice of cultural products by taking action primarily to stimulate the *supply* of, but also the *demand* for, *Canadian* cultural products.

The small size of the Canadian market in comparison with such large Western markets as those of the United States, France and United Kingdom is a barrier to the ability of Canadian-owned cultural firms to achieve sufficient economies of scale to become viable. This barrier is heightened by the dominance of Canadian cultural markets by vertically and horizontally integrated foreign firms, which prevents the Canadian-owned private sector from having full access to its domestic market.

Moreover, these structural characteristics and the tendency of multinational manufacturing conglomerates to diversify into the leisure, information and communications industries, accompanied by corporate strategies with increased emphasis on marketing, are creating a commercial environment in which the Canadian market is becoming increasingly less differentiated from the other constituent elements of the North American market with respect to the distribution of cultural products. Under these conditions, Canadian-owned firms find it difficult to find self-financing in their own markets, without which they cannot fully explore the creative opportunities that are the main function of such a cultural enterprise.

For a half-century Canadian governments have adopted a series of legislative and regulatory measures and have allowed considerable investment in order to guarantee the existence of a reasonable choice of Canadian products. The creation of a public broadcasting system, the *Broadcasting Act* of 1968, the establishment of the Canada Council, the National Film Board and Telefilm Canada, Bill C-58 on advertising, the Canadian Book Publishing Development Program are only a few of the measures taken by the government of Canada. The same concern inspired the initiation of a great number of strategic actions by the provincial governments, and even certain municipalities, all increasingly supported by the private sector.

A dynamic culture

We did not meet here today to take stock of a weakened and vulnerable culture. Canadians now parade their culture as never before. I have felt this in every region of the country that I have had the opportunity to visit over the past few months. The tours that are being made by our theatre and dance companies and symphony orchestras enable us to become known beyond our borders. I need only mention the success that the Stratford Festival recently achieved in the United States and the many honours with which the Montreal Symphony Orchestra has been covered on the international scene. Our popular singers have done well for themselves in the international charts. Our authors enjoy an enviable reputation from Paris to New York. In spite of this, I regret that the film, book and

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sound-recording industries are in a precarious situation.

We must change that. They must have the appropriate tools and, in this regard, we bear a fundamental responsibility. The film and book publishing sectors are important industries but they are also the voice of our culture. To play their proper role as the means of disseminating and sharing our cultural assets, they must not only be viable, they must be as dynamic as the culture they are expressing. The question we must ask ourselves today is not whether Canadian culture has vitality but whether the industries that propagate it can do more than merely survive.

The cultural sector has experienced considerable growth in the last decade and its contribution to the gross national product is today in the order of \$8 billion dollars. Its contribution to our economy is as great as those of mines and metals. It is the source of direct employment for some 280,000 Canadians, that is, 2.3 per cent of the active population. The value of the books sold in Canada in a single year is \$1.2 billion. In 1984, we spent \$405 million on movie tickets and some \$580 million for the purchase and rental of videocassettes.

The question

On the one hand, we, as governments, have invested billions of dollars in the production of cultural goods. We are one of the countries that has the greatest per capita investment in this field. On the other hand, the growth and the

importance of the consumer market indicated clearly that the demand for these products is strong. We should then be in the pleasant position of noting today that we possess vigorous film and book industries.

This is unfortunately not the case. We must, therefore, recognize the existence of a structural problem that I described earlier: distribution. We must focus our attention on this missing link.

In its own areas of jurisdiction the government of Canada has acted. I am especially pleased with the provisions made in the budget tabled last Wednesday by my colleague the minister of Finance, the Honourable Michael Wilson. Recognizing the importance of our cultural sovereignty and the industries that express our unique identity, the government has added \$375 million in funds available over five years for the

implementation of effective measures.

Thus, I expect to be able to establish formally in the near future a fund to enable us to support both the production and distribution of Canadian feature films. Funding has also been approved to support Canadian publishing and to pay our authors for the use of their works by public libraries.

The budget has reaffirmed the government of Canada's commitment to the Canadian cultural sector despite a climate of financial restraint.

At the recent Francophone summit in Paris, I also began discussions to solve the problem of dubbing. Given the foreign distribution organization of the major film corporations, French-speaking Canadians find themselves in the intolerable situation of waiting several months before having access to French versions of films that are available in other countries.

The policy on foreign investment in the publishing industry announced last summer in Baie-Comeau is another step the government has taken to increase Canada's share in this crucial area.

Much remains to be done, however, and that is why we have met here today. I think we have set some common goals; now we must develop the tools necessary to achieve them. Culture is an era of joint Government of Canada and provincial jurisdiction. It is clear that to pursue any significant strengthening of the film and publishing industries, it will be essential for the provinces to exercise their leadership.

As major consumers of a number of cultural products including books, man-

uals and films for use in schools, libraries and health care institutions, the provinces have a major role to play in promoting cultural sovereignty.

We must co-ordinate our activities. The federal government will continue to support Canada's publishing industry and will seek to define the terms and conditions of its new assistance program in this sector in consultation with interested provincial governments so as to ensure that public funding is used as effectively as possible. This approach cannot change the basic situation of the Canadian publishing industry, however, unless it is accompanied by equally strong measures by our provincial partners in their areas of jurisdiction.

In the film industry, we have already set up a production support fund. We have other proposals to put forward. However, we must do something about distribution, an area where the provinces have a major role to play. Because I have the deepest respect for provincial jurisdiction, it is essential to co-ordinate our activities to achieve common goals.

We have avoided discussing cultural issues for many years for fear of not being able to agree. One of my first priorities in the fall of 1984 was to reopen this dialogue between the federal government and its provincial partners. Our discussions since then have been very productive, and I wish to thank and congratulate all those who have spared no effort to create and cultivate the climate of confidence that now allows us to consider bold and courageous solutions.

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