Free Trade anxieties and national institutions

Or how Cineplex moved from nationalism to Universal-ism

BY MANJUNATH PENDAKUR

Canada is often portrayed as a victim of the policy of free flow of cultural commodities.[1] The resulting cultural dependence on the United States and Canada's anxiety over the potential loss of national sovereignty are all well documented in the numerous Royal Commission reports and are a familiar story to readers of *Cinema Canada*. This victimization, however, is not imposed directly from the imperial centre – the United States – but is produced and reproduced in Canada: Canadian institutions and audiences actively participate in perpetuating their cultural dependence.

Publicly-owned and controlled broadcasting as a chosen instrument of nation building, for instance, has been under attack since the inception of CBC. That policy received a decisive blow when the Fowler Commission acknowledged for the first time that "private broadcasters are integral parts of a single system" of broadcasting in Canada and that "the presence of private elements in Canadian radio and television should be continued and accepted as a permanent part of the Canadian pattern."[2]

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Thus, the corner stone for privatization of the common property of radio airwaves was laid and 'the Trojan Horse' put in place for penetration of American imports on radio and television. It is well acknowledged by the Government that the Canadian Content Regulations have not worked well. With mechanisms such as the Broadcast Development Fund administered by Telefilm Canada, indirect subsidies have been provided to Canadian and American corporations to produce television programs, thereby shoring up private institutions.

The recent Cabinet decision to meddle with the CRTC's award of the all-news channel to the CBC is another instance of selling off public assets for private profit. Allarcom Ltd., a privately owned Edmonton broadcaster who lost the bid to CBC last year for the all-news channel got the Progressive Conservative

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CORPORATION

Caucus to pressure the Cabinet to stop CBC.[3] The Cabinet instructed the CBC to go in partnership with a private company, thereby setting up another precedent in eroding a public institution and its mandate. All of this is in the spirit of Reaganism, of privatizing public property for the benefit of capital. Mulroney's Cabinet is ahead of Reagan, in his instance, as he has not yet announced the sale of PBS to private corporations!

Let us take, another example, the most significant corporate development in Canadian motion picture industry since the forties – the entry of Cineplex in 1979 and its subsequent meteoric rise to prominence. It was a bold move by Garth H. Drabinsky and N.A. Taylor to launch a theatre chain to compete in a market dominated for a least 40 years by an American producer-distributor cartel (Motion Picture Export Association of America) and its allies, Famous Players and Odeon Theatres.

In September 1982, though it had the purchasing power of 149 auditoriums in 13 Canadian cities, Cineplex was refused first-run American films by the cartel members, popularly known as the Majors. Their films were all tied up with the two large circuits, following a policy they had devised sometime in the early '40s to carve up the Canadian theatrical market, a policy that would be illegal in the U.S. under American antitrust laws. But such market conduct, if carried out abroad, was exempted from the antitrust laws by Congress when it passed the Webb-Pomerene Export Trade Act in 1918, in order to facilitate global expansion of American capital.

The cartel's market behavior drew Cineplex, a publicly owned company by 1982, close to bankruptcy. In a historic move, armed with documents prepared by Drabinsky, the Canadian government intervened using the Combines Act to save Cineplex and to introduce competition for first-run pictures in the country.

What followed was historic indeed! The Majors signed certain undertakings on July 1, 1983, committing themselves to dramatically alter their product allocation by allowing exhibitors to bid for first-run films, picture by picture and theatre-by-theatre. Not only did such competitive bidding push up the prices for first-run films, a higher degree of concentration occurred through horizontal and vertical combinations.

Cineplex acquired Odeon Theatres in June 1984 and the new company, Cineplex Odeon, expanded its U.S. operations, first buying into the Plitt Circuit, the fourth largest theatre chain in the U.S. and then a host of smaller chains. By

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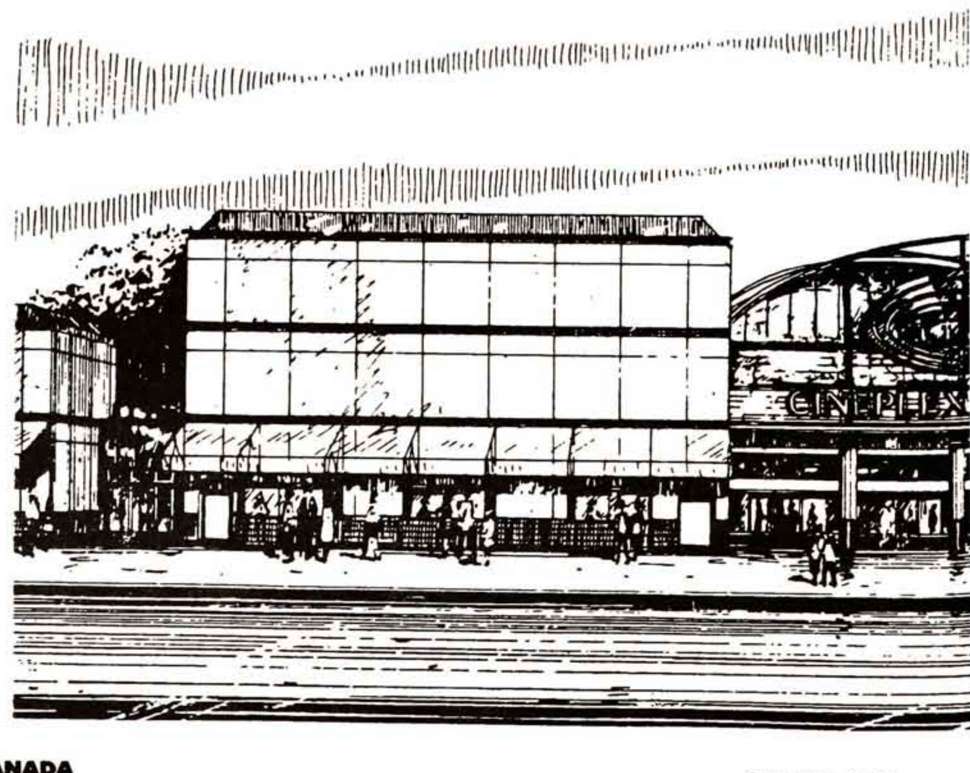
April 1987, Cineplex Odeon controlled 1,501 screens in 478 locations, thereby becoming the largest theatre chain in North America.

Characteristic of Canadian film history, Cineplex Odeon did not go into film production in Canada to generate a regular supply of product for its mammoth operation but developed a vertical relationship with a member of the American film cartel. MCA, the parent of Universal Pictures, bought a 50% equity interest in Cineplex Odeon for approximately $219 million, which ensured Canadian and U.S. market access to Universal's films.[2] This vertical relationship with an American Major helped Cineplex Odeon obtain massive amounts of new capital. Bank of America came forward with a generous $175 million line of credit for a 10-year period, thereby assisting Cineplex Odeon's growth into related markets such as laboratories, gourmet popcorn (real butter, of course!), to name only a few of its new holdings. (Cineplex Odeon's monopoly power has caused a good deal of concern in the U.S. as ticket prices went up to $7 in New York City and even its mayor voiced his support to the demonstrators opposing such a policy.)

This perverse result, whereby application of the Combines Act in Canada helped increase the American film industry's control over the Canadian film market, was not meant to occur. The effect of that intervention – the creation of a bidding system – was felt by exhibitors all over Canada who had to cough up a higher share of their revenues to the Majors.

This outcome is not too reassuring to those independent Canadian filmmakers whose films have been systematically preempted by the U.S. imports in the past. Here I am not speaking of



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films like *Porky's* which serve principally American market needs but rather those small films which have gathered dust waiting for a distributor and/or a theatre date. The failure of Canadian Combines Law to correct market abuses is a clear indication of how 19th-century solutions do not help in solving economic/cultural problems created by conglomerate corporations, whose power is drawn from large economies of scale (global markets) and control over a variety of goods and services.

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What about the people who run these corporate behemoths, especially those who sit atop these pyramids of power in peripheral states like Canada? To whom do they owe their allegiance when they are in bed with international capital?

Concretely speaking, Garth H. Drabinsky, chair, president and chief executive officer of Cineplex Odeon, a Canadian, appears to have switched his rhetoric in a matter of three years from nationalism to continentalism, from one of opposing foreign control over Canada's cultural industries to one of accommodation with foreign capital. The switch suits his company's interests best. However, history has proven that it is not in the best interest of Canada.

Drabinsky is moving in the footsteps of his predecessors – the Allen Brothers, who built the first national theatre chain prior to World War I and N. L. Nathanson who in the '20s was president of Famous Players and later presided over Odeon Theatres. As merchants of culture, they were simply interested in selling commodities and profiting from them. Producing films at home to support a national film culture was not their concern. Their integration with American producer-distributors was the key link to the structure of domination from the U.S. It was the conduit through which profits from the Canadian markets flowed into American production.

National capitalists are well rewarded for the service they render international capital. Drabinsky and Myron Gottlieb, the two partners who were instrumental in reorganizing Cineplex to go public in 1982, and Charles Bronfman, who financed Cineplex's rapid expansion, are the trinity that have the most power in the company. Of the voting securities issued prior to January 31, 1987, Drabinsky controlled 11.24 per cent, Gottlieb 11.17 percent, and Bronfman 10.04 per cent. The aggregate total of their control accounted for 32.45 per cent of the total voting securities, a significant block of power in the hands of three persons, considering that it is a publicly held corporation.[3] In terms of cash compensation paid to the executive officers of the company, the 11 officers received a total of $3,310,978 for fiscal year 1986. Of that amount, Drabinsky received $946,672 or approximately 28.4 per cent.[4] In the three fiscal years 1983-86, net value of the stock options granted to the 11 officers as a group amounted to $4,483,398, of which Drabinsky's was the lion's share of $3,347,167. Those stock options were exercised and the benefits realized by those officers.[5] Not included were options outstanding at the end of 1986 which for Drabinsky alone were 600,000 common shares.[6] In March 1987, Drabinsky and Gottlieb each purchased from the corporation 750,000 common shares at $17.50 per share, amounting to a total price of $26,250,000, thereby increasing their control.[7] This may be considered fair compensation for people who were going to be driven out of business by the U.S. film cartel.[8] But after becoming a part of it, they are being rewarded handsomely!

Given such financial benefits to Canada's big capitalists, it is not hard to imagine them using their clout with the Canadian government to oppose any policies intended to support unintegrated, Canadian-owned distributors, producers and exhibitors that could potentially reduce their monopoly profits. Drabinsky's stand on the bill proposed by Minister Flora MacDonald to regulate film distribution in order to ensure profitability of the indigenous distribution sector, is a case in point.

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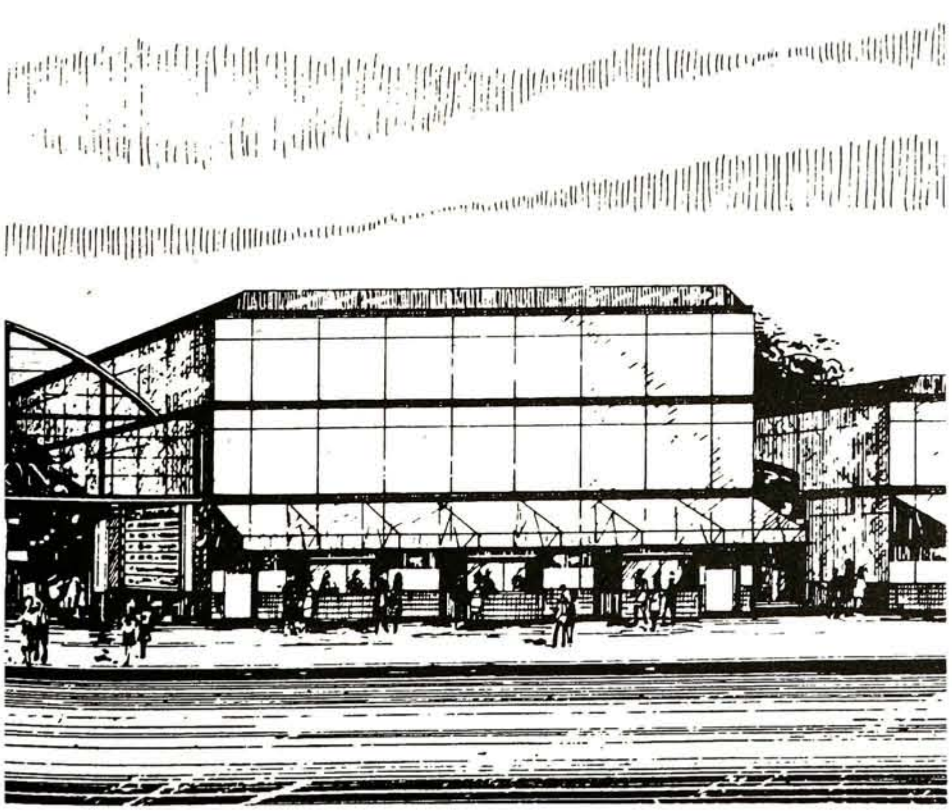
The storm kicked up by the Free Trade policy in the area of cultural sovereignty offers us another example of how national capitalists show their allegiance to international capital, given their vested interest. Let us take Drabinsky as such an archetype, for we can find them in all sorts of industries in Canada. His speeches during Cineplex's troubled times in 1982 clearly are opposed to foreign capital. His present ties to MCA, make it a different story altogether. Speaking at the "Great Trade Debate" organized by the Canada California Chamber of Commerce in Los Angeles on February 4, 1987, Drabinsky acknowledged Canada's historic difficulty "to develop and maintain effective cultural policies in the face of overwhelming cultural and commercial pressure" from the U.S. However, he went on to characterize the Canadians' concern over potential loss of sovereignty as "imaginary" and "irrational." He urged the Americans at the meeting to pamper Canada in the cultural trade area, the cost of which would be "minuscule compared to everything at stake."[9]

Space does not allow me here to analyze in detail the *laissez-faire* policy approach taken by the Canadian and provincial governments to the feature film industry. I might note here that asking Canadian filmmakers, distributors and exhibitors to be competitive in a monopolistic environment, depending on voluntary screen quotas to gain access to the domestic markets for Canadian films, and negotiation with the American film cartel, have historically perpetuated Canada's dependence on the U.S. Given that unfettered trade in mass culture already exists in Canada and its implications for Canadian artists are all too familiar, we can imagine what it would be like if Canada agreed to withdraw various subsidies to arts, including the production and marketing of feature films. That would once and for all put the question of a nationally-controlled cinema and television in Canada to rest. Because there will be none!



CINEPLEX
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FILMS

Notes

[1] Anthony Smith, *The Geopolitics of Information: How Western Culture Dominates the World* (London: Faber and Faber, 1980), p. 54.

[2] The Paramount Consent Decree of 1948 forbids the Majors from acquiring theatres. But the Reagan Administration's relaxations on the antitrust front has resulted in a merger frenzy reminiscent of similar concentration of capital at the turn of the century. A good example of corporate incest is Tristar which was formed in 1984 by a combination of Columbia Pictures, Home Box Office, and CBS. Some of the leading producer-distributors have begun to acquire theatre properties and the Department of Justice has not brought any suits against them under the antitrust laws.

[3] Cineplex Odeon Corporation, *Prospectus*, March 26, 1987, p. 27.

[4] *Ibid*, p. 25.

[5] Cineplex Odeon Corporation, *Notice of Annual and Special Meeting of Shareholders*, April 28, 1987, p. 12.

[6] *Ibid*.

[7] *Ibid*, p. 14.

[8] Cineplex's gross income in this period of expansion rose from $86,905 in December 1984 to $500,615,000 in December 1986.

[9] Garth H. Drabinsky, *The Great Trade Debate*, presented by the Canada California Chamber of Commerce, Los Angeles, February 4, 1987, p. 8.

Manjunath Pendakur is associate professor and director of the Program on Communication and Development Studies at Northwestern University in Evanston, Illinois. His book, Canadian Dreams and American Control: Political Economy of the Canadian Film Industry" *is being published by Wayne State University Press.*