National Library
of Canada

Acquisitions and
Bibliographic Services Branch

395 Wellington Street
Ottawa, Ontario
K1A 0N4

Bibliothèque nationale
du Canada

Direction des acquisitions et
des services bibliographiques

395, rue Wellington
Ottawa (Ontario)
K1A 0N4

Your file Votre référence

Our file Notre référence

NOTICE

The quality of this microform is heavily dependent upon the quality of the original thesis submitted for microfilming. Every effort has been made to ensure the highest quality of reproduction possible.

If pages are missing, contact the university which granted the degree.

Some pages may have indistinct print especially if the original pages were typed with a poor typewriter ribbon or if the university sent us an inferior photocopy.

Reproduction in full or in part of this microform is governed by the Canadian Copyright Act, R.S.C. 1970, c. C-30, and subsequent amendments.

AVIS

La qualité de cette microforme dépend grandement de la qualité de la thèse soumise au microfilmage. Nous avons tout fait pour assurer une qualité supérieure de reproduction.

S'il manque des pages, veuillez communiquer avec l'université qui a conféré le grade.

La qualité d'impression de certaines pages peut laisser à désirer, surtout si les pages originales ont été dactylographiées à l'aide d'un ruban usé ou si l'université nous a fait parvenir une photocopie de qualité inférieure.

La reproduction, même partielle, de cette microforme est soumise à la Loi canadienne sur le droit d'auteur, SRC 1970, c. C-30, et ses amendements subséquents.

Canada

**THE BAIE COMEAU POLICY AND FOREIGN OWNERSHIP IN
THE CANADIAN BOOK PUBLISHING INDUSTRY:
CULTURE, CONTINENTALISM, AND
CANADA-U.S. RELATIONS**

by

Hélène Prévost, B.A. Honours

A thesis submitted to
the Faculty of Graduate Studies and Research
in partial fulfilment of
the requirements for the degree of

Master of Arts

School of Journalism and Communication

Carleton University

Ottawa, Ontario

December 14, 1994

(c) 1994, Hélène Prévost

National Library
of Canada

Acquisitions and
Bibliographic Services Branch

395 Wellington Street
Ottawa, Ontario
K1A 0N4

Bibliothèque nationale
du Canada

Direction des acquisitions et
des services bibliographiques

395, rue Wellington
Ottawa (Ontario)
K1A 0N4

Your file Votre référence

Our file Notre référence

THE AUTHOR HAS GRANTED AN
IRREVOCABLE NON-EXCLUSIVE
LICENCE ALLOWING THE NATIONAL
LIBRARY OF CANADA TO
REPRODUCE, LOAN, DISTRIBUTE OR
SELL COPIES OF HIS/HER THESIS BY
ANY MEANS AND IN ANY FORM OR
FORMAT, MAKING THIS THESIS
AVAILABLE TO INTERESTED
PERSONS.

L'AUTEUR A ACCORDE UNE LICENCE
IRREVOCABLE ET NON EXCLUSIVE
PERMETTANT A LA BIBLIOTHEQUE
NATIONALE DU CANADA DE
REPRODUIRE, PRETER, DISTRIBUER
OU VENDRE DES COPIES DE SA
THESE DE QUELQUE MANIERE ET
SOUS QUELQUE FORME QUE CE SOIT
POUR METTRE DES EXEMPLAIRES DE
CETTE THESE A LA DISPOSITION DES
PERSONNE INTERESSEES.

THE AUTHOR RETAINS OWNERSHIP
OF THE COPYRIGHT IN HIS/HER
THESIS. NEITHER THE THESIS NOR
SUBSTANTIAL EXTRACTS FROM IT
MAY BE PRINTED OR OTHERWISE
REPRODUCED WITHOUT HIS/HER
PERMISSION.

L'AUTEUR CONSERVE LA PROPRIETE
DU DROIT D'AUTEUR QUI PROTEGE
SA THESE. NI LA THESE NI DES
EXTRAITS SUBSTANTIELS DE CELLE-
CI NE DOIVENT ETRE IMPRIMES OU
AUTREMENT REPRODUITS SANS SON
AUTORISATION.

ISBN 0-315-98554-2

Canada

Name HELENE PREVOST

Dissertation Abstracts International is arranged by broad, general subject categories. Please select the one subject which most nearly describes the content of your dissertation. Enter the corresponding four-digit code in the spaces provided.

Mass Communications

SUBJECT TERM

0708 U·M·I

SUBJECT CODE

Subject Categories

THE HUMANITIES AND SOCIAL SCIENCES

COMMUNICATIONS AND THE ARTS

Architecture 0729
Art History 0377
Cinema 0900
Dance 0378
Fine Arts 0357
Information Science 0723
Journalism 0391
Library Science 0399
Mass Communications 0708
Music 0413
Speech Communication 0459
Theater 0465

EDUCATION

General 0515
Administration 0514
Adult and Continuing 0516
Agricultural 0517
Art 0273
Bilingual and Multicultural 0282
Business 0688
Community College 0275
Curriculum and Instruction 0727
Early Childhood 0518
Elementary 0524
Finance 0277
Guidance and Counseling 0519
Health 0680
Higher 0745
History of 0520
Home Economics 0278
Industrial 0521
Language and Literature 0279
Mathematics 0280
Music 0522
Philosophy of 0999
Physical 0523

Psychology 0525
Reading 0535
Religious 0527
Sciences 0714
Secondary 0533
Social Sciences 0534
Sociology of 0340
Special 0529
Teacher Training 0530
Technology 0710
Tests and Measurements 0288
Vocational 0747

LANGUAGE, LITERATURE AND LINGUISTICS

Language 0679
Ancient 0289
Linguistics 0290
Modern 0291
Literature 0401
General 0294
Classical 0295
Comparative 0297
Medieval 0298
Modern 0316
African 0305
American 0352
Asian 0355
Canadian (English) 0593
Canadian (French) 0311
English 0312
Germanic 0315
Latin American 0313
Middle Eastern 0314
Romance 0401
Slavic and East European 0294

PHILOSOPHY, RELIGION AND THEOLOGY

Philosophy 0422
Religion 0318
General 0321
Biblical Studies 0319
Clergy 0320
History of 0322
Philosophy of 0469
Theology 0323

SOCIAL SCIENCES

American Studies 0324
Anthropology 0326
Archaeology 0327
Cultural 0310
Physical 0272
Business Administration 0770
General 0454
Accounting 0338
Banking 0385
Management 0501
Marketing 0503
Canadian Studies 0505
Economics 0508
General 0509
Agricultural 0511
Commerce-Business 0358
Finance 0366
History 0351
Labor 0578
Theory 0578
Folklore 0366
Geography 0351
Gerontology 0578
History 0578
General 0578

Ancient 0579
Medieval 0581
Modern 0582
Black 0328
African 0331
Asia, Australia and Oceania 0332
Canadian 0334
European 0335
Latin American 0336
Middle Eastern 0333
United States 0337
History of Science 0585
Law 0398
Political Science 0615
General 0616
International Law and Relations 0617
Public Administration 0814
Recreation 0452
Social Work 0626
Sociology 0627
General 0938
Criminology and Penology 0631
Demography 0628
Ethnic and Racial Studies 0629
Individual and Family Studies 0630
Industrial and Labor Relations 0700
Public and Social Welfare 0344
Social Structure and Development 0709
Theory and Methods 0999
Transportation 0453
Urban and Regional Planning 0453
Women's Studies 0453

THE SCIENCES AND ENGINEERING

BIOLOGICAL SCIENCES

Agriculture 0473
General 0285
Agronomy 0475
Animal Culture and Nutrition 0476
Animal Pathology 0359
Food Science and Technology 0478
Forestry and Wildlife 0479
Plant Culture 0480
Plant Pathology 0817
Plant Physiology 0777
Range Management 0746
Wood Technology 0306
Biology 0287
General 0308
Anatomy 0309
Biostatistics 0379
Botany 0329
Cell 0353
Ecology 0369
Entomology 0793
Genetics 0410
Limnology 0307
Microbiology 0317
Molecular 0416
Neuroscience 0433
Oceanography 0821
Physiology 0778
Radiation 0472
Veterinary Science 0786
Zoology 0760
Biophysics 0786
General 0760
Medical 0760

EARTH SCIENCES

Biogeochemistry 0425
Geochemistry 0996

Geodesy 0370
Geology 0372
Geophysics 0373
Hydrology 0388
Mineralogy 0411
Paleobotany 0345
Paleoecology 0426
Paleontology 0418
Paleozoology 0985
Palynology 0427
Physical Geography 0368
Physical Oceanography 0415

HEALTH AND ENVIRONMENTAL SCIENCES

Environmental Sciences 0768
Health Sciences 0566
General 0300
Audiology 0992
Chemotherapy 0567
Dentistry 0350
Education 0769
Hospital Management 0758
Human Development 0982
Immunology 0564
Medicine and Surgery 0347
Mental Health 0569
Nursing 0570
Nutrition 0380
Obstetrics and Gynecology 0354
Occupational Health and Therapy 0381
Ophthalmology 0571
Pathology 0419
Pharmacology 0572
Pharmacy 0382
Physical Therapy 0573
Public Health 0574
Radiology 0575
Recreation 0575

Speech Pathology 0460
Toxicology 0383
Home Economics 0386

PHYSICAL SCIENCES

Pure Sciences 0485
Chemistry 0749
General 0486
Agricultural 0487
Analytical 0488
Biochemistry 0738
Inorganic 0490
Nuclear 0491
Organic 0494
Pharmaceutical 0495
Physical 0754
Polymer 0405
Radiation 0605
Mathematics 0986
Physics 0606
General 0608
Acoustics 0748
Astronomy and Astrophysics 0607
Atmospheric Science 0798
Atomic 0759
Electronics and Electricity 0609
Elementary Particles and High Energy 0610
Fluid and Plasma 0752
Molecular 0756
Nuclear 0611
Optics 0463
Radiation 0463
Solid State 0463
Statistics 0463

Applied Sciences

Applied Mechanics 0346
Computer Science 0984

Engineering

General 0537
Aerospace 0538
Agricultural 0539
Automotive 0540
Biomedical 0541
Chemical 0542
Civil 0543
Electronics and Electrical 0544
Heat and Thermodynamics 0545
Hydraulic 0546
Industrial 0547
Marine 0794
Materials Science 0548
Mechanical 0743
Metallurgy 0551
Mining 0552
Nuclear 0549
Packaging 0765
Petroleum 0554
Sanitary and Municipal 0790
System Science 0428
Geotechnology 0796
Operations Research 0795
Plastics Technology 0994
Textile Technology 0994

PSYCHOLOGY

General 0621
Behavioral 0384
Clinical 0622
Developmental 0620
Experimental 0623
Industrial 0624
Personality 0625
Physiological 0989
Psychobiology 0349
Psychometrics 0632
Social 0451

The undersigned recommend to the Faculty of Graduate Studies
and Research acceptance of the thesis

**THE BAIE COMEAU POLICY AND FOREIGN OWNERSHIP IN
THE CANADIAN BOOK PUBLISHING INDUSTRY:
CULTURE, CONTINENTALISM, AND
CANADA-U.S. RELATIONS**

submitted by Hélène Prévost, B.A. Honours
in partial fulfilment of the requirements for
the degree of Master of Arts

Thesis Supervisor

Chair, Department of Journalism and Communication

Carleton University

December 16, 1994

ABSTRACT

Since the 1960s, the Canadian book publishing industry has struggled with problems related to distribution and foreign ownership. Domestic publishers have become marginalized, publishing only a small number of the books sold in Canada each year. On July 6, 1985, the Minister of Communications, Marcel Masse, announced a new initiative for the industry: the Baie Comeau policy. Its role was to Canadianize the industry by preventing direct takeovers and forcing non-Canadian firms to divest 51 percent of the publishing firms they acquired through indirect acquisitions. However, the policy was difficult to enforce because it was placed under the jurisdiction of Investment Canada, whose role was to encourage foreign investment. Prime Minister Brian Mulroney's Conservative government had no incentive to enforce the policy because of the free trade negotiations taking place between Canada and the United States. Economic integration with the U.S. curtailed Canada's policy-making autonomy, making it difficult to implement nationalist cultural policies. Because the government did not have the political will to enforce it, Baie Comeau proved to be a failure, repatriating only five out of over a dozen publishing companies.

Table of Contents:

Introduction.....	1
--------------------------	----------

Chapter I

Culture, Continentalism, and Canada-U.S. Relations: North American Economic and Political Integration

i)	Introduction.....	11
ii)	Canada Within the Centre: Cultural Sovereignty and Economic Integration.....	14
iii)	Relationships of Asymmetrical Interdependence: The Historical Roots of Continentalism.....	19
iv)	The Third Option: Asserting National Sovereignty.....	24
v)	The Corporate Decade: Deregulation, Privatization, and the Election of a Conservative Government.....	28
vi)	Conclusion.....	34

Chapter II

The Marginalization of Canadian Book Publishing: An Industry Profile

i)	Introduction.....	37
ii)	Origins of Foreign Control.....	37
iii)	Educational and Trade Book Publishing.....	43
iv)	Distribution and "Buying Around".....	47
v)	Federal and Provincial Support Programs.....	52
vi)	Policy Issues and Proposals for the Eighties.....	54
vii)	Conclusion.....	61

Chapter III

Stakeholders and the Policy-Making Process: The Birth of Baie Comeau

i)	Introduction.....	63
ii)	The Politico-Economic Situation in the Early Eighties: The Status of Canadian Publishing.....	66
iii)	A Policy of Forced Divestiture.....	71

iv)	Stakeholders, their Interests, and the Formulation of Baie Comeau: Reactions to a Policy of Forced Divestiture.....	74
v)	Inconsistencies in the Policy: Compromises and Contradictions.....	90
vi)	Conclusion.....	93

Chapter IV

Baie Comeau in Practice: The Erosion of Canada's Cultural and Political Sovereignty

i)	Introduction.....	96
ii)	The Litmus Test: Prentice-Hall Canada and Ginn and Company.....	99
iii)	The Free Trade Agreement: A New Economic Constitution for North America.....	110
iv)	The Ginn Sale and the FTA.....	118
v)	Subsequent Attempts at Canadianization: 1985 to 1992.....	119
vi)	The Demise of Baie Comeau and the Implementation of a "Net Benefit" Policy.....	127
vii)	Epitaph for Ginn: The Liberal Government and Paramount.....	135
viii)	The End of Twenty-Five Years of Government Commitment to Publishing.....	140
ix)	Conclusion.....	143
Conclusion.....		146
Bibliography.....		155

Tables:

Table I

Total Domestic Sales by English-Language Publishing Firms, by Origin of Control and Category of Book.....	46
--	----

Table II

Estimates of Domestic Market Share for Canadian-Published and Agency Books.....	51
--	----

Table III

Production of New Canadian-Authoured and Total Titles, by Canadian-Controlled and Foreign-Controlled English- Language Publishing Firms, by Size of Firm.....	51
---	----

Appendix:

1970s Provincial Support Programs.....	167
--	-----

Introduction:

Despite numerous interventions on behalf of the government, the Canadian book publishing industry has long been afflicted by a number of structural and financial problems. From the 1960s to the 1980s, those problems generally remained the same: the methods used to distribute foreign-authored books left publishers without the capital base needed to publish Canadian-authored titles; domestic companies were squeezed out of profitable educational markets and limited to the risk-filled trade book market by larger foreign-owned companies; the small size of the Canadian population made publishing particularly vulnerable due to its proximity to the United States.

Publishers and government officials identified the common denominator among these problems as the overwhelming presence of foreign firms in domestic publishing. Foreign ownership limited the public's access to domestic titles, since foreign-owned firms marginalized Canadian authors by publishing large numbers of foreign-authored titles. A subsequent government policy was founded on the premise that foreign investment should be precluded from further eroding the Canadian-owned segment of the industry. The 1985 Baie Comeau policy was designed to prevent direct takeovers of Canadian publishing houses, and regain 51 percent majority ownership when indirect acquisitions occurred, thereby elevating the Canadian-owned sector to 50 percent within two years.

Chapter I provides a brief history of publishing in Canada, chronicling significant events from the early 1960s to the early 1980s which led to the eventual implementation

of the Baie Comeau policy, named after a meeting that took place in Baie Comeau between then Communications Minister Marcel Masse and then Prime Minister Brian Mulroney. Canadian publishing's difficulties date from the 1960s when dozens of branch plants were established, primarily by successful American firms. Government concern was intensified in 1970 by the takeover of two large Canadian companies, the Ryerson Press and W.J. Gage, and the probable bankruptcy of a third, McClelland and Stewart.

That same year, a federal Royal Commission on Book Publishing was established to investigate possible solutions. The Commission's studies revealed problems in the following areas: educational and trade book publishing, the various distribution methods for foreign-authored books, and the high degree of foreign ownership in large, financially prosperous firms. It suggested limiting foreign ownership, increasing access to profitable agency lines, and providing better access to bank loans for small publishers in financial need. The majority of the Commission's recommendations, however, were never put into place. In the following years, the industry benefited from subsidies from the Canada Council, the Social Sciences and Humanities Research Council, and a broad assortment of provincial programs. However, no effort was made to effect structural changes to the industry (i.e. preventing foreign investment) which might have benefited Canadian publishers in the long-term.

Chapter II uses Glen Williams' "Canada Within the Centre" theory to explain Canada's political and economic formation, particularly in relation to the United States.

Canada, Williams argues, is a region within the larger region of the United States. This framework offers a middle ground between neo-Marxist and dependency theories of development. According to Harold Innis, Canada's stunted economic development can only be explained by analyzing its relationship to various empires. Canada has traditionally been associated with more industrially advanced nations, thus creating an asymmetrical relationship between trading partners. These relations compromised Canada's economic and political sovereignty.

Canada's asymmetrical relationship with the United States began in 1854, when their first trade treaty was signed. In its search for markets for its products, Canada essentially offered to become an extension of the U.S. economy while distancing itself from Great Britain, which no longer gave Canadian resources the benefit of lower tariff rates. After the abrogation of the treaty in 1866, the Canadian government made frequent yet unsuccessful endeavours--over a period of several decades extending well into the next century--to develop further trade agreements with the U.S.

A definitive shift occurred during WWII; Canada began its incorporation into the American empire when, for the first time, it sold more goods to the U.S. than Britain. The trade relationship throughout the 1950s was harmonious, since Canada's political and economic goals coincided with those of the United States. The two countries soon became each other's largest trading partners. Due to the elevated number of branch plants

in Canada, production became organized on a continental basis: Canada produced primary resources, and American subsidiaries imported finished products into Canada.

As economic integration continued in the 1960s, the Canadian government accrued a balance of payments deficit, and the asymmetrical nature of continentalism grew more evident. The government managed to obtain an exemption from the U.S. to rectify the imbalance, but only in exchange for political concessions, such as voicing support for American foreign policy. Consequently, aware of its new vulnerability, Canada's political goals began to diverge from its neighbour's. In 1972, as the U.S. entered an era of protectionism, President Richard Nixon announced that Canada would no longer be granted preferential tariff rates. This fuelled the growing trend towards Canadian economic nationalism. Consistent efforts were made to regain policy autonomy: the Foreign Investment Review Agency (FIRA) and the National Energy Policy (NEP) were implemented. Prime Minister Pierre Trudeau's Liberal government, after its re-election in 1980, achieved a surprising level of autonomy considering that it faced constant threats of retaliation from the United States.

The free trade issue, which had been buried for many years, resurfaced in Canadian politics in the 1980s. Faced with a recession and a highly protectionist Republican Administration directed by President Ronald Reagan, access to American markets appeared more necessary than ever for the struggling Canadian economy. The newly elected Conservative government, whose mandate was to improve the relations

between the two countries, decided in 1985 that free trade was worth pursuing. Prime Minister Mulroney, influenced by the recommendations of the Macdonald Commission, initiated the discussions which eventually led to the Canada-U.S. Free Trade Agreement (FTA).

Since Canada has adopted the American economic model, it has also had to alter its political structures. Continental integration has made it difficult for Canadian policy-makers to implement and enforce nationalist policies, and challenges to the status quo are met with firm resistance or retaliation. Sovereignty therefore refers to Canada's ability to maintain its regional position with respect to the United States.

The development of the Baie Comeau policy provides the focus for Chapter III. It examines the policy-making process, and reveals the inconsistencies present in the policy. Baie Comeau represented a marked change in the federal government's strategy because it was designed to change the structure of the industry, while previous policies had simply granted subsidies to publishers.

Marcel Masse announced the Baie Comeau policy on July 6, 1985. Masse succeeded in having the controversial policy passed in Cabinet, although only by a narrow margin. It was an apparently powerful policy, but it lacked the force of law. Although its objective was to regain majority ownership of recent foreign acquisitions of publishing firms, it was placed under the jurisdiction of the newly-established Investment Canada

Act, whose role was to encourage foreign investment. Furthermore, the government wrongfully assumed that other nations would comply with the policy by voluntarily selling controlling interest of their recently purchased publishing firms to Canadians. Due to these inconsistencies and misjudgments, the policy proved unworkable at the practical level.

The emerging laissez-faire economy threatened to place domestic cultural industries at risk by allowing foreign investors unregulated access to Canadian companies. After a well-publicized publishing takeover in December 1984, when Gulf & Western (G&W) purchased Prentice-Hall in the United States, acquiring Prentice-Hall Canada, Canadian-owned publishers expressed their apprehension. In June 1985, a month before the implementation of Baie Comeau, the same multinational indirectly acquired a smaller Canadian firm, Ginn and Company, sparking indignant protests from Canadian cultural nationalists.

Various pressure groups had an influence on the policy process which led to Baie Comeau. They represented both cultural nationalists and private industry. In light of several takeovers by American corporations, smaller independent publishers, in large part members of the Association of Canadian Publishers, called for stronger government support. They maintained that a policy such as Baie Comeau was well-intentioned and would assist publishers, whereas several large and successful publishing houses, primarily under American control, insisted such an initiative was unnecessary and protectionist. The

American government, supported by multinational corporations such as Gulf & Western, promptly expressed its intolerance by vowing to retaliate should attempted takeovers be thwarted. It declared that a policy of this nature would violate the spirit of burgeoning free trade negotiations between the two countries. The Canadian Conservative government was at first reluctant to approve such a controversial policy because of the American government's potential reaction. Nevertheless, needing to prove its good faith to domestic publishers, Cabinet accepted the Minister of Communications' suggestion for an industry-oriented policy.

The Department of Communications (DOC) found itself in a policy-making quandary. It was simultaneously pressured to foster Canadian ownership and yield to the demands of an unregulated market. Subjected to these contradictory forces, the DOC achieved a compromise which satisfied neither publishers nor the business community. By implementing the Baie Comeau policy, the Conservative government promised to substantially increase the publication of Canadian-authored titles. Book industry profits for 1984 totalled \$1.3 billion, but the majority of books--imported directly from another country (47 percent), or foreign titles distributed by Canadian firms (28 percent)--were of foreign origin, leaving domestically published titles with a meagre 25 percent of the market. Most Canadian publishers argued that increasing Canadian ownership of a foreign-dominated cultural sector would stem the influx of foreign books into Canada. After decades of establishing programs which filtered money into publishing, but failed

to improve the financial prospects of struggling publishers, the Baie Comeau policy represented a bold new approach.

Chapter IV is a critical overview of the takeovers that took place under the Baie Comeau policy. Soon after its implementation, Baie Comeau was maligned by American corporate interests, criticized by the domestic publishers it was designed to protect, and undermined by the very government that had developed it.

It was first applied retroactively to Gulf & Western's 1984 purchase of Prentice-Hall Canada. The decision to apply the policy retroactively was designed to send a clear message to the American government: Canada would not include cultural industries in free trade negotiations. The Prentice-Hall and Ginn takeovers became symbols of Canada's resolve to protect not only publishing, but cultural industries in general. Soon afterwards, however, when Baie Comeau became the target of American lobbyists acting on behalf of Gulf & Western, it became apparent that inconsistencies in the policy would make Canadianization difficult. The Prentice-Hall takeover was allowed, as was the takeover of Copp Clark Pitman. Several years passed before Ottawa finally gained controlling interest in Ginn and Company, in addition to another small firm, named GLC, which had been purchased by G&W in 1986. The Canadian Development and Investment Corporation (CDIC) bought the companies because G&W, knowing it could obtain a higher price from the Canadian government, was reluctant to advertise the sale to potential

Canadian buyers. The sale took place in 1989 for \$10.3 million, a grossly inflated amount.

The Baie Comeau policy was institutionalized in the Canada-U.S. Free Trade Agreement. Article 1607, suggested by the Americans, made the Canadian government a "buyer of last resort" should a foreign company not be able to find a majority Canadian buyer within two years. This provision, however, encouraged the foreign multinational to delay the sale, knowing the Canadian government would offer a larger amount of money than a private Canadian firm. In fact, this was the clause responsible for the 1989 Ginn sale. Article 2005 granted the American government the right to "take measures of equivalent commercial effect," in other words the right to retaliate, should Canada not adhere to the terms of the agreement.

In the end, the Baie Comeau policy proved to be a failure. In a seven-year period, it repatriated only five out of over a dozen firms. It was subsequently replaced by a new "net benefit" policy. The Minister of Communications, Perrin Beatty, announced its implementation in January 1992. It was similar to Baie Comeau, yet it presented even fewer barriers to potential foreign investors. Direct takeovers would be permitted when a Canadian firm was in severe financial distress. Indirect takeovers would not be contested if the non-Canadian buyer agreed to meet criteria that would help the Canadian industry, for example promising to increase publication of Canadian-authored books.

Most Canadian publishers objected to the policy because it was not powerful enough to repatriate firms as Baie Comeau had done.

The election of Jean Chrétien's Liberal government in the fall of 1993 was greeted optimistically by publishers who wanted greater support for their industry. The Liberals inherited Ginn from their Conservative predecessors; it was still owned by the CDIC and had been incorporated with the smaller GLC textbook firm. Early in 1994, the new Minister of Heritage (formerly the DOC), Michel Dupuy, allowed Ginn to be sold back to Paramount for the same amount the CDIC had paid five years before. He argued that he had no choice in the matter because the Conservative government had made a secret oral buy-back deal with Paramount saying that if Baie Comeau was ever modified Paramount would have the opportunity to bid on Ginn. The sale signalled the end of twenty-four years of government initiatives to preserve Canadian publishing.

Although the Conservative government was a firm proponent of trade with the United States, it developed a cultural policy that went against its economic philosophy. The Baie Comeau policy was inconsistent and contradictory and the government did not have the political will to enforce it once it had been implemented. The Conservative Cabinet, determined to achieve further integration into the U.S. economy by achieving a free trade agreement, could not uphold a nationalist cultural policy that went against the continental status quo.

Chapter I

Culture, Continentalism, and Canada-U.S. Relations: North American Economic and Political Integration

i) Introduction

The Baie Comeau policy came into being several months before free trade negotiations which ultimately led to increased economic integration between Canada and the United States. As such, Baie Comeau's existence requires a closer examination of Canada's location in the international political economy. Scholars have described Canada from various standpoints: as an independent nation-state that acts as a secondary imperialist power (Moore and Wells 1975; Resnick 1982), as a dependent country sharing the characteristics of third world nations (Levitt 1970; Watkins 1977; Drache 1982), as a dependency whose economic situation can be understood in terms of class-state relations (Panitch 1981). This chapter describes Canada as a region incorporated within the larger region of the United States; it is the northernmost part of a larger political economy.

Political economist Glen Williams' "Canada Within the Centre" theory offers an alternative to traditional dependency and neo-Marxist theories of Canadian socio-economic development. Canada, Williams argues, can be seen as a zone within the U.S. economy as opposed to a separate national economy. This assertion is in part based on the fact that Canada and the United States have developed the world's largest bilateral trade relationship. The two economies are so integrated, and the relationship is so asymmetrical, that Canada has difficulty making autonomous decisions. In addition, more than any other industrialized nation, Canada has a high level of foreign ownership.

Therefore, economic policies are often formulated with the continental relationship in mind.

Canada's industrial development and political autonomy, according to Harold Innis, can largely be explained within its relationship to various empires. These relationships have been asymmetrical in nature because the imperial nations Canada has been associated with have been more industrially advanced. Canada's ability to determine the course of its actions has been compromised by external forces, both at the economic and political level. Nationalist challenges to the continental status quo have been vigorously contested, primarily by the U.S. government and U.S. multinationals. Canadian decision-makers frequently echo the arguments of their American counterparts and are reluctant to propose nationalist endeavours that could jeopardize the continental relationship.

Continentalism has deep historical roots. Canada was a colony first of France, then of Britain, then it developed close economic ties with the United States. At various periods in Canadian history, economic integration with the United States has been attempted. These attempts have been balanced by consistent efforts to resist integration. The economic nationalism of the National Policy and the results of the 1911 free trade election are cases in point. When it appeared that England might lose the war in the 1940s, Canada turned towards the United States, and trade with the U.S. soon surpassed trade with Britain. A relatively harmonious relationship ensued, lasting for the next few decades.

During the 1970s Canada's "special relationship" with the United States changed. Under Richard Nixon, American international policy regarded Canada as a "foreign" nation, denying it the special status it once had with respect to exported goods, subjecting it to higher tariffs. Mitchell Sharp, Secretary of State for External Affairs, enumerated three possible courses of action for the Canadian government: developing multilateral trade arrangements with a greater number of nations, strengthening ties with the U.S., or maintaining the current situation. In response to the United States' protectionist behaviour the 1970s were marked by nationalist Canadian programs such as FIRA and the National Energy Policy (NEP). Foreign policy became oriented towards multilateral trade, in particular with the European Economic Community (EEC).

The next decade signalled the decline of the Liberal government's policies of trade diversification and the election of a Conservative government whose goals consisted of deregulation and privatization. Relying on the recommendations of the 1984 Macdonald Commission Report, which called for a free trade agreement with the U.S., Prime Minister Brian Mulroney proposed negotiations between the two nations. Instead of implementing trade deals with a variety of nations, the Conservatives set their sights on the American market.

The history of trade relations between the two countries sheds light on the reasons for the implementation of the Baie Comeau policy. Although this brief historical survey deals with economic realities rather than cultural ones--which are the subject of this

thesis—an overview of Canada's economic history, and its bilateral trade with the U.S., is essential to understanding the Baie Comeau policy. They explain why the policy was contradictory and could only be applied in rare instances. Although most Canadian governments have sought trade agreements with the U.S. due to the proximity and accessibility of its markets, there have always been concerted efforts to protect Canadian culture from the effects of economic agreements. The role of cultural industries in preserving the Canadian identity is considered a necessary one. Williams' "Canada Within the Centre" framework allows an examination of Canadian sovereignty, and explains why Canada's policy capacity is limited by the continental relationship with the United States.

ii) Canada Within the Centre: Sovereignty and Economic Integration

Canada's position in the international political economy has long been a subject of debate among scholars. The "Canada Within the Centre" perspective offers a novel point of view, proposing a middle ground between dependency theory and neo-Marxism, taking into consideration the fact that Canada has evolved through a series of associations with empires. Glen Williams states that "when investment, production, and trade are considered, the Canadian economy may now be usefully conceptualized as a geographically larger zone *within* the U.S. economy."¹ This analytical framework came into being in the mid-1970s as a criticism of the dependency school, which viewed

¹ Glen Williams, "On Determining Canada's Location Within the International Political Economy," *Studies in Political Economy* 25 (1988): 133.

Canada as an economic colony with a client state. By using a model of aborted development, it explained Canada's underdevelopment with respect to other industrialized nations, but failed to explain its wealth. Dependency theory situated Canada only in terms of its economic dependence. Although it is correct in determining that foreign capital is central to Canada's economic underdevelopment, and that the Canadian state is an instrument of foreign capital, its analysis is devoted primarily to the "national question." This oversimplifies complex state operations, and obscures the processes that led to Canada's domination by imperial nations.²

While the neo-Marxist theory of Canadian development offers a better understanding of the relations between state and society, it fails to recognize that Canada's development is different from that of other Western nations. Orthodox neo-Marxism does not examine Canada's unique position in the international political economy, arguing that its historic specificity is all that separates it from other nations. The internal and external dynamics that influence Canadian sovereignty are not fully explored, except in terms of how class struggle influences the state.³

Williams draws his basic premise from Harold Innis, who studied the relationship between the centre and marginal regions of Western civilization. Innis developed a model

² Ibid., 108.

³ Ibid., 108-109.

of "economic growth under structural constraints."⁴ He believed the relationships within empire presented several disadvantages, most of them due to Canada's peripheral location, but they also promoted economic growth. Regional relations were asymmetrical because Canada lacked the industrial development of the centre. However, at the political level, Canada developed as a liberal democracy, and living standards in the centre nation and the periphery nation were similar. In the international political economy, Williams argues, Canada should be regarded in terms of its regional relationships and not in terms of struggles between various nation states.

Canada became a wealthy nation because it evolved as an extension of a centre nation. Williams comes to this conclusion, in part, due to the writings of Arghiri Emmanuel, who argued that high wage levels in colonial nations hastened these countries' economic development. Leo Panitch also contributed to Williams' theory by elaborating on the importance of the continental market in contributing to industrialization, the role of liberal democratic institutions in determining Canada's position in the international political economy, and by placing emphasis on popular culture and how it sustains American imperialism within Canada.⁵

Due to the influence of the external centre, Canadian sovereignty has been limited.

Sovereignty can be defined as a nation's ability to determine the course of its actions--

⁴ Ibid., 122.

⁵ Ibid., 131-132.

developing policies, political and economic strategies--with limited concern for possible external political, economic and social repercussions. Sovereignty is part of a "qualitative historical-developmental relation," that has to be evaluated over time, as Canada has developed as a nation. It is not simply a "quantitative issue-specific variable" that can be evaluated as issues take place. For example, it is often stated by continentalist or nationalist theorists that signing the Canada-U.S. Free Trade Agreement would either increase or decrease sovereignty. Autonomy, however, has been limited since Canada's inception as a colony, and subsequently by the many links it has forged with its southern neighbour.⁶

Trade between the U.S. and Canada has been uneven from the outset. Due to the large amount of foreign ownership on its territory, production became organized on a continental basis with Canada as the resource producer. The U.S. profits from Canada's export resources then U.S. subsidiaries import finished products back into Canada.⁷ Economic policies are also based on the continental mode of production. However, by adopting the economic model posited by the United States, Canada also has to adopt similar political structures. Therefore, "sovereignty refers primarily to the maintenance

⁶ Glen Williams, "Canadian Sovereignty and the Free Trade Debate," *Knocking on the Back Door: Canadian Perspectives on the Political Economy of Freer Trade with the United States*, eds. Allan M. Maslove and Stanley L. Winer (Carleton University: The Institute for Research on Public Policy, 1987) 106.

⁷ Glen Williams, "Regions within Region: Canada in the Continent," *Canadian Politics in the 1990s*, eds. Michael S. Whittington and Glen Williams, 3rd ed. (Scarborough: Nelson Canada, 1990) 9.

of the capacity of the Canadian federal and provincial states to focus, mediate, protect and develop the regional position of the Canadian socio-economic formation within the continental political economy."⁸

The continentalization of Canada has, it goes without saying, led to the decline of the nation-state. Canada's culture and economy are in part directed by the American government and American multinational corporations. The Canadian government administers the country with these influences in mind:

While the formal autonomy of the Canadian state can seldom be directly challenged, perceived hostile nationalist challenges to the continentalist status quo can often be forestalled, muted, or repudiated at a later point after concerted campaigns of pressure by U.S. multinationals and the U.S. government. These campaigns need never step outside the normal decision rules of Canadian liberal democracy but can simply utilize all the many points of political access and leverage available within a multi-party, executive-dominated, federal system.⁹

Therefore, Canada shares the social and economic characteristics of the American empire.

There are many problems associated with being both inside and outside the U.S. political economy. Many important issues, such as the environment, economic expansion, culture, etc., have both a domestic and a bilateral impact. This creates instability in the federal system which handles these issues.¹⁰ Politicians, for instance, are reluctant to

⁸ Williams, *Knocking on the Back Door*, 105.

⁹ Ibid., 103.

¹⁰ Williams, *Canadian Politics in the 1990s*, 19.

limit the performance of foreign firms in Canada because they are responsible for economic growth, and branch plants are granted the same corporate citizenship status as Canadian-owned companies.

It is Canada's incomplete economic development which has to be analyzed in order to more fully comprehend the continental relationship. The sections below examine how the continental relationship evolved over the years, and culminated in negotiations for a free trade agreement between Canada and the United States.

iii) Relationships of Asymmetrical Interdependence: The Historical Roots of Continentalism

According to Harold Innis, Canada has been integrated into a succession of empires: France, Britain, and subsequently the United States. These have been relationships of asymmetrical interdependence since Canada is a small, open nation which depends on international commerce. It has developed into a branch plant economy, and reflects the nations it has been associated with in its political and economic structures.

Due to the search for markets for domestic products, free trade has been at the surface of Canadian politics since the nineteenth century. Lowering tariffs would allow Canadian producers and manufacturers to benefit from sales to the U.S. Several Prime Ministers, from John A. Macdonald to Wilfrid Laurier to Mackenzie King, supported the

idea of freer trade with the United States. Many went to Washington to propose it only to have their initiatives rebuffed.

Canada's first trade agreement with the United States was the 1854 Reciprocity Treaty. After the British no longer gave preferential treatment to their colonies' primary resources, and Canada could not compete due to the abolition of the tariffs, a deal was signed with the U.S. The treaty provided new markets for products such as fish, grain, and timber. The U.S. rescinded the treaty in 1866, when it realized that it was buying more from Canada than it was selling. To promote a larger free trade area within the colonies and make up for the loss of the agreement with the U.S., Canadian Confederation took place in 1867.¹¹ Despite other attempts at trade treaties in 1869, 1871, and 1874, no further agreements were signed.

In 1879, John A. Macdonald regained power, and with his re-election came the National Policy, a concept of nation-building. A protectionist policy of high tariffs designed to encourage the manufacturing and industrial sectors, it offered a means of coping with U.S. rejections of proposed treaties. Protectionism was used as a tool to deal with: "the unevenness of population concentrations, the combination of cultural and linguistic differences and regional homogeneity, and the vast territorial distances."¹²

¹¹ David J. Bercuson, "Canada's Historic Search for Secure Markets," *Free Trade: The Real Story*, ed. John Crispo (Toronto: Gage Educational Publishing Company, 1988) 9-10.

¹² Casper Garos, *Canada-United States Free Trade: Background, Issues and Impact* (Amsterdam: VU University Press, 1990) 7.

While this created markets for industries in Canada (i.e. textiles), these industries were then made incapable of competing at the international level. The National Policy also encouraged the establishment of foreign companies in Canada. Macdonald, however, remained ready to negotiate a trade agreement with the Americans should they decide to do so, but the United States refused reciprocity again in 1891.¹³

During Wilfrid Laurier's term as Liberal Prime Minister in 1911, the free trade issue arose once more. Farmers in the west clamored for reciprocity because tariffs were too high. Laurier, believing in continentalism, and knowing that sharing the continent with the United States would affect Canada's future, proposed a reciprocity agreement.¹⁴ The election in that year became a free trade election, and Canadians refused the agreement, voting for Robert Borden's Conservatives. Reciprocity appeared as a threat to Canada's independence, particularly after the economic security engendered by the National Policy. The free trade issue was laid to rest, or so it seemed. Although Canada and the U.S. signed two trade agreements in the 1930s, these did not involve free trade.¹⁵

¹³ Paul Stevens, "Reciprocity 1911: The Canadian Perspective," *Canadian-American Free Trade: Historical, Political and Economic Dimensions*, eds. A.R. Riggs and Tom Velk (McGill University: Institute for Research on Public Policy, 1987) 10.

¹⁴ Ibid., 11.

¹⁵ Bercuson 13.

In 1942, for the first time, Canada sold more goods to the United States than to Britain. Mackenzie King chose to distance the country from England since it appeared England was losing ground in the war. Canada, at that point, slowly dissociated itself from Britain and began its incorporation into the American empire. After the war ended, the majority of the products Canadians needed, such as automobiles, were manufactured in the U.S. King was the first Prime Minister to depoliticize continental commercial relations by saying they were only a series of adjustments to tariff schedules.¹⁶

A new agreement was proposed in 1948 which would have established a "modified customs union." It was more comprehensive than the proposed 1911 agreement. Canada had a balance of payments deficit that a free trade arrangement, it was believed, would have eliminated. Reminded of the 1911 election results, worried that he would be seen as selling out to the U.S., King cancelled the deal. At the time, it was becoming increasingly apparent that Canada was forging a new continental relationship with the United States, and the Canadian public did not approve of the shift away from England.¹⁷

In the post World War II era, the two countries developed the world's largest bilateral trade relationship. By 1955, 60 percent of Canadian exports went to the United

¹⁶ Williams, *Canadian Politics in the 1990s*, 16.

¹⁷ Bercuson 14-15.

States and seventy-three percent of imports came from the U.S.¹⁸ The only significant trade agreement signed prior to the 1985 free trade discussions was the 1965 Auto Pact.

During the 1960s, Canada and the U.S. developed what is euphemistically referred to as the "special relationship." Scholar Stephen Clarkson discusses the "special relationship" as the patronizing way the United States treated Canada, and how Canada deferred to American foreign policy decisions. Clarkson says that in the 1940s and 1950s, when Canada's economic goals were similar to those of the U.S., the relationship could be characterized as one of "quiet accommodation." When those interests differed, however, Canada paid the price. For example, both national economies were so intertwined that changes to correct American balance of payments problems during the sixties could have had serious repercussions on Canada if Ottawa had not been able to obtain exemptions from Washington. These exemptions, when they were given, were done so in exchange for certain concessions.¹⁹ There was always the risk of economic reprimands should Canada try to contradict the U.S. or implement nationalistic policies which curbed U.S. actions in Canada. As the years progressed, Canada became increasingly vulnerable, becoming subject to consistent threats of retaliation.

¹⁸ Jack Granatstein, "Free Trade: The History of an Issue," *The Future on the Table: Canada and the Free Trade Issue*, ed. Michael D. Henderson (North York: Masterpress, 1987) 26.

¹⁹ Stephen Clarkson, *Canada and the Reagan Challenge: Crisis and Adjustment, 1981-85*, 2nd ed. (Toronto: James Lorimer & Company, 1985) 6-7.

iv) The Third Option: Asserting National Sovereignty

While Canadian history has been marked by efforts to integrate with the U.S., it has also been affected by moves to assert its independence in the continent. Events in the 1970s occasioned a resurgence in economic nationalism. Richard Nixon effectively ended the "special relationship" between the U.S. and Canada, a relationship which was steadily growing stagnant. Canada, he said, would not be exempted from a ten percent tariff on products exported to the U.S. because mature partners should develop autonomous policies and chart their own progress independently from one another. Canada had traditionally been able to claim exemptions to tariffs. At that time, Canada sent two-thirds of its exports to the U.S.²⁰

Canada was obligated to find other markets after its relationship with the U.S. deteriorated. Ottawa re-examined its trade relations, prompting the creation of many studies about possible avenues of action to deal with U.S. protectionism. Mitchell Sharp, Secretary of State for External Affairs, published a paper, *Canada-U.S. Relations: Options for the Future*," proposing that the Canadian government shift Canada's international strategy away from the trap of a self-perpetuating and deepening continental integration."²¹ He suggested three different ways of proceeding, and recommended the final one as the preferred course of action:

²⁰ Garos 9.

²¹ Clarkson, *Canada and the Reagan Challenge*, 8.

1. maintain the present relationship with the United States with a minimum of policy adjustments;
2. move deliberately towards closer integration with the United States;
3. pursue a comprehensive long-term strategy to develop and strengthen the Canadian economy and other aspects of our national life and in the process to reduce the present Canadian vulnerability.²²

The last option became known as the "Third Option." There was never a consensus in cabinet about whether or not the strategy should be implemented. Many Cabinet members disagreed with it. Nevertheless, strategies were formulated to diversify trade and to restructure domestic industries. These were the only feasible courses of action to reduce dependence on a single market.

A string of nationalist endeavours that occurred during those years included FIRA, Bill C-58, a closer relationship with the European Economic Community, and the National Energy Policy (NEP). FIRA, in 1974, was to regulate foreign investment, limiting investments that were not in Canada's best interest. Due to its dependence on branch plants, however, Canada needed investment to develop its national economy. A year later, Bill C-58--an amendment to the Income Tax Act--was implemented to discourage Canadian companies from advertising in American media. The advertising revenue was needed to support Canadian magazines and TV stations, yet advertisers consistently placed their ads in the American media because of higher reader/viewership. The Bill eliminated tax write-offs for Canadian companies that advertised on American television stations and in American magazines. Further cooperation with the European Community began in

²² Garos 10.

1976, as Canada sought trade agreements with other nations. In 1980, the NEP was put into place to Canadianize the American-dominated energy sector and was to attain 50 percent ownership by 1990.²³

These attempts to strengthen Canadian cultural and economic sovereignty were seldom fruitful, indeed were often counter-productive. Bill C-58 received threats from the U.S. Congress since it restricted commerce. The Carter administration went so far as to amend the U.S. Trade Act to allow retaliation against the Bill.²⁴ Trade with the EC dwindled since a consensus on what steps to take to diversify trade could not be reached in Cabinet. The NEP found many opponents in the U.S. Congress and occasioned an outflow of capital.

The Trudeau government's policies were, in reality, not that "nationalist," Stephen Clarkson argues. There was much indecision in the government at this time, and overt attempts at nationalism were resisted. The policies that were created were often applied in a contradictory manner. Although Bill C-58 made *Time* magazine lose much of its advertising revenue, the same rules did not apply to *Reader's Digest* because of curious ownership criteria. The Canada Investment and Development Corporation was to repatriate Canadian businesses, but it operated more like a private company than a crown corporation. FIRA operated in much the same fashion, often allowing investments that

²³ Ibid., 10.

²⁴ Clarkson, *Canada and the Reagan Challenge*, 235.

should not have take place.²⁵ Inconsistencies in applying existing "nationalist" policies were rampant.

The Conservative party openly criticized the Liberals in the late 1970s, saying these policies should be undone. FIRA should be weakened; Petro-Canada should be privatized. Their approach emphasized "national disintegration." The Liberal government continued to lose voter support as decentralization and a shift of power to the provinces occurred. The Western provinces developed economic relationships with the Pacific Coast states, Ontario with the central states, Québec and the Maritimes with the northeast. Ottawa could not maintain national strength in a political environment so deeply influenced by the continentalist trend. The Trudeau government still yearned for a return to the "special relationship" and trade with the U.S.²⁶

In 1979, when Joe Clark was elected Prime Minister, Finance Minister John Crosbie suggested continental free trade and the Canadian public gave the proposal a resounding no. During its months as a shadow cabinet, the Liberal party experienced a change of perspective. It took note of the fact that nationalism was prevalent in some areas of the Canadian business community. Energy companies, for example, wanted preferential treatment--under the guise of nationalism--in order to secure lucrative

²⁵ Ibid., 18.

²⁶ Ibid., 12-13.

government contracts. When the Liberals regained power a short time later, they introduced these new ideas into their platform.

v) The Corporate Decade: Deregulation, Privatization, and the Election of a Conservative Government

Canada had always looked for a closer relationship with the U.S. Then it discovered, in the 1960s, that it could be a victim of the vagaries of the American market, especially when U.S. and Canadian interests did not coincide. The 1970s and early 1980s attempted to remedy the reliance on a single market, but the ties to the U.S. were so intricate that these attempts were not successful.

No one would have predicted in 1980 that, within four short years, Canada would embark on free trade negotiations with the United States. Canada was in a recession, as was its southern neighbour, and Allan Gotlieb, Under-Secretary of State for External Affairs, wrote:

The nature of the Canadian economy and society has required government involvement to channel aspects of long-range development in beneficial ways. Similarly, it is axiomatic that the benefits of development have to be worked at by Canada. They will not fall out of a free trade, free investment, free-for-all continental economy. This is not an option for Canadian development.²⁷

There was, at the time, a momentary revival of the Third Option. However, the revival was suppressed by constant American attacks about the Trudeau administration's

²⁷ Qtd. in G. Bruce Doern and Brian W. Tomlin, *Faith & Fear: The Free Trade Story*, (Toronto: Stoddard Publishing Co. Ltd., 1991) 16.

nationalist policies. However, plans to strengthen the NEP and extend FIRA's mandate were immediately curbed after a series of American complaints.

President Ronald Reagan made a free trade overture in 1981, suggesting negotiations between three nations, Canada, the U.S., and Mexico. The U.S. was trying to strengthen its weakening position in the world order. The Canada-U.S. relationship had worsened considerably by the beginning of the eighties decade:

While not permitting Canada to act like a state capitalist developing country, Washington was equally concerned to prevent Canada from behaving like a protectionist industrialized economy on the model of Japan or the European Community. Any deviations from its historic role as a resource hinterland and a captive market were clearly to be resisted. Only the status quo was acceptable.²⁸

After Reagan's election, Canada's nationalist NEP, as well as FIRA, became the target of widespread condemnation from American businesspeople and politicians. Since Canada was perceived as hostile to foreign investment, it was prevented from taking part in a trilateral trade talks between the U.S., Japan, and members of the EEC. Moreover, the U.S. announced that it would renege on an East Coast fisheries treaty.²⁹ Michigan's Democrat Congressman, John Dingell--who later became a player in the Baie Comeau controversy--objected to the divestiture of American companies by Canadians, stating that

²⁸ Ibid., 276.

²⁹ Ibid., 30.

the NEP allowed Canadian firms to "[pick] the bones of a U.S. corporation."³⁰ Canada became more vulnerable to U.S. actions than it had been during the 1970s.

In March 1982, a Senate committee reported that free trade would be a favourable option for Canada. The Macdonald Commission on the Economic Union and Development Prospects of Canada was subsequently appointed by Trudeau's Liberal government to define the party's agenda for the next decade. In 1983, the government released a document entitled *Canadian Trade Policy for the 1980s: A Discussion Paper*, which favored sectoral free trade. It acknowledged the interdependence between nations, stating that many benefits could be gained through trade with the U.S.³¹ Gerald Regan, Minister of International Trade, announced in 1983 that the Third Option would no longer be pursued and that the Liberal government intended to pursue a limited free trade deal with the U.S.³² These recommendations looked doubly attractive due to the ongoing recession, which made more nationalist efforts impractical. The Liberal government believed it had little alternative but to put its faith in the free market.

A year later, the Conservatives formed a majority government with an agenda to reduce the state's intervention in economic affairs; the party adopted a pro-business continentalism. Although improved relations with the United States had been part of

³⁰ Ibid., 27.

³¹ Garos 11.

³² Doern, *Faith & Fear*, 21.

Brian Mulroney's election campaign, free trade had not. Eight days after taking office, he went to Washington, believing that there were "untapped possibilities for cooperation" in the Canada-U.S. relationship. He made it clear to Joe Clark, responsible for External Affairs, that one of the most important objectives of foreign policy was to gain the favour of the United States.³³

Mulroney was critical of government interference in the economic sector, but it took until 1985 for him to convert to the idea that free trade would be a positive change for Canada. The Americans, in turn, believed the Mulroney administration was a government they could do business with. Three factors led to Mulroney's change of orientation. Firstly, there was the influence of big business, which depended on continental trade. A new relationship was developing between business and Ottawa. Premier Peter Lougheed said: "Perhaps we have reached a stage in Canada where it is possible to . . . develop a new spirit of cooperation and mutual trust--and I emphasize the word TRUST--between business and government."³⁴ Before Mulroney suggested trade with the U.S., many business interests indicated this was the proper route to take. The Business Council on National Issues, representing major corporations operating in Canada, and the Canadian Manufacturers' Association, supported the idea of opening the Canadian market to competition. The economic crisis of the recession caused corporations to

³³ Stephen Clarkson, "Canada-U.S. Relations and the Changing of the Guard in Ottawa," *Canada Among Nations 1984: A Time of Transition*, eds. Brian W. Tomlin and Maureen Molot (Toronto: James Lorimer and Company, 1985) 161.

³⁴ Clarkson, *Canada and the Reagan Challenge*, 312.

believe that access to the U.S. market would solve many of their economic problems. Secondly, U.S. protectionism was still limiting Canada's ability to trade; opening the border appeared to be the only way to relieve the pressures being placed on Canadian businesses exporting to the U.S. Lastly, the Conservatives inherited the Liberal's Macdonald Commission Report, which cemented the government's resolve that free trade with the United States was an essential objective.

The Macdonald Report painted a grim picture of Canada's economic future should free trade with the United States not become a priority. It exaggerated the potential problems of U.S. "protectionism" and "[claimed] Canada to be threatened equally by American protectionism on the outside and market-inhibiting government policies on the inside. . . [it] recommended that Canada should sue for free trade with the United States and that the Canadian welfare state should be cut back in size."³⁵ The Commission also remarked that: "Our proposals. . . to enter into a free trade agreement with the United States reflect our general preference for market forces over state intervention as the appropriate means through which to generate incentives in the economy, from which growth will follow."³⁶

³⁵ Stephen Clarkson, "Disjunctions: Free Trade and the Paradox of Canadian Development," *The New Era of Global Competition: State Policy and Market Power*, eds. Daniel Drache and Meric S. Gertler (Montreal: McGill-Queen's University Press, 1991) 115.

³⁶ Qtd. in Edward Comor, "The Department of Communications Under the Free Trade Regime," *Canadian Journal of Communication* 16 (1991): 245.

The Macdonald Commission also included a few remarks about culture:

Cultural activities may also require special treatment under a general free-trade agreement. Canada provides both import protection and subsidies for cultural activities, because of the widely held view that our domestic market is not large enough to support these activities. Current policies aimed at creating and disseminating more Canadian cultural products, such as the so-called 'Canadian content' rules imposed by the Canadian Radio-television and Telecommunications Commission (CRTC), discriminate against U.S. firms in the cultural industries and might therefore be inconsistent with a general free-trade scheme.³⁷

In all of its seventy-two volumes, in all its studies and reports, not one was fully devoted to the study of cultural industries. In addition, out of eighty-four industry profiles presented to the government in preparation for free trade talks, not one discussed cultural industries.

Mulroney made it clear that his economic strategy consisted of integrating Canada's economy with the U.S. economy to an even greater degree. The Third Option was abandoned, and the government moved towards the second option. The Conservatives essentially picked up where the Liberals left off, and modelled policies after the Macdonald Report's recommendations. The Canadian government then volunteered to further integrate itself with the United States by indicating to Washington that it wanted to lower trade barriers. Mulroney suggested free trade in September 1985.

³⁷ John Hutchison, "Culture and Free Trade," *The Future on the Table: Canada and the Free Trade Issue*, ed. Michael D. Henderson (North York: Masterpress, 1987) 115.

It is in the context of these changes that the Baie Comeau policy came about, after the culmination of years of strengthening U.S. ties, yet also struggling to maintain some conception of the Canadian cultural identity. The publishing industry presented the government with a difficult issue to resolve because of the complications involved in separating the economic relationship with the United States from the need to maintain autonomy and independence in other areas, such as the cultural sphere.

Continentalism fused Canada and the United States at the economic level. Later, that grew to encompass the political level, as decisions were made to cope with the economic situation. The third phase of integration, it has been argued by Graham Carr, occurred at the cultural level, where the U.S., resentful of Canada's exemptions in the name of "culture," attempted to incorporate the cultural sphere into the economic sphere.³⁸

vi) Conclusion

Canadian economic, political, and cultural sovereignty have been compromised by the continental relationship with the United States. As explained by Glen Williams, the "Canada Within the Centre" framework locates Canada in the international political economy, not as an independent nation-state, but as a region within the broader area of the United States. Scholar Cy Gonick echoes Williams' convictions:

³⁸ "Culture," *Canada Under Free Trade*, eds. Duncan Cameron and Mel Watkins (Toronto: James Lorimer & Company, 1993) 203-213.

The developing continentalization of Canada has led to the deterioration of Canada as a nation-state. The policies which guide the direction of Canada's cultural and economic future emanate more and more from Washington and from the board rooms of the multinational corporation in New York, Chicago, and Detroit. Consequently, it has been the task of Canadian governments to administer this country and its provinces as a region and as sub-regions of the great American metropolis.³⁹

The framework asks dependency and orthodox neo-Marxist positions to be more conscious the regional relationships of empire, instead of the belief that Canada relates to the international political economy as a national capital struggling with other national capitals.

When Canadian sovereignty is examined over a historical period, it becomes clear that Canada developed inextricable ties with the U.S. which influenced its political and economic behaviour to the present day. The detrimental side of economic integration became apparent in the early 1970s, when the U.S. severed its friendly ties with Canada, treating it as a foreign nation. Canadian fiscal and monetary policies frequently had to be made with a close eye on the U.S. market. In economic policy-making, the continental relationship often took precedence over the national interest. The history of relations with the U.S. shows how Canada has slowly been giving up its autonomy/sovereignty in exchange for what it believed to be a profitable access to large U.S. markets.

Even in the early 1980s, when Trudeau's nationalistic Liberal government was in power, Canada could not break away from the U.S. It was incompatible that Ronald Reagan's free enterprise anti-interventionist administration have to deal with Trudeau's

³⁹ Qtd. in Williams, *Studies in Political Economy*, 121.

"protectionist" new policies. Canada was in no position to pursue an independent foreign policy in the 1980s, when trading blocs were being formed worldwide. The 1984 Conservative government, having a shaky economic platform, adopted the recommendations of the Macdonald Report and fell into line with Reagan's neo-conservative thinking. Canada, as a small open economy, relies on international commerce and investment, so it appeared preferable to form a trading relationship with the U.S. Yet the resulting agreement influenced non-economic as well as economic areas. As a result, Canada lost more of its policy-making autonomy, and consequently, its political independence and sovereignty.

Although this chapter deals with economics rather than culture, which is the subject of this thesis, an analysis of Canadian economic history with respect to free trade is indispensable to the understanding of the underpinnings of the Baie Comeau policy, as will be demonstrated in Chapter III. All of these events are important in the context of Baie Comeau because it was a policy of forced divestiture; it screened and prevented foreign investment; it impeded the actions of U.S. multinationals; it caused friction with the U.S. and was called unfair and protectionist.

Chapter II

The Marginalization of Canadian Book Publishing: An Industry Profile

i) Introduction

This chapter provides a historical overview of the publishing industry, describing its problem areas, investigating why Canadians own such a small portion of the industry, and providing evidence that Canadian publishers are marginalized in their domestic market, publishing only a small portion of the books sold in Canada each year. The problems faced by publishers in the 1960s (when branch plants were established), the 1970s (when publishing became a focus of government funding initiatives due to much-publicized sales of publishing houses and an Ontario Royal Commission Report) and the 1980s (when international takeovers and a trend towards free trade prompted the development of the Baie Comeau policy) were very similar, and have changed little over the years. Certain distribution methods, the inability to enter the educational market, and increasing foreign ownership, all served to weaken the financial status of Canadian publishers. These problematic issues led to the eventual implementation of the Baie Comeau policy.

ii) Origins of Foreign Control

Foreign control of Canadian publishing began to take root in the 1960s. At that time, the success of Canadian firms depended on their ability to act as exclusive agents and/or to publish textbooks for the Canadian educational system. In the agency process, the Canadian publisher acts as a distributor for the titles of a foreign publisher, selling its books in Canada. Agency lines provide a steady source of income in an otherwise

unpredictable market which is dictated by variable consumer tastes. The educational market also provides a reliable income; textbooks are guaranteed to sell a specific number of copies each year.

American publishers, observing the success of the Canadian firms that distributed their books, began to open subsidiary companies and cancelled previously maintained agency contracts with Canadian publishers. Most of these foreign companies were educational publishers, and they took away a stable source of income from Canadians, making them vulnerable to international competition. As the Canadian-controlled educational sector grew smaller, domestic publishers came to depend on agency contracts from foreign firms.¹

Throughout the 1960s, dozens of branch plants were established in Canada, forcing many domestic publishers into bankruptcy. The sole function of a branch plant is to sell the product of its parent company in another market. Benefits to the Canadian sector of the industry, therefore, were minimal. Profits went directly from the Canadian economy to businesses that published mostly foreign-authored titles. Branch plants succeeded in relegating Canadian publishers to high-risk sectors of the industry.

¹ Paul Audley, "Book Publishing," *Canada's Cultural Industries: Broadcasting, Publishing, Records and Film* (Ottawa: Canadian Institute for Economic Policy, 1983) 99-100.

Subsidiaries had other advantages, such as a large capital base and the backlist of the parent company. A backlist is a series of books which has already been published and simply needs to be printed anew when additional copies are required. It provides steady sales volume from the moment the subsidiary opens its doors. Because of the firm's larger capital base, the selection of books offered is often far broader in variety than any similar list offered by a Canadian company, and this variety increases the attention the subsidiary receives from libraries, book retailers, and buyers of educational textbooks.²

Economies of scale were also available to subsidiaries. Publishing is capital-intensive and, as such, the Canadian company is at a disadvantage compared to "foreign or foreign-owned competition which is largely based on run-on costs of editions first published abroad."³ Economies of scale cannot be achieved in Canada because most Canadian-authored works do not have an international market. Canadian books were distributed solely in their domestic market, usually to a small number of buyers. Furthermore, while a publishing enterprise can be started with relatively little capital compared to most businesses, in order to be successful a large amount of capital is required. This financial base cannot be accumulated by the majority of Canadian publishers, which are small or medium-sized presses that cater to regional markets.⁴

² Ontario, *Royal Commission on Book Publishing: Background Papers* (Toronto: The Queen's Printer for Ontario, 1972) 52.

³ Ibid., 54.

⁴ Ibid., 54.

Statistics compiled for 1969 confirmed that the overall picture for Canadian publishers was grim: Canadian-published books occupied a fraction of the total market. During the course of that year, \$222 million of books were sold in Canada. Sixty-five percent were imported books (the United States exported \$115 million of books to this country), 25 percent were published in Canada and 10 percent were adapted books manufactured in Canada.⁵ Adapted books are books of foreign origin; Canadian references are inserted into the text before the books are sold on the Canadian market. Textbooks are frequently "Canadianized" in this fashion. These figures helped secure the attention of the government--and the public--persuading them to recognize the detrimental consequences of international investment.

A study conducted by Ernst and Ernst in 1970 indicated that fifty-two of the sixty-three publishers they interviewed felt the Canadian government's financial support was inadequate. In general, publishers declared that the government did not accept the cultural role of publishing, emphasizing the part it played in the economy instead.⁶ Their complaints were validated when well-established Canadian companies were sold to American interests. In September 1970, W.J. Gage Ltd., which published textbooks, announced that its educational division would be sold to Scott Foresman of Chicago. The firm did not have enough working capital to compete with the American textbook

⁵ Ernst and Ernst, *The Book Publishing and Manufacturing Industry in Canada: A Statistical and Economic Analysis* (Ottawa: Information Canada, October 1970) 1, 23.

⁶ *Ibid.*, 49.

companies that operated in Canada. In October of the same year, the Ryerson Press was sold to McGraw-Hill of Canada Limited, an American-owned subsidiary. Ryerson was the oldest publishing company in Canada and was costing the United Church half a million dollars a year to maintain. Church officials waited over a year for a Canadian buyer, but the only offers they received would have left them short of working capital.⁷

Against the tide of adversity, independent publishers formed coalitions to prevent similar sales from recurring. An Emergency Committee of Canadian Publishers meeting was organized in Toronto in 1970 to explore the overall situation and examine the possibility of preventing the sale of the Ryerson Press. Herb Gray, then Minister of Industry, who was preparing a Cabinet paper on the implications of foreign control in key sectors of the Canadian economy, expressed interest in publishers' views and scheduled a meeting with them. The meeting was held in December, only hours after the Ryerson sale was finalized. As a result of the meeting, a permanent organization of Canadian-owned book publishers was formed, the Independent Publishers Association. Its role was to act as spokesperson for publishing houses and to suggest improvements to their general economic situation.⁸

⁷ Ontario, *Canadian Publishers & Canadian Publishing: Royal Commission on Book Publishing* (Toronto: Ministry of the Attorney General, 1973) 34.

⁸ Ibid., 34.

An Ontario Royal Commission on book publishing was established in December 1970 to investigate why Canada could not maintain a healthy publishing industry, and to provide policy initiatives that would encourage the production of original literary works. The Commission surveyed all facets of the industry: publishing, importing, distributing, marketing, and authorship. When the Commission was appointed

there were fifty-three publishers in this country--not including government departments--who claimed to have fifty or more Canadian books in print and for sale. Among them they accounted for 10,431 titles in a total of 15,299 Canadian books in print. The balance of the latter production was spread thinly over several hundred small publishers and publishing houses, including associations, societies, and private presses. Indeed, the median number of Canadian books in print for all publishers in the country, big and small, full-time and part-time, was a mere five titles each.⁹

Canadians operated the smallest firms in the country, those that published fewest books and earned the least profits. The foreign-owned firms, however, were the largest ones which earned in the millions each year.

In 1970, the McClelland & Stewart (M&S) publishing house, recognized for its contributions to Canadian literature, was trying to become independent by reprinting paperback copies of out of print fiction and poetry, and dropping the agency lines that prevented the company from devoting time and resources to original publishing. In February 1971, Jack McClelland, the company's president, announced that financial liabilities in the amount of one million dollars, and the impossibility of obtaining a bank loan at reasonable interest rates, was forcing him to sell out. The government of Ontario,

⁹ Ontario, *Canadian Publishers & Canadian Publishing*, 1.

having recently appointed a Royal Commission, found sufficient funds to prevent McClelland and Stewart from being sold to an American firm. What prevented Ryerson, W.J. Gage and M&S from being successful was lack of capital. The numbers of Canadian-authored titles increased steadily, but sales did not bring in enough capital to meet expenses. For example, bookbinders and printers had to be paid before the books were sold, and there was no guarantee that all printed copies would sell. In addition, obtaining loans from banks was virtually impossible because publishing was a high risk industry.¹⁰

iii) Educational and Trade Book Publishing

Book publishing is divided into three broad categories comprised of trade, educational, and scholarly/reference. The most important sectors, for the purposes of this thesis, are trade books and educational books, which make up the largest proportion of books sold in this country. In 1969, \$111 million dollars of textbooks were sold (Canadian publishers were responsible for \$32 million of this total), while the amount for trade books was \$60 million (Canadian publishers sold \$17.9 million of this total).¹¹

Trade books include fiction, non-fiction, poetry, drama, biography, political topics, and history. They comprise one of the most economically uncertain endeavours in the

¹⁰ Ontario, *Canadian Publishers & Canadian Publishing*, 34.

¹¹ Ernst 28.

industry because of their dependence on changing consumer tastes. It is in this area that the majority of Canadian publishers operate.

Educational publishing, contrary to the previous category, is the most sought after market for publishers. Elementary, high school and post-secondary institutions require a fixed number of textbooks each year. The demand is consistent and predictable. Educational publishing, as mentioned above, provides a stable income upon which other less certain enterprises may be based.

Canadian publishers have significantly smaller segments of the textbook market under their control:

the single greatest problem of most Canadian-owned book publishers is the difficulty of financing their operations from the revenues of the Canadian market itself, because the most lucrative areas of the book market--import distribution and **educational publishing**--are dominated by foreign-controlled publishers and distributors.¹²

The Royal Commission produced many suggestions for the government based on the knowledge that "publishing firms are small compared to firms in other industries. Profit margins are erratic and the industry is run more as an artistic and creative endeavour than a money making business."¹³ Many of the commission's findings hinged on distribution, educational and trade book publishing; foreign ownership was also a prominent issue.

¹² Communications Canada, "Book Publishing," *Vital Links: Canadian Cultural Industries* (April 1987) 28.

¹³ Ernst 67.

After the Commission's results were revealed, the Ontario government did implement programs to finance publishing which were worth approximately \$4 million a year. The Ministry of Education, however, rejected the Royal Commission's recommendation that this financing be directed at Canadian-controlled firms. Consequently, a substantial amount of these subsidies went to foreign-controlled textbook companies.¹⁴

The funding given to foreign-controlled firms was another drawback for Ontario's publishers, making it more difficult to attain a profit margin. This was an unfortunate move on behalf of the government because over 80 percent of all publishers in Canada were based in Ontario at that time.¹⁵ The remainder were primarily located in Québec. Only in the 1980s did regional presses in other provinces begin to emerge and gain recognition for their support of local writers.

Statistics for the 1980s indicate that throughout that decade, profitable educational sectors were dominated by foreign firms: in 1981, foreign companies controlled 65.8 percent of the elementary and high school market, 82.1 percent of the post-secondary market and 50.9 percent of trade books.¹⁶ Table I, "Total Domestic Sales. . . by Origin of Control and Category of Book" provides statistics for subsequent years. Non-Canadian firms increased their hold on the textbook market from 65 percent in 1981 to 74 percent

¹⁴ Audley, *Canada's Cultural Industries*, 116.

¹⁵ Ibid., 115-116.

¹⁶ Peat Marwick Consulting III-5.

TABLE I

Total Domestic Sales by English-Language Publishing Firms,
by Origin of Control and Category of Book
1981-82, 1984-85, and 1987-88

\$ millions / Percent

	1981			1984			1987		
	Canadian	Foreign	Total	Canadian	Foreign	Total	Canadian	Foreign	Total
El-HI	30,323 (34.2)	58,477 (65.8)	88,800 (100)	28,472 (26.7)	78,046 (73.3)	106,518 (100)	38,143 (25.2)	113,121 (74.8)	151,264 (100)
Post- Secondary	10,554 (17.9)	48,503 (82.1)	59,057 (100)	19,943 (23.2)	66,210 (76.8)	86,153 (100)	21,019 (19.7)	85,568 (80.3)	106,586 (100)
Trade	79,895 (49.1)	82,989 (50.9)	162,883 (100)	92,316 (53.8)	79,160 (46.2)	171,476 (100)	119,458 (51.0)	114,602 (49.0)	234,060 (100)
Scholarly/Ref./ Prof./Tech.	36,613 (33.7)	71,297 (66.3)	108,700 (100)	47,983 (28.4)	121,078 (71.6)	169,061 (100)	107,915 (46.8)	122,881 (53.2)	230,797 (100)
Total	157,386 (37.5)	262,055 (62.5)	419,441 (100)	188,714 (35.4)	344,493 (64.6)	533,208 (100)	286,535 (39.7)	436,171 (60.3)	722,707 (100)

Source: Peat Marwick Consulting, *English-Language Book Publishing and Distribution in Canada*, Exhibit III-5.

in 1987. Trade books are not a popular venture for international investors since they offer a high element of financial risk. Investors, therefore, focus their attention on the larger trade book firms, while Canadians own hundreds of smaller regional presses.

iv) Distribution and "Buying Around"

Distribution methods have further eroded publishers' financial base. To rectify the situation, distribution structures that permit Canadian-owned publishers to supply a larger segment of the overall domestic industry through the agency process should be organized.

Five methods are used to distribute books:

- a) Canadian-controlled publisher-agents publish and sell their own titles as well as titles imported directly from other countries;
- b) Foreign-controlled publisher-agents sell their own material in addition to books published by the parent company;
- c) Canadian-controlled agents do not publish; they sell imported products;
- d) Foreign-controlled agents do not publish; they market imported books obtained from the parent company;
- e) Canadian-controlled publishers publish and sell only what they produce under their own imprint.¹⁷

Canadian publishers often act as agents for imported products, and are referred to by the term "exclusive publisher-agent." They obtain the right to market a foreign company's books in Canada. There are also companies that do not publish their own books, but act as distribution outlets only, importing and selling foreign books. Foreign-controlled

¹⁷ Peat Marwick Consulting II-3.

agents and Canadian-controlled agents that do not have a publishing role have a detrimental impact on the domestic market, contributing to the small amount of original material published by Canadians since their only function is to act as distribution outlets for non-Canadian material.

One of the advantages of distributing another company's books is that the Canadian firm pays only for marketing rights. Therefore, it

pays none of the very substantial editorial, design, typesetting and artwork costs and is able to import only as many copies as are necessary to meet Canadian demand. As a result, the risks involved are relatively low and, because most of Canada's imports come from larger countries with typically larger print runs, the cost per copy of such imports is much lower on the average than the cost of producing Canadian books.¹⁸

New Canadian publications, on the other hand, include a higher risk and a higher level of investment. There is no guarantee that the book will sell enough copies to either break even or make a profit. Foreign firms have a competitive advantage because they control the majority of imports.

One disadvantage of the agency system for Canadian publishers is the short-term nature of most agency contracts. Furthermore, the exclusive right to distribute imported books is not legally binding. If the Canadian agent pursues the publication of original Canadian works too vigorously, it may appear that it is not dedicated to selling the foreign company's books. Agency lines, in the eyes of the foreign company, should be the

¹⁸ Audley, *Canada's Cultural Industries*, 100.

foremost endeavour.¹⁹ At the same time, if they are marketed too successfully, the foreign company may decide that it is worthwhile to establish a subsidiary in Canada, and still take the agency contract away from the Canadian publisher. There are also ways for a foreign publisher to bypass the Canadian publisher and distribute their books directly to retailers.

"Buying around" is the main source of financial loss with regard to distribution. It occurs when wholesalers or retailers purchase books directly from a foreign publisher, thereby "buying around" the Canadian distributor. Wholesalers based in the U.S. can easily seek out alternative Canadian buyers for their products. Moreover, Canadian book retailers and other firms that want to acquire books directly from a cheaper source, usually from the U.S. or the U.K., encounter no legal obstacles.²⁰ Canadian publisher-agents use the profits from their exclusive agency contracts to publish a higher percentage of Canadian-authored works. Without this source of revenue, many Canadian enterprises are forced to limit the number of Canadian authors they publish.

Table II "Estimate of Domestic Market Share for Canadian-Published and Agency Books" illustrates that from 1969 to 1980, a large percentage of books were imported directly, bypassing the agency process. Moreover, it shows that the Canadian-published

¹⁹ Rowland Lorimer, "Book Publishing in English Canada in the Context of Free Trade," *Canadian Journal of Communication* 16 (1991): 61.

²⁰ Peat Marwick Consulting IV.3-IV.4.

sector of the industry is quite small compared to the imported sector, consisting of 34.8 percent of the market in 1969, 25.8 percent in 1975, and 27.6 percent in 1980. In 1980, \$367.5 million in books were purchased directly from other countries by domestic book clubs, retailers, wholesalers, and institutions. It is worth mentioning that Canada receives approximately half of the United States' exported books and it refers to the Canadian market as part of its own, refusing to acknowledge that Canada is a completely separate market.²¹

Many American companies have decided to terminate agency lines or close distribution facilities in Canada because it was more profitable for them to operate directly from the U.S. Examples of companies that used to use an agent but no longer do, instead getting their books from warehouses in the United States, are: Bantam Doubleday Dell, Cambridge University Press, Crown Publishers, Gardenway, Harcourt Brace Jovanovich, Rodale Press, and Stuart Tabori and Chang. Wholesalers experience problems such as having to sell their books to Canadian distributors at a 60 to 65 percent discount from the U.S. retail price, and they also lose potential buyers at the retail level because imported books are marked up in price from 15 to 20 percent.²²

Moreover, because Canada was not considered a separate market by the U.S. and the U.K., it has not been able to acquire the rights to foreign books in order to publish

²¹ Audley, *Canada's Cultural Industries*, 88-89.

²² Peat Marwick Consulting IV.6.

**ESTIMATES OF DOMESTIC MARKET SHARE FOR CANADIAN-PUBLISHED AND AGENCY BOOKS,
SELECTED YEARS, 1969-80
(\$ millions/%)**

Notes: ¹ All agency sales included in this table are of imported books. The agent holds exclusive rights to market these books in Canada, but does not necessarily or usually hold copyright, which is the right to print copies of these books.

Sources: 1969 data are based on *The Canadian Book Industry* (Department of Industry, Trade and Commerce, 1970). 1975-80 data are based on Statistics Canada's survey of book publishers and agents (Cat. No. 87-601).

88

Canadian editions. Publisher Mel Hurtig has commented on this situation, remarking that if Canada could obtain rights from foreign countries it would give Canadian publishers much more independence and financial security. As of the early eighties, Canadians were not able to obtain the rights to produce original Canadian editions of books. Rights were sold to the United States, the U.K. and other nations, which then sold finished copies to Canada.²³

Various programs were implemented over the years to attempt to counter the negative effects of distribution methods, the financially variable trade book market and overwhelming foreign investment. The policy proposals which were suggested to deal with these issues have been similar throughout the 1960s and 1970s, focussing on giving grants to both writers and publishers.

v) Federal and Provincial Support Programs

Towards the end of the 1970s, the most important federal programs, grant systems that supported both authors and publishers, were the Canada Council's programs and the Canadian Book Publishing Development Program (CBPDP).

The Department of Secretary of State oversaw the CBPDP program. Its purpose was to increase the financial viability of Canadian publishers, encouraging both writers and publishers to grow and develop, and ensuring a wide selection of cultural works was

²³ Ibid., IV.3.

available across Canada. Its budget was an extensive one, \$20 million over a four year period, from 1979 to 1982. It was comprised of several smaller programs, for example, the Sales and Marketing Incentive, which funded campaigns to publicize Canadian books. The Textbook and Related Materials Assistance was designed to stop foreign publications from replacing Canadian ones in the educational system. A third program assisted companies that had financial and managerial problems, helping them find solutions.²⁴

The Canada Council budget for 1978-79 was much smaller, approximately two million dollars. It consisted of block and project grants designed to help publishers offset expenses on books which contributed to Canadian literary culture. It also funded promotion tours, translations, and associations in need of support.²⁵

Other sources of support came from the Social Sciences and Humanities Research Council which offered grants for the publication of scholarly manuscripts. The Department of Industry, Trade and Commerce was responsible for some publishing activities at the international level, such as sponsoring Canadians at international trade fairs, and funding the Book Export Program, devised to encourage publishers to export their titles abroad to develop markets in other nations.²⁶

²⁴ Patricia Aldana, *Canadian Publishing: An Industrial Strategy for its Preservation and Development in the Eighties* (Toronto: Association of Canadian Publishers, 1980) 34.

²⁵ Ibid., 35.

²⁶ Ibid., 36.

At the provincial level, Ontario offered a wider selection of support programs than any other province due to the number of publishers in that area. The Ontario Arts Council offered block grants and marketing grants, financing publishers who were committed to publishing original Canadian titles in fiction, poetry, and social issues. The Ministry of Culture and Recreation offered loan guarantees (up to \$250,000) and interest subsidies (up to \$50,000), and also provided support to publishing associations. The Ministry of Education provided assistance for the publication of Canadian texts to be used in Ontario educational systems.²⁷ For further details about other provinces, see Appendix 1, which consists of a Canada-wide survey of provincial programs²⁸.

vi) **Policy Issues and Proposals for the Eighties**

Since federal and provincial policies and proposals varied little throughout the 1960s to the 1980s, this section limits itself to policy proposals for the transition from the 1970s to the 1980s. While many funding programs centred on the writers themselves, alleviating the difficulties they faced as they practiced their craft, it was the publisher who brought the writer's work to the reader's attention. Without appropriate distribution outlets and publishing facilities, the written text would remain beyond the reach of its audience. The publishing firm, since the 1970s, has evolved into the primary recipient of government funding initiatives.²⁹

²⁷ Ibid., 39-41.

²⁸ Data for the province of Québec is not available.

²⁹ Ontario, *Canadian Publishers & Canadian Publishing*, 10.

When a major support program was announced in 1979, then Secretary of State John Roberts, recognizing that the consequences of foreign ownership were harmful, declared:

Books by Canadians--books that articulate the ideas, attitudes and values of Canadians and that provide information concerning every aspect of our individual, regional, and collective identity--are essential to the development of a greater knowledge of ourselves. As a basic educational tool, as an important vehicle of scientific knowledge, as a storehouse and distribution system for culture and information, and more recently, as a flexible instrument of mass communication, books are in many ways at the core in any country of an effective system for transmitting information and ideas and for facilitating the development of a shared creative vision.³⁰

An obvious paradox exists in this industry, as it does in every industry responsible for manufacturing culture. Although the problems facing the industry are economic, the issues are cultural. This statement is pivotal to understanding the position publishing has occupied in Canadian society, and how the provincial and federal governments have chosen to remedy this ailing enterprise. Publishing is a capital-intensive business that has cultural value, yet "cultural industries" are a contradiction in terms.

In 1980, the Association of Canadian Publishers (ACP) published a policy paper entitled *Canadian Publishing: An Industrial Strategy for its Preservation in the Eighties*. Its central concerns revolved around the weak Canadian-owned industry and the ACP urged the government to further commit itself to this cultural sector. Historically, the publishing industry received little attention from the government, and was habitually overlooked in discussions about Canadian culture, which focused on television and film.

³⁰ Audley, *Canada's Cultural Industries*, 85.

From a legal standpoint, book publishing did not receive the same consideration as broadcasting and newspaper publishing. Legislative measures were instituted to prevent foreign investors from purchasing majority ownership in television stations and newspapers, and content regulations exist for radio and television programming (i.e. broadcasting must fulfil quota requirements and its mandate encourages it to be "Canadian in content and character"). No such provisions exist for books.³¹ Since it is acknowledged that books have a cultural impact, it follows that publishing companies would benefit from being in Canadian hands.

The Association of Canadian Publishers' paper included a list of key problems:

1. the size of the Canadian market and the related subsidiary markets;
2. competition for the market from foreign owned companies and foreign books;
3. rapidly increasing costs of book production which cannot be passed on in increased prices;
4. high and increasing interest rates on working capital;
5. a commitment to culturally significant publishing which is unprofitable in almost any circumstance.³²

A number of solutions were proposed to increase the industry's profitability. They dealt with improving the accessibility of bank loans, entering educational publishing, using the

³¹ Ontario, *Canadian Publishers & Canadian Publishing*, 236.

³² Aldana 3.

agency process to increase revenues, creating subsidiary markets, and preventing non-Canadian firms from making inroads into the Canadian publishing market.

Due to the fact that publishing firms lacked working capital, and presented a high risk of failure, they were regarded as unattractive investments. Many publishers were unable to make long-term plans; their strategies were oriented towards resolving a permanent state of crisis. The precarious financial situation compromised their ability to publish new works. Bank loans, although badly needed, were difficult for medium-sized and small companies to acquire. Altering existing loan programs, according to the paper's author, would make life substantially easier for them. For medium-sized companies, Aldana suggested reducing interest rates. Decisions concerning who would and who would not obtain a loan should also be made by a branch of the government familiar with the specific problems of cultural industries. Smaller companies, on the other hand, whose yearly earnings were inferior to \$50,000, should have grants made available to them.³³

If Canadians wished to continue in the trade book sector, they needed to find ways to make their companies more stable and profitable. Entering educational publishing was a solution which had been urged for many years, yet making the transition from one area to the other proved difficult. Most of the difficulty was due to the fact that buyers had become accustomed to purchasing American books and had developed longstanding relationships with these publishers. Adaptations of foreign books, which were less

³³ Ibid., 7.

expensive than original domestic texts, also made it harder for Canadian firms to compete with the United States.

Moreover, the market was a fragmented one. Each province had its own rules with respect to educational books. Both provincial and federal governments should formulate and jointly fund a cohesive plan to decide which textbooks were to be bought at the elementary, high school and post-secondary levels. Provinces also needed to update and modify school curricula by consulting one another, instead of doing so individually. Canadian educational texts should take priority over those published elsewhere, and meet requirements for Canadian content. Most books in university bookstores, for example, were purchased from the United States or the United Kingdom.³⁴

The increasing numbers of chain bookstores caused their share of problems. In 1978, chain stores made up 44 percent of Canadian bookstores. This phenomenon sparked concern from the Canadian Booksellers Association, the Writers' Union of Canada, and the ACP.³⁵ Canadian publishers had relied on the independent Canadian bookstores to sell their products. Chain bookstores were dependent on high turnover rates, therefore they relied on bestsellers and mass market books. There was little room for regional or literary Canadian presses to sell their books through these outlets, and independent bookstores dwindled in number as chains expanded. Creating programs that

³⁴ Ibid., 20.

³⁵ Audley, *Canada's Cultural Industries*, 109.

encouraged consumers to buy Canadian books as well as encouraging chains to stock them on their shelves would prove to be a benefit.³⁶

In order to counter the strong impact of imported books, publishers needed to take full advantage of the agency system, even though it made them dependent on imported books. Purchasing the Canadian rights to books was also strongly suggested, although the US and the UK were reluctant to have Canada purchase the rights since it would make Canada a completely separate market.³⁷

Exporting Canadian books to create subsidiary markets, on the other hand, proved most difficult. The market abroad was so small that the cost was prohibitive. In 1979, however, Canada exported \$97.3 million in books.³⁸ Although the amount appears substantial, 92 percent of those books were authored by non-Canadians; they were simply printed in Canada. In addition, a great number of exports were accounted for by Harlequin books, which hardly qualify as Canadian cultural content.³⁹

Patricia Aldana urged that a system be set up, either through the Canadian Development Corporation, the Federal Business Development Bank or through the Foreign

³⁶ Aldana 16-17.

³⁷ Ibid., 23.

³⁸ Audley, *Canada's Cultural Industries*, 92-94.

³⁹ Ibid., 101.

Investment Review Agency (FIRA) to aid publishers in the face of foreign ownership. Implemented by the Liberal government in 1974, FIRA was designed to overlook foreign takeovers, preventing those which were not advantageous to Canadians. FIRA provided the possibility for possible repatriation of the publishing industry.⁴⁰ The urgency of this particular proposal was partly due to the fact that in January of 1979, the federal government abolished a 10 percent tariff on American books imported into the country, and there were fears of sudden increases in imported books. Imports did increase from 76.2 percent in 1978 to 83.3 percent in 1981.⁴¹

Paul Audley agrees that "FIRA decisions have quite consistently reflected the policy of expanding Canadian control of the book publisher/agent industry."⁴² Audley says that FIRA managed to stop most transactions which involved foreign ownership in publishing. For example, in July 1982, an American firm, Harper & Row, applied to take over Lippincott, which was responsible for distributing imported medical textbooks. The application was rejected. Only a few months later, however, another American firm, the Herald Company of Syracuse, New York, applied to take control of Random House Canada, one of the largest publishing houses in the country. Random House published primarily trade books and mass market paperbacks. This takeover should have been considered much more of a threat than the previous one. Nevertheless, the sale of

⁴⁰ Aldana 11.

⁴¹ Audley, *Canada's Cultural Industries*, 89.

⁴² Ibid., 133.

Random House was permitted. Although the government had not modified its policy, subtle changes in attitude were beginning to take place as the globalization phenomenon made itself known.⁴³

vii) Conclusion

Canadian book publishing, therefore, has been marginalized in its own domestic market as a result of the overwhelming presence of foreign investors. Although publishing received much funding and much attention from the government during the 1970s and early 1980s, this did not help alleviate the industry's multiple problems. Simply developing programs to give money away without attempting to deal with the broader issues that included foreign ownership proved to have little success. A comprehensive approach was needed on behalf of both provincial and federal governments, but that comprehensive approach was nowhere to be found since provincial and federal governments implemented policies independently from one another.

For three decades, publishing fought the same battles, achieving little success. The newly-elected 1984 Conservative government had many options to choose from when it came to dealing with these matters. Yet questions of culture were often dealt with in financial terms where the government is involved. The outcome of policy decisions is marked by this trend. Financial considerations have restricted the government's ability

⁴³ Ibid., 124.

to deal with the troubled publishing sector. Publishing is a creative act, transcending the need for purely economic gain.

The overall problem was that no coherent and comprehensive approach was developed to deal with publishing concerns. With the implementation of the Baie Comeau policy, the publisher became the central focus of the book industry, and the federal government's apparent goal became the Canadianization of publishing companies.

Chapter III

Stakeholders and the Policy-Making Process: The Birth of Baie Comeau

i) Introduction

The political and economic environment in 1985 did not appear propitious for the creation of a policy of forced divestiture such as Baie Comeau. Baie Comeau was designed to prevent direct takeovers of Canadian publishing companies unless a joint venture with Canadian control could be arranged. Indirect takeovers were also screened by the newly created Investment Canada, and would be permitted only if Canadians obtained 51 percent control. In fact, the policy's goals were opposed to the Conservative government's goals of privatization, deregulation, and the realization of a free trade agreement with the United States. Considering the attempt to forge more economic links between the U.S. and Canada, the policy seemed unusually severe, since it was a potential irritant to Washington and American multinationals. The policy was a means for Canada to assert its national sovereignty, but it went against the spirit of continentalism which guided economic decision-making.

Although the revenues from publishing were becoming more substantial every year, totalling \$1.3 billion in 1984, the numbers of Canadian-authored titles were few. A growing number of international takeovers occurred, affecting both Canadian-owned and foreign-owned companies. As discussed in Chapter II, the Canadian industry faced problems due to "buying around" in distribution, marginalization in the unprofitable trade book sector, and the most serious problem was the foreign control of the largest, most profitable companies in Canada. The Ontario Royal Commission on Book Publishing,

despite its recommendations, had little influence on the industry. The government continued to remedy problems by creating an assortment of funding programs that proved ineffective on the long-run.

The policy process was influenced by various pressure groups. The state was lobbied by contradictory voices, some opposing government intervention in publishing, others promoting it. The American government, American multinational corporations, and many large Canadian publishing companies that were members of the Canadian Book Publishers' Council (CBPC), were not in favour of an industry-related policy whose role was to artificially place controlling interest of Canada's publishing firms into Canadian hands. The Conservative Cabinet, although it allowed the Baie Comeau policy, was ambivalent in its support.

Countervailing interest groups included the Association of Canadian Publishers (ACP)--comprised mainly of smaller Canadian-owned publishers--the Department of Communications and its Minister, Marcel Masse, who proposed the policy, and members of the Canadian population who voiced their disapproval of the Conservative government's plans for Canadian culture. These groups worried about the effects of possible free trade. The policy that was eventually created was a compromise between those adhering to a privatization model and those who believed the government had a legitimate interventionist role to play in protecting cultural industries in order to strengthen the national identity.

The Department of Communications' Minister, acting against the economic environment, suggested a policy of forced divestiture which alarmed possible investors south of the border. Baie Comeau was an attempt to preserve cultural distinctiveness within the continent; it attempted to do for book publishing what other measures had done for newspaper publishing and broadcasting. Newspapers cannot be sold to foreign investors, and there are Canadian content quotas (although they are not always respected) for television and radio. At first glance, Baie Comeau appeared to be a strong policy, but the Conservative government, yielding to conflicting pressure groups, allowed it to be waived in the majority of cases.

Baie Comeau was inconsistent and contradictory for many reasons, and was easy to circumvent. Being a simple set of guidelines, it lacked the force of law. The Department of Communications made a policy decision that did not have the full support of the federal government--it was barely passed in Cabinet. Corporate takeovers were not overseen by the DOC but by Investment Canada, a department more concerned with economic efficiency than cultural nationalism. Ottawa assumed there would always be a potential buyer for companies that were being divested, not considering that when no majority shareholders could be found, the government itself would have to act as a buyer, and at inflated prices. These are only a few of the inconsistencies that caused problems.

The Baie Comeau policy was the result of the actions of contradictory pressure groups in the policy-making arena, as well as the continental relationship with the United States. As a marginal region of the American centre, Canadian decision-makers were influenced by continentalism, and the resulting policy was unworkable and contradictory.

ii) **The Politico-Economic Situation in the Mid-Eighties: The Status of Canadian Publishing**

In 1984, the estimated wholesale value of the Canadian book market was \$1.3 billion.¹ The information below provides a glimpse at the state of the Canadian industry at that time, indicating that despite years of continuous government funding, domestic publishers still had an overwhelmingly disproportionate share of the market:

- ▶ *titles published in Canada* (over 80 percent written by Canadian authors) account for \$323.7 million, or 25 percent of the market;
- ▶ *imported titles distributed in Canada*, by either Canadian-owned companies or Canadian subsidiaries of foreign multinationals (publishers as well as exclusive agents), account for \$393 million, or 28 percent of the market.

There is a third category:

- ▶ *imported titles sold directly from abroad* to Canadian purchasers, which account for \$625 million, or 47 percent of the market.²

With respect to the industry profile outlined in the previous chapter, these statistics were all the more disheartening. Almost half the industry's total sales were obtained from "buying around" Canadian publisher-agents. The Canadian segment of the industry

¹ Communications Canada, *Vital Links*, 27.

² *Ibid.*, 27.

accounted for only 25 percent of these sales, and only 80 percent of them were penned by Canadian authors. Obviously, the measures taken by provincial and federal governments were not having a positive impact. They did not help increase the number of Canadian authors published, nor did they help make publishing a self-financing endeavour.

Foreign-owned subsidiaries are, without a doubt, financially much better off than Canadian-owned firms. Statistics Canada gathered data on 201 publishing companies for 1984, and only 29 of these were subsidiaries of foreign publishers. Nonetheless, those twenty-nine companies were responsible for 58 percent of all book sales in this country. When only English-language publishers were taken into account, the number rose to 65 percent.³ The numbers, therefore, are deceptive. Most companies are indeed in Canadian hands; it is the moneymaking companies that are not.

A study conducted by UNESCO estimated that a population of 10 million is sufficient to sustain a publishing industry.⁴ Canada's particular situation, however, has made the development of viable publishing firms problematic. Despite having more than twice the required population, a portion of that population is French-speaking and has its own publishing sector. Ironically, despite the even smaller population, the Québec

³ Ibid., 27.

⁴ Aldana 5.

industry fares better than the English-Canadian one because of laws established by the Québec government. Consequently, a larger percentage of domestic French titles are published--36 percent as opposed to English Canada's 20 percent--and the percentage of foreign titles has been reduced.⁵

The different language has provided Québec with a natural barrier. In 1983, from a total of sixty-nine publishing houses in Québec, only four were in foreign hands. And these, of course, were large companies earning over one million dollars a year. Ontario, on the other hand, had eighty-nine companies, and twenty-five were foreign-owned; twenty-four of these were large companies.⁶

In 1972, while the Ontario government examined the results of its Royal Commission, the Québec government was already taking action to help its faltering industry by announcing a policy which required publicly funded institutions (elementary and high schools, etc.) to purchase their books from accredited bookstores, stores that were at least 50 percent Québec-owned. In 1979, Bill 51 ("Loi sur le développement des entreprises québécoises dans le domaine du livre") was passed. It increased the ownership requirements from 50 percent to 100 percent Québec ownership.⁷ Because the rules that

⁵ Communications Canada, *Vital Links*, 5.

⁶ Statistics Canada, *Culture Statistics: Book Publishing Industry 1983*, (1985) 7.

⁷ MacLaren, I.S. and C. Potvin, eds., *Questions of Funding, Publishing and Distribution/Questions d'édition et de diffusion*, (University of Alberta: Research Institute for Comparative Literature, 1989) 22.

affect it are different from those in other provinces, and because it is protected by the language barrier, further references to Québec will be few. Interestingly, no other provincial governments decided to follow Québec's example.

The most obvious problem for Canada is the huge market--ten times bigger--next door which exports millions of dollars of books to Canada every year. Over 80 percent of imports come from the United States (\$305 million in direct imports from the United States in 1980; direct imports and foreign-authored works published in Canada but authored by Americans totalled \$560.2 million for the same year).⁸ Since its inception, book publishing has suffered because of the permeability of the Canadian market. The proximity of the United States, more than any other reason, has served to place Canadian publishers at a distinct disadvantage. The fact that approximately 80 percent of Canadians share the same language as Americans is another formidable barrier to developing domestic books; American cultural and entertainment products are readily available to Canadian consumers.

The early eighties saw the beginnings of a wave of international takeovers and megamergers that shook the book trade. Gulf & Western purchased Esquire Inc. in 1983, thereby acquiring two Canadian companies, Globe/Modern Curriculum Press and Allyn & Bacon. In 1984, Gulf & Western purchased Prentice-Hall in the U.S., indirectly acquiring Prentice-Hall Canada. In 1986, Gulf & Western also acquired another

⁸ Audley, *Canada's Cultural Industries*, 88.

subsidiary company, GLC, which specialized in the textbook trade. GLC would come to play an important role in Gulf & Western's previous Prentice-Hall Canada takeover, which will be discussed in detail in the next chapter. These acquisitions were all accepted by the Foreign Investment Review Agency.

For the United States, the number of takeovers that occurred were disturbing to government officials and private corporations alike. Accustomed to having the upper hand in the global market, as its multinationals took over firms in other nations, Americans were not used to seeing their own companies swallowed up by foreign conglomerates. The Viking Press, for example, was purchased by a firm from the U.K. Even Canada's Thomson organization made forays into American newspapers and other publishing outlets.⁹

For the United Kingdom, 1985 proved to be an equally tumultuous year; most of their publishing companies became concentrated in the hands of eight large corporations.¹⁰ W.H. Smith, a U.K. bookstore chain, bought three Canadian-owned bookstores in the Maritimes. Still in 1985, W.H. Smith took over the Canadian-owned Classic Bookshop chain, because Classic could no longer operate with a staggering \$10 million debt. The federal government and the Department of Communications both

⁹ Lorimer, *Canadian Journal of Communication*, 70.

¹⁰ Nicholas Clee, "U.K.: the year of mass mergers," *Quill & Quire* January (1986): 11.

consented to these changes of ownership without much debate over whether or not these purchases were detrimental for the retail sector.¹¹

Nineteen eighty-five was also a fateful year for Canada's McClelland & Stewart, which had been refinanced by the Ontario government the previous year. On December 18 (the same month as the Prentice-Hall Canada takeover), after a conflict of interest scandal involving Seal Books, Jack McClelland announced his retirement and the sale of the company.¹² M&S was bought by Avie Bennett, a businessman who had helped with the earlier refinancing. These are only a few of the most important changes in ownership that occurred at the time, changes in ownership that further encouraged the Canadian government to make foreign investment its central focus of attention.

iii) A Policy of Forced Divestiture

In July 1985, the Priorities and Planning (P&P) Committee of the federal Cabinet met to discuss, among other things, a new means of dealing with the numerous foreign takeovers occurring in the Canadian book publishing industry. The result of the meeting was a policy which planned to Canadianize the foreign-owned sector. The Baie Comeau policy was to:

¹¹ Hamish Cameron, "Culture report: consumers can pay more," *Quill & Quire* May (1986): 10.

¹² Hamish Cameron, "The publishing year in review," *Quill & Quire* January (1986): 10.

review all projects relevant to the mandate of Investment Canada which involve the initiation of new book publishing or distribution companies, or the acquisition, directly or indirectly, of existing firms operating in this field.

[T]he government will look with favour on proposals to establish new businesses or to acquire directly existing businesses, whether Canadian or foreign controlled, in the field of book publishing or distribution, provided the investment is through a joint venture with Canadian control. For direct acquisitions of foreign controlled businesses, allowances will be possible if divestiture of control to Canadians occurs within a reasonable period of time (two years), at a fair market price.

Indirect acquisitions will be reviewed on a case by case basis and will generally be allowed provided that:

- 1) The acquisition would not significantly lessen effective competition by Canadians in any segment of the Canadian market for books; and
- 2) The applicant undertakes to divest control to Canadians within a reasonable period of time (two years) at a fair market price.¹³

Baie Comeau was greeted by mixed reviews. Decidedly, forcing divestiture of publishing houses was not a Torylike strategy. Within two years, the policy aimed to place 50 percent of the publishing industry in Canadian hands, a very difficult goal to attain even under the most favourable circumstances. Yet Baie Comeau proposed to remedy many of the problems in the industry by making publishing self-financing. Since Canadians would own the controlling interest in divested companies, they would be able to use agency contracts to stabilize their financial situation. This would reduce the need for subsidies, and give publishers the opportunity to venture into the lucrative textbook

¹³ Roy Norton, *Canada's Nationalistic Book Publishing Policy: A Review of Stakeholders' Criticisms, 1985-1990* (Center for Information Policy Research: Harvard University, February 1991) 2-3.

market. Baie Comeau was to resolve the problems publishers had always clamoured about, without costing the government a penny in extra funding.

No other policy in cultural industries had ever attempted to do this, to Canadianize a sector dominated primarily by American investors. Policies and programs that had been established to repair imbalances of ownership in economic sectors, for example the NEP, had come under serious attack and then been dismantled. FIRA's mandate had been changed due to its controversial role of screening international investment in the country. Preventing the U.S. from making further inroads into Canadian publishing in an era of internationalization was not going to be an easy task.

The DOC was satisfied it had done all it could to grant publishers' wishes. The Department had finally declared that publishing, as a cultural industry, deserved to be sheltered from the free market. Minister Marcel Masse stated that the government recognized the importance of publishing to the Canadian identity and its role in promoting cultural sovereignty. Publishing now shared protected status with broadcasting and newspaper publishing.¹⁴

Nevertheless, as will be examined in the following section, many individuals were displeased by the policy's announcement. In lieu of the politico-economic environment,

¹⁴ Communications Canada, "Notes pour une déclaration de l'honorable Marcel Masse, député de Frontenac, Ministre des Communications à l'occasion de l'annonce de la nouvelle politique sur l'investissement étranger dans l'édition canadienne," July 6 1985: 1.

and free trade talks with the U.S. that were officially proposed on September 26, 1985, and were supposed to negotiate "the broadest possible package of mutually beneficial reductions in tariff and non-tariff barriers," Baie Comeau was an impediment.¹⁵ Since the announcement about trade negotiations occurred two short months after the implementation of Baie Comeau, why did this policy come about at all? This is one of the most frequently asked questions with respect to the publishing policy. It can best be answered by looking at the policy-making process, at how interest groups and the state interact, and how these processes take place within a larger decision-making arena, one influenced by the U.S.

iv) Stakeholders, their Interests, and the Formulation of Baie Comeau: Reactions to a Policy of Forced Divestiture

Stakeholders reacted in a variety of ways to the policy's announcement. Many businesses and groups of individuals in Canada--primarily the cultural nationalists who were members of the ACP--had made their points of view known to the Canadian government beforehand. Others--American conglomerates, and the U.S. Congress--did so afterwards, when they realized it would affect their business activities. They formed pressure groups to influence either policy-making strategies or how the policy was going to be enforced. Pressure groups are composed of associations of individuals whose goal is to promote their common interests. They play a significant role in policy development by lobbying

¹⁵ Garos 17.

ministers and senior officials. Pressure groups are located between the individual and the state and profess to "interpret the public will to key decision makers."¹⁶

As explained by Paul Pross, pressure groups have two main functions: communication and legitimation. They relate the concerns of their members to the various levels of government responsible for addressing their issues. Their aim is to legitimate their particular issue/problem so the changes they require will be made. The challenge is to persuade officials and the public at large that those changes are worthwhile.

Interest groups are part of the democratic process, yet some have a tremendous advantage in the policy-making arena since they have the resources to extensively lobby the appropriate politicians. The concerns of big business, therefore, dominate the agenda. Instead of interpreting "the public will," they serve their own political interests. They hire consultants, meet with politicians and government officials, even undertake studies to legitimate their viewpoint.¹⁷ Different groups receive disproportionate amounts of attention. Gulf & Western, for example, had tremendous resources to draw upon when

¹⁶ Bruce G. Doern, and Richard W. Phidd, *Canadian Public Policy: Ideas, Structure, Process* (Scarborough: Nelson Canada, 1992) 65.

¹⁷ Paul A. Pross, "Pressure Groups: Talking Chameleons," *Canadian Politics in the 1990s*, Michael S. Whittington and Glen Williams, eds., 3rd ed. (Scarborough: Nelson Canada, 1990) 287.

Investment Canada contested its takeover of Prentice-Hall Canada, as opposed to smaller groups, like the Association of Canadian Publishers.

There are two types of interest groups, producer interest groups (otherwise known as economic groups) and collective rights associations (known for promoting social/cultural concerns).¹⁸ The distinction helps to differentiate between the various groups involved in the book publishing debate. The stakeholders involved in either promoting or discouraging Baie Comeau represented business interests and cultural nationalists. They consisted of: the Department of Communications, the federal government, various publishing groups, the American business lobby and the American government. The following pages provide an overview of the actors and interest groups, and what they stood to lose or gain in the face of a policy like Baie Comeau.

Among publishers and publishing organizations, opinions about what measures should be taken to remedy the industry diverged dramatically. The Canadian Book Publishers Council (CBPC), founded in 1910, is an organization which represented the twenty-five foreign-owned publishers located in Canada as well as the larger Canadian-owned firms. Most of these companies were involved in educational publishing. Membership included the four largest Canadian-owned firms in the country, Harlequin,

¹⁸ Ibid., 66.

Nelson, Canada Publishing, and General Publishing. They had lucrative agency agreements with the U.S. and the U.K.¹⁹

The CBPC's position was that unnecessarily pondering over questions of ownership diverted attention from the real issue: publishing Canadian authors. They failed to make a correlation between Canadian ownership and Canadian-authored books. Ronald Besse, head of the Canada Publishing Group (parent of W.J. Gage, which he repatriated in 1978) emphatically stated that "a foreign onslaught is impossible because Canadian-elected school boards, teachers, or provincial curriculum specialists dictate what books will be bought and what books will be approved for use."²⁰

The CBPC, however, was not that vocal in expressing its beliefs; it sat back and waited for the government to take action. Although it represented larger businesses more intent on making profits than publishing Canadian authors, these firms were located in Canada, so its members made an attempt to remain neutral. The Council, nonetheless, preferred a laissez-faire approach that allowed their publishing houses to operate as they saw fit. Any measures that might be instituted to help Canadian culture might impede their ability to conduct business. They would gain nothing from nationalist government initiatives.

¹⁹ Hamish Cameron, "CBPC courts Ottawa at annual meeting," *Quill & Quire* March (1986): 56.

²⁰ Norton 8.

Successful author Mordecai Richler stated his belief that policies of this nature were harmful to artists because "nationalism protects second-rate reputations."²¹ Free exchanges should be allowed to take place between the United States and Canada whether it be with regard to film, television or publishing. Enough money was being expended on culture for no apparent reason. If cultural industries could not survive unless they were artificially supported by the government, their survival should be determined by market forces. The industry should not be Canadianized because many of the companies which were being bought by multinationals were already of foreign origin. While this is true, it also testifies to the weakness of the Canadian market.

The Association of Canadian Publishers, as mentioned earlier, was founded in the early 1970s to lobby for increased Canadian ownership in book publishing. It represented independent publishers that embodied common values, including increasing Canadian ownership, and publishing higher numbers of Canadian-authored titles. They were far more vocal than the CBPC, making a strong argument to curtail foreign investment, based on the reasons given in Chapter I. Investment barriers were a positive move, members argued, serving to protect the Canadian identity.

Smaller publishers, who did not have a secure financial base, were relieved that the government was finally going to take action with regard to ownership. Many Canadian publishers believed they had everything to gain by backing Baie Comeau.

²¹ Don Gillmor, "Mordecai Richler," *Quill & Quire* July (1989): 20.

Subsidies had done nothing to prevent American takeovers; a policy which presented structural changes to the industry appeared well-intentioned. The ACP commented on the necessity of developing a strong Canadian culture:

Canadian-authored books enable us to learn about our country, to debate, to tell our stories--to communicate with each other. It is essential that the long-term health of book publishing in this country is ensure through policies which promote Canadian ownership and control in what is a vital cultural and communications industry.²²

Here, culture is equated with the expression of the Canadian identity. From the ACP's perspective, the survival of their businesses was at stake, as was Canadian authorship. In 1985 members of the ACP went to the U.K. to obtain the rights to books so they could be published in Canada instead of simply distributing books that were published in other countries. U.K. publishers did not respond positively, but the response was not as negative as expected.²³ Shortly afterwards, a number of rights were acquired. It was the first time that Canada had been regarded as a market separate from the United States or Britain.

Anna Porter, chairperson of Doubleday Canada, had called for measures to reorganize the industry.²⁴ Along with many other publishers concerned about Canadian culture, recent takeovers were perceived as a foreshadowing of the future. Without trade barriers, without tariffs, cultural nationalists predicted that Canada could only become

²² Norton 10.

²³ Hamish Cameron, "DOC redesigning Book Publishing Development Program," *Quill & Quire* May (1986): 10.

²⁴ Roy MacSkimming, "Sunset over Baie Comeau," *Quill & Quire* September (1989): 58-59.

more like the United States, a country that considered Canada part of its domestic market, a country that had the advantage of a large population and whose corporations operated with a substantial capital base.

The Department of Communications evaluated the situation, formulating a variety of policy proposals based on the many choices that were available. It could choose to strengthen existing programs such as the Book Publishing Industry Development Program (BPIDP) and infuse more money into the industry; focus on the distribution problem by preventing "buying around"; increase the Canadian share of the textbook market. Nevertheless, most of these choices would have resulted in policies of incremental change. Several of these initiatives had been attempted in the past with poor results. Considering the political economic environment, which has been detailed above, the DOC had to come up with a policy that showed publishers a new determination on behalf of the government, and this had to come in the form of a strong nationalistic policy that did what no other policy had dared do before.

Marcel Masse decided to use a more powerful policy instrument than those used by his predecessors, selecting regulation as a means of legitimate coercion.²⁵ Since others before him had relied on expenditure, a less coercive tool, he was sending the message that this policy would be more strictly enforced than previous ones. Increasing Canadian ownership--thereby restructuring the publishing industry--seemed a logical way

²⁵ Doern, *Canadian Public Policy*, 97.

to help the failing industry and satisfy the needs of publishers. It was a means of contributing to the development of a cultural identity. It was an example, as Glen Williams has explained, where Canada made a stand in one of the areas it valued most: culture.

Moreover, the Minister managed to convince a hostile political environment that Canadianizing publishing was a worthy endeavour. This was accomplished, first of all, with the aid of Prime Minister Mulroney, with whom he had a favourable relationship. The relations that occur in the executive-bureaucratic arena are critical to the understanding of the policy-making process. The federal cabinet, the most important policy-making structure in Canada, has a decisive role to play.²⁶ Baie Comeau faced many obstacles in Cabinet, was barely passed, and subsequently received little support despite extensive proclamations from a nationalistic Marcel Masse.

Masse was--to a degree--compelled to act; he could not ignore the demands of the publishing community without losing credibility. When he was first appointed as Communications' Minister, it was among the general consensus that he would not do a good job; he had to prove himself. For years, Canadian publishers had been restricted to risk-filled ventures that prevented them from publishing Canadian titles. Table III, "Production of New Canadian-Authored and Total Titles, by Canadian-Controlled and Foreign-Controlled English-Language Publishing Firms" demonstrates that Canadian

²⁶ Ibid., 57.

ownership is necessary to the publication of original Canadian works.²⁷ Foreign companies are not concerned with the publication of Canadian titles when they can simply reprint issues of a popular American book.

The DOC made a decision which went against the rest of the federal government. Regardless of the DOC's nationalistic stand, Baie Comeau could be nothing but a failure; it was a product of stabilizing compromises. The DOC, as mentioned earlier, has a mandate which differs from that of most federal government departments. Unlike institutions concerned with economic and trade policy, cultural industries require policies that shield them from the market economy. Nevertheless, the Department was still subject to the influence of the federal government, which was influenced by private industry.

The federal government's priorities were diametrically opposed to the DOC's. The order of the day was to deregulate and privatize, promote foreign investment, reduce the "protectionism" that the Liberal government had supported over the years. The DOC was established in 1969 with a mandate to promote the development of communication technologies. In 1980 its mandate was extended to arts and culture, including activities from ballet to broadcasting. Part of its role was to: "to enhance the production and distribution of Canadian films, video programs, sound recordings, books and periodicals

²⁷ Peat Marwick Consulting III-7.

Table III

Production of New Canadian-Authored and Total Titles,
by Canadian-Controlled and Foreign-Controlled
English-Language Publishing Firms,
by Size of Firm

1987-88

Size of Firm	Canadian-Controlled				Foreign-Controlled			
	Number of Firms	New Canadian- Authored Titles		Total New Titles	Number of Firms	New Canadian- Authored Titles		Total New Titles
		Number of Titles	Avg. Per Firm			Number of Titles	Avg. Per Firm	
Small	51	340	6.7	357	1	1	-	31
Medium	55	638	11.6	689	1	5	-	5
Large	37	1,881	50.8	3,100	25	878	35.1	1,243
Total	143	2,859	20.0	4,146	27	884	32.7	1,279

Source: Peat Marwick Consulting, *English-Language Book Publishing and Distribution in Canada: Issues and Trends* (October 16, 1989) III-7.

and their availability to Canadians."²⁸ Despite this, the DOC was frequently criticized for its lack of a strong stand and ineffective policies in the cultural sphere. The problem is that the DOC operates under completely different guidelines than the rest of the federal government, for example the economic ministries (Investment Canada, Industry, Science and Technology, etc.). Federal government policies, occupied with events of an economic nature, directly contradict mandated DOC policies.

The DOC tried to find an equilibrium between private and nationalist interests. Unfortunately, as it has frequently been demonstrated in the past, attempts to create equilibrium are generally unsuccessful when they concern cultural issues. In order to minimize conflict and give the appearance of unity, the state introduces opposing interest groups into the decision-making arena. The consequences of this action, however, are often negative, contributing to the formulation of policies which are contradictory and ineffective. Since the interests of various interests in society are taken into account, compromise becomes the only viable solution. As a result, the interests of culture were subverted to those of the market.

Policy "involves not just the allocation of values or the choosing of alternatives. It also involves the selection of various approaches and combinations to exercise the

²⁸ Comor 247.

legitimate coercive powers of the state."²⁹ Baie Comeau sought to establish rules to guide future decisions by giving Investment Canada the task of determining, on a case by case basis, whether takeovers should or should not be approved. Corporate takeovers were not overseen by the DOC but by Investment Canada, a department concerned with economic efficiency instead of cultural nationalism. Exactly one month before Baie Comeau was announced, on June 6, the Investment Canada Act came into effect. It replaced the Foreign Investment Review Agency (FIRA) and was devised to encourage business investment. This was the first contradiction among many that was to test the strength and applicability of Baie Comeau. The Investment Canada Act states the following:

the purpose of this Act is to encourage investment in Canada by Canadians and non-Canadians that contributes to economic growth and employment opportunities and to provide for the review of significant investments in Canada by non-Canadians in order to ensure such benefit to Canada.³⁰

Therefore, the policy formulators and policy implementors were not the same, causing a major disjunction for Baie Comeau.

Continentalism, as discussed in Chapter 1, had a serious impact on the policy-making process. Economic integration into the American empire restricted Canada's ability to enforce nationalist policies, although it sometimes dared to implement them.

²⁹ G. Bruce Doern and V. Seymour Wilson, eds., *Issues in Canadian Public Policy* (Toronto: The Macmillan Company, 1974) 11.

³⁰ Canada, *Investment Canada Act: Investment Canada Regulations*, March 1986, 2.

The NEP and FIRA are cases in point in the economic sector. Baie Comeau was the first policy to repatriate firms in the cultural arena.

Interest groups favouring big business attempted to cast doubts on the policy. Their goal was to undermine its legitimacy, and effect a change for the free market and against forced divestiture. Washington, not surprisingly, observed the Conservative government's actions closely. Due to the Mulroney government's elimination of FIRA, and the establishment of Investment Canada, whose purpose was to encourage foreign investment, the U.S. did not expect--nor did it welcome--a strategy that limited its access to Canadian markets of any kind, especially markets it had always had unrestricted access to. The Reagan Administration had viewed Brian Mulroney as a willing business partner, eager to lower trade barriers, and it was disappointed and surprised by the Conservative government's actions.

Gulf & Western, and other corporations like it, stood to lose a source of profits. Canada, considered a natural extension of the United States market where entertainment industries were concerned, provided substantial revenues thanks to its many branch plant companies. In addition, if foreign multinationals were forced to respect the policy in Canada, other nations might formulate similar policies, thereby limiting their markets at the international level.

The U.S. government, and multinationals promoting the efficacy of the business ethic, opposed Canada's inclination to create a strong nationalist policy. They openly criticized Canadians' fears regarding American ownership, and accused Canadian publishers of benefiting from unfair subsidies. Washington and G&W formed lobbies to serve their economic ends as soon as the Baie Comeau policy was unveiled. Protectionism, they argued, had no place in Canada-U.S. relations. They subscribed to the view that small Canadian publishers form interest groups that

coalesce behind trade barriers that bring them special benefit at the expense of society. By eliminating trade barriers a society does itself a service: it eliminates political distortions to the optimum allocation of economic resources. If at the same time, one country can induce another country--its major trading partner--to also remove trade barriers through international negotiation, the two countries can conveniently remove the political problems caused by the special interest groups. Such groups are forced to make their claims for privileged treatment openly, where it can be shown that the costs of "protectionism" will be borne by all.³¹

The elimination of barriers to trade, then, should create a "level playing field." Nevertheless, no matter how much its benefits are vaunted by business interests, the "level playing field" remains a mythical entity. Canada is simply too small to be able to "compete" without protection, especially in publishing. Costs of production are higher in Canada, U.S. products are cheaper, the high concentration of branch plants already compromised Canada's ability to produce domestic material. Economic rhetoric merely reduces products to their market value. Culture becomes simply a book, a record or a TV show that can be manufactured at low cost and sold for a profit.

³¹ Duncan Cameron, "Resisting Free Trade," *Canadian Journal of Political and Social Theory* Vol. XII (1988): 202-203.

The United States promised to retaliate against any policy that might force them to divest specific investments. Canada was sending confusing signals. The Conservative government claimed to be pro foreign investment, yet it acted in a manner that would have been uncharacteristic even for the previous Liberal Administration. As a rule, Canadian cultural

strategies tend to be either defensive or constructive in character, rather than externally aggressive. That is, they are designed either to prevent further new penetrations by American interests, or to give artificial support to indigenous alternatives. Only rarely have Canadian governments attempted actually to remove or roll back an established American presence.³²

This policy was radically different, and in light of the fact that the U.S. was having its own problems with Japanese investors, it appeared particularly ominous.

Multinational corporations were resentful of the DOC's plans to limit foreign ownership since it went against principles that were to be entrenched in the upcoming free trade agreement. American Congressmen objected strenuously, stating that Canada's claim to a "cultural identity" was a means of achieving greater commercial viability by using unfair trade tactics.³³ Even the Canadian government, whose many departments tended to favour economics over culture, regarded Marcel Masse's intentions with a mixture of skepticism and apprehension.

³² Denis Stairs, *Knocking on the Back Door: Canadian Perspectives on the Political Economy of Freer Trade with the United States*, Allan M. Maslove and Stanley L. Winer eds. (Carleton University: The Institute for Research on Public Policy, 1987) 84.

³³ Norton 4.

For the DOC, the multiple demands which ensued placed it on a precarious terrain. Traditionally, the Department of Communications has always believed that strong cultural industries and communication technologies will help promote the Canadian identity. The fierce debate by private industry, however, especially from the Americans, made Investment Canada reluctant to enforce Baie Comeau. Part of the Conservative government's philosophy was this: "The Canadian government has never taken issue with the openness of the Canadian market to imports: it is part and parcel of the internationalism, of the intellectual affinities of Canadians."³⁴

Adding to the pressures of free trade negotiations, a number of American businesses concluded that distributing books through a Canadian agent was too costly. Bantam Doubleday Dell, Crown Publishers, Harcourt Brace Jovanovich and Cambridge University Press proceeded to withdraw their distribution facilities from Canada.³⁵

Baie Comeau was designed to prevent direct takeovers of Canadian publishing companies and regain majority ownership of indirect takeovers, but the question remained: would Baie Comeau work in practice? Would it rectify the problems illustrated in Chapter II? From the beginning, it was suspected that the policy would only be applied in rare circumstances because Marcel Masse was influenced by structural constraints exerted by members of the Conservative government who were, in turn, influenced by the

³⁴ Communications Canada, *Vital Links*, 27.

³⁵ Peat Marwick Consulting IV.6.

private industry lobby. As a result, despite Baie Comeau's apparent strength, several loopholes were built into it that encouraged foreign multinationals to try to circumvent it. At the level of policy implementation, Masse was also restricted since the policy was removed from his jurisdiction and entrusted to Investment Canada.

vi) Inconsistencies in the Policy: Compromises and Contradictions

The following pages list the contradictions and inconsistencies present in the Baie Comeau policy, which made it difficult to enforce. The government made a series of assumptions about the industry, and about how foreign multinationals would react. Yet the policy's inconsistencies were not due entirely to these factors. They were primarily a result of years of continentalism and integration into the U.S. economy.

First of all, while the Baie Comeau policy was an apparently powerful policy, it was not a legal document. Because it was not a law in its own right, it was subject to the trade laws created by the deregulatory economic environment symbolized by Investment Canada. Soon after 1985, it was realized that having a cultural policy operate under the auspices of Investment Canada had been a mistake. Many takeovers were allowed to take place after being mildly contested. In March 1989, Marcel Masse, with the support of many interested publishers, discussed the possibility of having the DOC enforce Baie Comeau instead of Investment Canada. This would, however, require that new legislation be put in place, a time-consuming procedure. The change never occurred. The Investment Canada Act contained provisions to apply for a court order that would force

companies to divest. Failure to do so could have resulted in fines of up to \$10,000 a day for the reluctant multinational. None of these provisions were ever applied, however.³⁶

Secondly, the Department of Communications (DOC) made a policy decision that did not have the full support of the federal government--Baie Comeau was barely passed in Cabinet. Marcel Masse had the political clout to get the policy passed, but could do little afterwards once it was removed from his jurisdiction. Other members of cabinet accepted the policy only reluctantly. The Conservative government's top priority after September 1985 was to get the United States to agree to a comprehensive free trade agreement, and the Baie Comeau policy soon became a major irritant in the entertainment industry. Soon after it came into being, it was abandoned even by the Cabinet members who approved it.

Thirdly, the federal government assumed there would always be a potential buyer for companies that were being divested. It did not consider that when no majority shareholders could be found it would have to act as a buyer of last resort, at times paying inflated prices. The government also made a series of assumptions about the publishing industry. For instance, it assumed there would always be a potential buyer for majority shareholding in a company which was being divested. In other words, foreign companies could always assume that the Canadian government would eventually be forced to act as

³⁶ Diane Shepherd, ed., "Masse Vows Support for Baie Comeau," *Quill & Quire* April (1989): 4.

a buyer if no investors were found in the private sector. Consequently, it was not profitable for them to advertise that they had a publisher for sale; a far greater amount of money could be obtained from the Canadian government after a two-year period. This was later entrenched in the free trade agreement under Article 1607 which requires that the Canadian government act as a buyer "at fair open market value" when a private buyer could not be found.

This system served to drive down the price of these companies because domestic buyers were scarce. Publishing, being so uncertain, is not an area where investors like to tread. Canadian investors often could not afford to pay the price involved in 51 percent ownership and no loan program had been set up for this purpose. Furthermore, there was no way to determine what a "fair market value" price was. The usual "fair market" formula used in these instances is set at about twenty times the annual profits of the subsidiary, which is the normal price paid in the U.S. But in Canada, the market potential is smaller, so it should be ten times the profits, yet the U.S. market figure is the number that was adhered to during sales.³⁷

Fourthly, Ottawa assumed other nations would comply willingly with the policy. There was an automatic resistance to forced divestiture by the international market. There were no mechanisms in place, really, to force other nations to comply with the policy if they chose not to. And, contingent on this, there were no follow-up procedures to

³⁷ Diane Francis, "Closing the Book on Government," *Maclean's* 12 June (1989): 13.

determine whether management control rested in Canadian hands. Often, when 51 percent divestiture occurred, the foreign multinational retained control over decision-making in the company even if Canadians had majority ownership. Each of these factors contributed to the weakening of what should have been a powerful policy of forced divestiture.

vii) Conclusion

The Baie Comeau policy was contradictory primarily due to Canada's relationship with the United States. After decades of economic integration, Canada's ability to enforce nationalistic policies had been severely compromised. It established the policy because it was in the cultural sector, an area traditionally protected from other nations for the sake of maintaining the Canadian identity. Soon after its election in 1984, the Mulroney government focussed on the possibility of obtaining a comprehensive free trade deal with the United States, not only renewing the "special relationship" between the two countries, but institutionalizing continentalism in a legal document.

Baie Comeau was implemented for several reasons. The DOC had a nationalistic Minister, Marcel Masse, determined to resolve longstanding difficulties in the publishing industry. The policy was a show of good faith to publishers, the cultural community and the Canadian public, guaranteeing that, although there would be cutbacks in other areas, the Tories would stand up for culture. To counter their change to free market objectives, the Conservatives had to adhere to some of their pre-election promises in order to maintain credibility. The public had to be convinced they were committed to protecting

cultural industries and the Canadian identity. Public funding had not changed the situation in the industry, and the government did not want to spend any more money on unprofitable firms. Baie Comeau was a logical way to make firms viable. Since firms would be controlled by Canadians, decisions would be made by them as well. They would be able to use their profits to publish more Canadian-authored works and obtain more agency contracts.

Little had changed in the publishing industry since the 1970s, when several firms went bankrupt or were taken over by profitable American firms. Despite its \$1.3 billion in revenues in 1984, very few Canadian works were published. As they were in the 1960s and 1970s, Canadian firms were marginalized. Baie Comeau was to remedy this by placing 50 percent of companies in Canadian hands within two years.

Stakeholders had a significant role to play in the type of policy that was implemented. The ACP, representing smaller Canadian publishers, was anxious for the government to take measures to increase Canadian ownership. This had been the Association's goal since its creation in 1970. As Chapter IV will illustrate, when Baie Comeau was applied to specific takeovers, the majority of which involved American multinationals, pressure groups hired lobbyists to make their opinions heard. The Americans, in particular, were vocal in their attempts to undermine the policy. Congress criticized it, even the Canadian federal government was reluctant to enforce it. The DOC had a mandate to protect and promote cultural industries, but this was at odds with the

federal government's goals of privatization and deregulation. The DOC's mandate was therefore subverted to the larger will of the federal government. In placing a variety of stakeholders in the policy-making arena, the only thing that could be arrived at was a compromise.

Baie Comeau was contradictory in many ways. It was not a law; there were no incentives for companies to divest 51 percent ownership; there were no guarantees Canadians would have control even after divestiture, and no means for the government to verify whether change of ownership had taken place; the federal government assumed there would always be a buyer for a company that was being divested, even in the small, cash-strapped Canadian market; Investment Canada could not apply a policy that was in the cultural sphere. All of these inconsistencies indicated that the policy would be difficult, if not impossible, to enforce.

What was created was a policy of compromise, which the government did not have the political will to enforce. The DOC's cultural mandate is increasingly subverted by the federal government's penchant for globalization. The Baie Comeau policy could not function this way. Too many obstacles were set in its path. And the real tests were yet to come, as the Baie Comeau policy was applied to its first challenge, the purchase of Prentice-Hall Canada (and indirectly Ginn and Company) by Gulf & Western.

Chapter IV

Baie Comeau in Practice: The Canada-U.S. Free Trade Agreement and North America's Policy Harmonization

i) Introduction

In practice, the Baie Comeau policy proved to be riddled with loopholes that the United States' government and multinational corporations soon learned to use to their advantage. From the very beginning, when the Canadian government attempted to force divestiture of Prentice-Hall Canada, the weaknesses of the policy--and the Conservative government's reluctance to enforce it--became glaringly apparent.

This chapter examines the international takeovers which took place under Baie Comeau, investigating how various actors--from member of Congress John Dingell to leaders of media multinationals Rupert Murdoch and Robert Maxwell--exerted pressure on the Canadian government, managing to work their way around the policy almost every time. The inconsistencies and contradictions in Baie Comeau were the result of decades of continental integration. Canada's extreme integration into the U.S. economy limited its capacity to enforce even cultural policies designed to promote the Canadian identity. In keeping with the international economic environment, where barriers to trade were being removed, Baie Comeau was waived by Investment Canada to allow international investors to retain ownership and control of Canadian book publishing firms.

This chapter also chronicles the Ginn and Company saga from 1985 to its final conclusion in 1994. It was perceived as Baie Comeau's first success in 1989 when

Ottawa purchased 51 percent of the company due to the absence of a private Canadian buyer. In reality, several bids had been submitted, but Gulf & Western rejected them, knowing it could receive a much higher price from the Canadian government itself. Ottawa, in fact, grossly overpaid for its share of Ginn.

The signing of the 1989 Canada-U.S. Free Trade Agreement (FTA) made the successful application of the policy more difficult. With the FTA, the continentalization of Canada's culture was cemented in a trade deal from which cultural industries were supposedly exempt. President Ronald Reagan called it a new economic constitution for North America. According to Stephen Clarkson, the FTA institutionalized the continental relationship between Canada and the U.S., diminishing Canadian autonomy still further; years of continental integration were resulting in policy harmonization between the two nations. The FTA deals specifically with the Baie Comeau policy in Article 1607, which stipulates that Ottawa must act as a buyer in cases of forced divestiture if no other investors can be found. It diminished the foreign buyer's incentive to find a joint Canadian partner, and placed the onus on Ottawa, creating embarrassing and expensive problems for the federal government.

For the United States, cultural industries are no different from any other business enterprise; they are part of the entertainment business. Scholar Graham Carr states that United States wants Canada to change its "definition" of culture--i.e. book publishing serves to strengthen the national identity and promote cultural sovereignty--to information,

to entertainment, making international takeovers in publishing no more than a business transaction. This would make cultural industries extremely vulnerable to foreign takeovers. The FTA, for example, limited Canada's ability to enforce nationalist cultural policies. Continental integration is not only occurring at the political or economic level, but within the cultural sphere as well. Multinationals applied extreme pressure to Canada when it came to Baie Comeau because if they respected it, they would have to respect similar policies of divestiture in other nations worldwide.

Seven years after the implementation of Baie Comeau, the DOC admitted that the policy was a failure. In 1992, Communications Minister Perrin Beatty replaced it by a policy of "net benefit" where international takeovers would be allowed as long as the investors proved they could make a positive contribution to Canadian culture. The new policy, however, according to members of the ACP, was nothing more than added permission to take over Canadian companies. Their assessment was correct: takeovers were reviewed, but seldom challenged or denied.

The election of a Liberal government in 1993 gave renewed hope to the publishing community. The government's actions, however, quickly dashed those hopes. With the "net benefit" policy it had inherited from the Conservatives, the new government made it clear that it would no longer make any real efforts to protect the book publishing industry. Where publishing companies are concerned, the federal government has indeed adopted the definition of "culture" adhered to by the United States. As proof that the

Liberals have no real intentions of protecting the industry, Ginn and GLC--with the permission of the Heritage Minister Michel Dupuy--were sold back to Paramount in 1994 for the same amount paid initially, \$10.3 million. This occurred, government officials said, because of an alleged secret agreement the Conservatives had made with the multinational. There is no reason why the Liberals should be bound by a deal the made by a previous Conservative government, yet the Chrétien administration maintained that selling the firms back to Paramount was the only feasible course of action. Over its seven-year existence, the Baie Comeau policy was easily circumvented due to the inconsistencies caused by the continental relationship, a relationship that was institutionalized in the 1989 Canada-U.S. Free Trade Agreement.

ii) The Litmus Test: Prentice-Hall Canada and Ginn and Company

The first test of the Baie Comeau policy was announced on July 9, a few days after the policy was initially revealed. In December 1984, Gulf & Western purchased Prentice-Hall in the United States, acquiring its subsidiary Prentice-Hall Canada. Six months later, in June, Gulf & Western paid \$100 million to the Xerox Corporation for Ginn and Company, thereby acquiring its Canadian branch, which published textbooks. The Canadian government, aware that the manner in which it dealt with the first takeover would set a precedent for others to come, declared that Gulf & Western would be prevented from owning Prentice-Hall Canada, and would have to divest itself of 51 percent of Ginn.

The announcement that Prentice-Hall and Ginn would fall under the umbrella of Baie Comeau sparked a storm of controversy. Gulf & Western contended that Prentice-Hall had always been an American company in American hands, and the Canadian government did not have the right to prevent the change of ownership. Prentice-Hall Canada was established in Toronto in 1960 by its American parent. At no point in time had the company ever been controlled by majority Canadian ownership. Although the company was managed by Canadians, it rarely published Canadian literature, concentrating primarily on textbooks. Prentice-Hall Canada earned \$30 million a year and was one of the two largest publishers in the country, the other being McGraw-Hill Ryerson.¹

For the public at large, who were already aware of the cultural content problems inherent in television, film, and radio, the Prentice-Hall purchase was seen as another incidence of American domination. The United States was about to lay claim to something that was part of the Canadian identity; Canada's cultural sovereignty appeared to be at stake. The population was uneasy about increasing internationalization, and the possibility of free trade with the U.S. By not allowing the takeover, the Conservative government planned to reassure the public as well as domestic publishers. Canada could compete on the global market, bureaucrats assured, without sacrificing its culture.

¹ Brian D. Johnson et al., "Secret Pressure in High Places," *Maclean's* 11 November (1985): 70.

This particular takeover attracted a lot of publicity, therefore a lot of public attention. Prentice-Hall was seen as an opportunity to use Investment Canada and Baie Comeau for a good cause. A lobby was mounted, consisting of Canadian-owned publishers and cultural bureaucrats. The U.S. organized its own lobby. The lobbies served to obscure other issues and give a false impression of what Canadian culture really was. It gave the impression that Prentice-Hall was all-important to the future of this country's cultural identity. Newspapers followed the story avidly with headlines like the *Toronto Star's* "Our culture is on the line." The public became concerned, although few were actually familiar with Prentice-Hall, its prior history, and the kind of books it published (mostly American imports).²

Canadian nationalists insisted this was the ideal opportunity to test the policy. By that time, discussions over a possible free trade agreement between the U.S. and Canada had begun, and there were heated debates over whether or not Canada's cultural industries might be on the bargaining table. Prentice-Hall and Ginn came to symbolize the dominance of the United States over Canada's cultural sector. The companies not only represented publishing, but cultural industries in general.

Canada's suddenly enthusiastic government planned to staunchly defend its interests by preventing an American multinational from taking over an American firm located in Canada. It decided to take action against Gulf & Western's purchase of

² Robert Fulford, "Blaming the Yanks," *Saturday Night March* (1986): 8.

Prentice-Hall to prove to the public and to publishers that it was serious about protecting Canadian culture: "The Prentice-Hall issue. . . would show, many thought, whether the Canadian government would sacrifice. . . cultural institutions in order to win an advantageous free-trade agreement with Washington." Matt Cohen, a novelist and then chairman of the Writers' Union of Canada, echoed the sentiment, stating: "If the federal government is serious about patriating the Canadian publishing industry, this is where they have to start."³

Publishers argued there were other reasons why the takeover should not be allowed. General Publishing and PaperJacks, two Canadian companies, depended on agency contracts with Gulf & Western to distribute books published by Simon & Schuster, which was part of Gulf & Western's extensive media holdings. They believed that should the takeover be permitted, Gulf & Western might cancel its contract with the Canadian firms and use Prentice-Hall to distribute its titles instead.⁴

The decision to apply the policy retroactively was only the first obstacle to cross the path of government officials. Wallace Matheson, President of Gulf & Western, said that it was unfair to apply the policy in this particular situation, and threatened to shut down Prentice-Hall rather than divest its holdings. Gulf & Western hired lobbyists to

³ Ibid., 8.

⁴ Brian D. Johnson and Hilary Mackenzie, "The battle over the cultural border," *Maclean's* 18 November (1985): 69.

bring their predicament to the attention of Congress, as well as to exert pressure on the Canadian government. G&W treated the situation seriously, considering it a precedent which could have a negative impact on other international deals. Should Canada prevent the Gulf & Western takeover, it would send a message to other nations that similar takeovers could be stopped. Congress, on the other hand, gave Gulf & Western an open ear because it could be used to determine how the Canadian government might react in other similar cases, for example, takeovers in economic areas.

On August 6, Allan Gotlieb, Canada's ambassador to the United States, wrote to the Minister of Regional and Industrial Expansion, Sinclair Stevens (also responsible for Investment Canada), stating that Canada should reassess the Baie Comeau policy.⁵ Baie Comeau was too controversial and was an obvious impediment to smooth trade talks with the United States. Gotlieb had been contacted on July 30 by a former U.S. trade representative, Robert Strauss, who was lobbying on behalf of Gulf & Western. Gotlieb wrote: "Gulf & Western will adopt a 'scorched-earth' response if we enforce the policy on them." He went on to say that the policy "is seen as more radical than that [NEP] pursued by the Trudeau government, although the latter was perceived as highly nationalistic and interventionist as far as foreign investment is concerned." Baie Comeau introduced the Canadianization of a new sector of the economy.⁶ Brian Anthony, then

⁵ Ibid., 69.

⁶ Johnson et al. 71-72.

president of the Canadian Conference of the Arts, believed that Gotlieb should have been asked for his resignation because of his obvious lack of support.

The policy was viewed even less favourably than the NEP. The NEP set a limit of 50 percent ownership. Baie Comeau, on the other hand, had no such limit. The Canadian government, therefore, had the right to decide to Canadianize as many or as few publishing companies as it wished. The policy was interpreted as an indication of what Canada planned to do in other areas of culture and communications.⁷ Pressure tactics were not limited to the ambassador. U.S. Secretary of State George Shultz met with Canadian External Affairs Minister Joe Clark to convince him to abandon Baie Comeau. Even a former Newfoundland premier, Frank Moores, a friend of the Prime Minister, was lobbying for Gulf & Western. As Canadians joined the battle against Baie Comeau, taking Gulf & Western's side, the picture began to look increasingly grim.

Malcolm Lester, president of the ACP in 1985, said: "Historically, the Conservatives have been on the part of cultural nationalism. If Mulroney backs down, he will lose a lot of political standing."⁸ There was an enormous amount of pressure on the Mulroney government to pull through not only for publishers, but for the Canadian population in general. Furthermore, McGraw-Hill Ryerson said if the Prentice-Hall takeover was approved, it would make further inroads into the Canadian market. There

⁷ Ibid., 70.

⁸ Johnson and Mackenzie 69.

was also a secret External Affairs report which was sent to the cabinet. It was dated October 10 and said: "There is a real potential for conflict between our desire for a successful conclusion to the trade negotiations and our pursuit of cultural sovereignty, if the latter includes restrictive policies on ownership, market access and subsidization."⁹ Already, only months after the policy's implementation, the government was thinking of compromising Baie Comeau's integrity in exchange for successful free trade negotiations.

Mulroney had met Reagan during the "Shamrock Summit" in Quebec City in March 1985 to discuss resolving existing trade issues and to explore the possibility for increased trade. On September 6, Mulroney had invited President Reagan to negotiate "the broadest possible package of mutually beneficial reductions in tariff and non-tariff barriers between our two countries."¹⁰ Earlier in the year, Joe Clark had presented a discussion paper entitled "Competitiveness and Security: Directions for Canada's International Relations." It recognized that Canada's usual multilateral approach was no longer successful in managing Canada's most important trade relationship. Brian Mulroney made a leap of faith towards bilateralism based on the desire for access to American markets, improving Canada-U.S. relations, and the recommendations of the Macdonald Report.¹¹

⁹ Johnson et al. 71-72.

¹⁰ Garos 17.

¹¹ Ibid., 13-14.

Gulf & Western, it is worth mentioning, also owned four other Canadian publishing subsidiaries, in addition to its holding of Paramount Pictures Corporation, including Famous Players movie theatres, which owns more than 25 percent of Canadian screens. If the Prentice-Hall decision were allowed, Gulf & Western would have a \$50 million publishing industry based in Canada.¹² Gulf & Western owned: Allyn & Bacon, Globe/Modern Curriculum Press, Simon & Schuster (which is distributed by Canadian-owned General Publishing, and Pocket Books which is also distributed by a Canadian company, PaperJacks).¹³

Matt Cohen said the American lobbying proved "they regard Canada as a cultural market that is theirs by right. But there is no real minister of communications at the moment to carry on the fight within the cabinet."¹⁴ Marcel Masse, in September of that year, resigned his post in cabinet due to an RCMP investigation of allegations of irregularities in his election expenditures.¹⁵ He was replaced by Benoit Bouchard. Bouchard, discussing the Prentice-Hall situation, stated in a memo to Sinclair Stevens: "The transaction will have major implications for the industry as a whole. Another large foreign-controlled firm, McGraw-Hill Ryerson, has indicated that if [it] is approved, they

¹² Ibid., 13.

¹³ Hamish Cameron, "Culture report," 10.

¹⁴ Johnson et al. 72.

¹⁵ Ibid., 72.

will themselves move to acquire other book publishing companies in Canada."¹⁶ Although Bouchard supported Masse's policy, he did not have much influence in cabinet. It was easier for the government to dismiss his influence than Masse's. Within two months, however, Masse returned to his Communications portfolio, more determined than ever to help cultural industries.

At a CBPC meeting in March 1986, Masse defined sovereignty as: "control over the technological and economic methods of expressing who a people are and what they do here." For Masse, this policy was only a part of a larger whole. More policies would have to be established to deal with other parts of the industry which are not functioning properly. Jeremy Kinsman, then deputy minister of the DOC, said about Baie Comeau:

It's a very partial instrument. . . . It needs to be complemented by a publishing policy and by a variety of positive incentives that will work on the investment side, the actual project side, and the joint-venture side. These things will have to work to develop marketing, r&d, management expertise--all kinds of things, including, I hope, enhanced Canada Council grants for culturally meritorious works by the host of little publishers across this country that are fighting tooth and nail to stay alive.¹⁷

In another appearance at an ACP meeting, Masse said that book publishing is "important for cultural reasons, it's important for job-creation reasons, and it's important for economic reasons. . . . That's what we're doing in Ottawa. . . that's what I am trying to

¹⁶ Ibid., 72.

¹⁷ Hamish Cameron, "CBPC courts Ottawa at annual meeting," *Quill & Quire* March (1986): 57.

do: lobby. The minister's primary responsibility is to be a lobbyist."¹⁸ He went on to say that he had support from other members of the government because \$75 million had been designated for culture in the budget. Shortly afterwards, Masse was moved to Energy, Mines & Resources where he could cause less damage to the Prime Minister's free trade plans. He never got to achieve his remaining goals for publishing, and was replaced by Flora Macdonald.

On March 12, 1986, after months of negotiations with a steadfast multinational, Sinclair Stevens agreed that the sale of Prentice-Hall to Gulf & Western would be finalized since no retroactive decisions would be made. This was under the condition that Simon & Shuster continue to distribute books through Canadian-owned companies. In addition, the U.S.-based Simon & Schuster agreed to market ten Canadian-authored titles internationally each year. Prentice-Hall had not been known for its publication of original Canadian content. A government report given to the DOC in May claimed that 35 percent of Prentice-Hall's books were Canadian. However, only seven of twenty-one "Canadian" books published that year were by Canadian authors.¹⁹

The Prentice-Hall case had been seen as an opportunity to appease the public and the publishing sector by Canadianizing the industry without spending taxpayer's money

¹⁸ Hamish Cameron, "Impromptu visit by Masse at ACP meeting," *Quill & Quire* May (1986): 11.

¹⁹ Hamish Cameron, ed., "Prentice-Hall Approved, Ginn for Sale," *Quill & Quire* April (1986): 16.

on funding initiatives. But the final decision was beyond the scope of the DOC; it lay entirely in the hands of a department whose objective was to cultivate closer ties with the United States. The failure served to alert other possible investors that it was possible to circumvent the publishing policy. Nevertheless, the government should not have applied the policy retroactively. Prentice-Hall was not the proper vehicle on which to test the effectiveness of Baie Comeau. Lobbyists, public opinion, and the public perception that free trade was a threat, convinced the Conservatives to apply Baie Comeau to Prentice Hall.

Gulf & Western would, however, be forced to divest itself of two other companies that it had indirectly acquired, Ginn and GLC. GLC had been acquired in April 1986, when Gulf & Western purchased Silver Burdett. In August 1986, over a year after it had been ordered to divest controlling interest in the companies, G&W was preparing to send out a prospectus for Ginn to potential buyers. The multinational admitted that it had received inquiries about the company, but did not actively promote the sale.²⁰ It had no need to because of the clause in the Baie Comeau policy which stated that the Canadian government would have to act as a buyer if no private sale was reached within two years.

²⁰ Hamish Cameron, "G&W subs to merge in Canada," *Quill & Quire* August (1986): 18.

In March 1988, long after the two-year deadline had passed, the Canadian Development Investment Corporation (CDIC) offered \$4.6 million (US) for 51 percent of Ginn, a reasonable amount. Gulf & Western, however, refused. It had also rebuffed some interested Canadian parties over the past year when they attempted to negotiate a purchase.

iii) The Canada-U.S. Free Trade Agreement: A New Economic Constitution for North America

With the onset of free trade negotiations came the debate: would Canada's culture, its uniqueness as a nation, be eroded by increased commercial relations with the United States? For the majority of individuals acquainted with the publishing business, especially smaller publishers, the answer was yes. Others, average Canadians, were skeptical about a potential trade deal. However, on the topic of cultural identity, they stated that Canada could withstand the pressures of the trade deal without being harmed. This was in response to a poll conducted by *Macleans/Decima* which indicated that two-thirds of respondents did not think closer trade ties would jeopardize their national identity. Malcolm Lester, former president of the Association of Canadian Publishers, remarked: "I find it very disconcerting that more people don't make the link between protecting our cultural policies and our national identity. If there were no Canadian publishing, film or magazine industries, there would be no national identity."²¹

²¹ *Macleans's*, "A question of identity," 5 January (1987): 42.

Initially, cultural industries were to have been on the bargaining table. In one of the more egregious quotes from the free trade debate, U.S. trade representative Clayton Yeutter, during a conference in Washington, announced: "I'm prepared to have America's culture on the table and take the risk of having it damaged by Canadian influence under a free trade arrangement. I hope Canada's prepared to run that risk too."²² The goal of the trade talks was to create a "level playing field" where the United States had uninhibited access to the Canadian market. The Prime Minister eventually confirmed that Canadian culture was a non-negotiable item.

External Affairs Minister Joe Clark, defending Canada's decision to exclude cultural industries from the negotiations, remarked that culture

is the embodiment of a nation's nature and spirit. It is the heritage that is handed down to succeeding generations. It is how we define ourselves to ourselves, and to others. This implies domestic encouragement and international exposure. Cultural industries are the commercial enterprises that transmit cultural expression, at home and abroad.²³

Clark made these remarks to emphasize that Canadians value culture and give it a broader definition than their American counterparts.

In January 1989, a few months after a tumultuous election which centred on free trade, the Canada-U.S. Free Trade Agreement was put into effect. The Baie Comeau

²² Marcus Gee et al., "Fighting words on trade," *Maclean's* 16 February (1987): 16.

²³ Norton 9.

policy survived unscathed, it appeared, since the FTA excluded cultural industries, as defined in Article 2012:

A cultural industry is responsible for the following activities:

- a) The publication, distribution, or sale of books, magazines, periodicals, or newspapers in print or machine readable form but not including the sole activity of printing or typesetting any of the foregoing.²⁴

Publishing, therefore, seemed secure. Yet this was not really the case. The free trade agreement had important repercussions on Canadian culture. For publishing, as for all cultural industries, Articles 1607 and 2005 were the most significant, creating a loophole for multinationals anxious to penetrate the Canadian market, and undermining Article 2012:

Article 1607:

4. In the event that Canada requires the divestiture of a business enterprise located in Canada in a cultural industry pursuant to its review of an indirect acquisition of such business enterprise by an investor of the United States of America, Canada shall offer to purchase the business enterprise from the investor of the United States of America at fair open market value, as determined by an independent, impartial assessment.

Article 2005:

1. Cultural industries are exempt from the provisions of this Agreement, except as specifically provided for in Article 401 (Tariff Elimination), paragraph 4 of Article 1607 (divestiture of an indirect acquisition) and Articles 2006 and 2007 of this Chapter.

²⁴ Government of Canada, *Canada-U.S. Free Trade Agreement*, 1989.

2. Notwithstanding any other provision of this Agreement, a Party may take measures of equivalent commercial effect in response to actions that would be inconsistent with this agreement but for paragraph 1.²⁵

Article 1607 is significant because it stipulates that, in cases of forced divestiture, Ottawa must become a buyer in any incidence when an American firm cannot find a Canadian buyer. The purchase takes place at "fair open market value." This term in itself is debatable. It encourages American companies to wait for the Canadian government to make an offer, since Ottawa will undoubtedly offer an amount which is superior to that of a private firm. Jeremy Kinsman, Deputy Minister of the Department of Communications, commented on Article 1607 by saying: "It was an attempt to address one of the U.S. concerns about the policy. It didn't come from us [DOC], but it was done with Flora MacDonald's full knowledge and approval."²⁶ It was introduced into the agreement specifically to deal with the Baie Comeau policy.

The article containing the clause of "equivalent commercial effect" is also significant, since it implies that the right to retaliate is also entrenched in the deal. Should Canada appear to transgress the agreement, it will be permissible for the United States to retaliate, for instance, by preventing Canadians from purchasing American cultural industries. This clause justified Gulf & Western's threat to launch a "scorched earth policy."

²⁵ Ibid.

²⁶ Hamish Cameron, "Baie Comeau Policy Survives Free Trade," *Quill & Quire* November (1987): 12.

Undoubtedly Baie Comeau's most fierce opponent, John Dingell, an American Congressman, railed against the policy from its inception, writing, in a document he published entitled *Canada's "Indirect Acquisition" Policy: A Formidable Market Access Barrier to American Publishing Firms*, that he refused to accept

this kind of behavior by our Canadian neighbors who profess [to be] great free traders while they're skinning us alive under this kind of unfair trade policy. . . . In plain and simple language it appears to be nothing more or less than extortion disguised as Canadian cultural nationalism.²⁷

Dingell went on to argue that Canadian investors were having no trouble buying up publishing firms in the U.S. For the U.S. to be prevented from similar actions was unacceptable. For example, International Thomson owned forty U.S. companies, Maclean Hunter owned five, Quebecor seven, TorStar two, and Hollinger owned twenty-eight American newspapers.²⁸

Dingell's paper was presented on behalf of Gulf and Western to Carla Hills, an American free trade negotiator, on March 2, 1989. Dingell argued the "fair market value" clause in the FTA would be responsible for:

. . . adding a new expropriatory gloss to the "indirect acquisition" policy. Instead of a "fire sale" within two years, to Canadian private interests, the controlling American-owned equity interest can now be "condemned" or seized by the Canadian government at "fair value." As now practised by the Canadian government, it would first pay "fair value" to the Americans, then it would flip over the interest to a Canadian business group at a discount, perhaps a steep one. It would thus create a new form of involuntary partnership or "shotgun marriage" between the American

²⁷ Norton 19.

²⁸ Ibid., 39.

company and a new Canadian venturer. The Canadian would then control a valuable publishing property with a 51% share of the equity transferred through this discounted resale device, while the Americans, against their will, are relegated to a minority position, or may retreat out of Canada altogether in sheer frustration.²⁹

This clearly demonstrates the Americans' lack of understanding with respect to the preservation of cultural industries for purposes of fostering the Canadian identity and Canadian sovereignty.

The Free Trade Agreement institutionalized the asymmetrical balance of power between the U.S. and Canada. Ronald Reagan called it a "new economic constitution for North America." Scholar Stephen Clarkson, in "Constitutionalizing the Canadian-American Relationship," argues that the FTA, and other agreements like it, have set new limitations for government. The global trading environment curtails the autonomy of the nation state since trade treaties impose new policy-making mechanisms and present the only legitimate means of conducting business, over-riding the nation's own rules and regulations.³⁰

In order to be a member of a bilateral trade treaty, the Canadian government has had to submit to demands for conformity. The goal of the United States is to achieve a

²⁹ Jennifer Lewington, "Ottawa book policy target of quiet attack by Congress veteran," *Globe and Mail* 18 March (1989): A7.

³⁰ *Canada Under Free Trade*, Duncan Cameron and Mel Watkins, eds. (Toronto: James Lorimer & Company, 1993) 4.

"globally harmonized policy environment."³¹ Policy harmonization, as defined by Bruce Doern, is a "concept describing the process by which one country's basic policies, rules, and regulations affecting commerce or public policy tend to become virtually indistinguishable from those of other countries."³² The FTA was part of that goal. The U.S. began its efforts at shaping an environment of this kind in the 1970s, when its rank in the world order started to slip. Ideally, for the U.S., the policies of the nations with which it does business should be the same as its own. The Canadian state has often conformed to the United States' will, while only occasionally asserting a minimal level of autonomy.

Graham Carr states that another equally important American goal has been to change Canada's definition of "culture." To the U.S., "culture" is an excuse for Canada to gain exemptions from certain trade measures that impede commerce. Culture, business, the free flow of information, should become one. Political autonomy has been circumscribed not only for economics but for culture as well. Carr says about the FTA that:

Not only does the treaty explicitly mandate several changes to Canadian cultural policies and adjust tariffs on numerous cultural products, it is also ambiguous about the range of cultural activities it covers and fails to shield

³¹ Ibid., 6.

³² Doern, *Faith & Fear*, 246-47.

application of the exemption from retaliatory actions that are justified by other provisions of the agreement.³³

Carr notes the importance of cultural exports to the U.S. Although they are important for their economic worth, they are also important for geopolitical reasons. They are a means to ensure hegemony, and are important to American commercial and foreign policy. Free trade is an essential component of cultural expansionism. Cultural products are "essential tools for inculcating values or reinforcing tastes that advance U.S. economic and security interests."³⁴ Cultural industries are part of the economic realm in terms of production and distribution, but they have--for the present time--been excluded from international trade liberalization agreements because of the value of their products.

The U.S. has approached GATT and OECD to propose that culture and communication be incorporated under the rubric of general economic trade. One of the reasons the U.S. objects strenuously to the use of "culture" to gain exemptions is that, in the early 1980s, the American market lost approximately \$700 million in sales of books and periodicals due to copyright infringements by other nations. Carr also refers to the irony of using the terms cultural "industries" and "business enterprises" to refer to firms that produce cultural works, as well as having a retaliation clause which endows culture with a commercial flavour. The FTA has resulted in culture being more closely linked

³³ "Culture," *Canada Under Free Trade*, Duncan Cameron and Mel Watkins, eds. (Toronto: James Lorimer & Company, 1993) 204-213.

³⁴ *Ibid.*, 207.

to other sectors of the economy; it has increasingly become a commodity. The cultural exemption of Article 2005, in other words, does not do what it claims.³⁵

Furthermore, a White House document, the "Statement of Administrative Action," reminded the U.S. Administration of the importance of discouraging the use of and reliance on Article 2005 by the Canadian government.³⁶ As demonstrated by the takeovers described below, it is obvious that Canada has lost its both autonomy and its ability to enforce policies in the cultural arena.

iv) The Ginn Sale and the FTA

In 1988, Gulf & Western, which had by then become Paramount Communications, suggested that controlling interest of GLC be included in Ottawa's bid for Ginn. GLC had been acquired in April 1986, when G&W acquired it as part of its purchase of Silver Burdett. The CDIC agreed, and, in May 1989, five years after Gulf & Western's initial purchase, and scant months after the signing of the FTA, it offered \$10.3 million (Cdn.) for 51 percent of Ginn Canada and GLC Publishers. This inflated amount concluded the sale. Although GLC was about one-third the size of Ginn, and earned \$2.4 million per year as opposed to Ginn's \$9.4 million, the CDIC almost doubled the amount it had initially offered for controlling interest in Ginn.³⁷ Although it had been possible for

³⁵ Ibid., 210-212.

³⁶ Lorimer, *Canadian Journal of Communication*, 70.

³⁷ Scott Anderson, "Big Deal," *Quill & Quire* April (1994): 4.

Paramount to be fined \$10,000 a day for being so intransigent (a provision of the Investment Canada Act) this measure was never undertaken. In their arrangement with Ginn, the government agreed to let Paramount keep five of the eight seats on Ginn's board. Gulf & Western also retained a veto over "significant operating decisions."³⁸ The CDIC had to buy the companies because of Article 1607 in the Free Trade Agreement.

Ironically, Ginn and GLC were often considered a success story because of the government's "accomplishment" in repatriating the textbook companies. The government stood to lose money when it resold the companies due to a scarcity in Canadian buyers. In spite of this, the earlier Prentice-Hall decision set the standard for Baie Comeau policy: with enough lobbying and government pressure, it could be circumvented.

v) Subsequent Attempts at Canadianization: 1985 to 1992

While the Ginn/Paramount deal occupied most of the attention from the press, there were many other takeovers during those years which confirmed that Baie Comeau was a flawed policy. Not having learned its lesson from the Prentice-Hall incident in 1985, Investment Canada contested the takeover of Copp Clark Pitman, purchased by Longman-Pearson of the U.K. Longman-Pearson, however, had announced its intention to acquire Copp Clark in June 1985, one month before Baie Comeau was put into effect. Copp Clark had

³⁸ Valerie Thompson, "G&W and Ottawa Square Off over Ginn," *Quill & Quire* April (1988): 10.

earnings of \$9.8 million, and 70 percent of its titles were Canadian. Shortly thereafter, Investment Canada reversed its decision on the grounds that no retroactive decisions would be made, although Longman-Pearson had only announced its intention to purchase the company. The takeover was reviewed under FIRA regulations, and it was allowed. Under the agreement, the firm's management and editorial decisions were to be made by Canadians.³⁹

For subsequent acquisitions, the Canadian government proceeded to acquiesce to American demands. The New American Library of Canada (NAL), for example, was sold to the Penguin Publishing Company in October 1986. NAL did not publish its own books; it simply distributed the publications of its American parent company. The Association of Canadian Publishers argued that this was precisely the type of firm that should be Canadianized. Its only role was to import foreign books into Canada. The government said this type of company presented little threat to Canadian publishing, when precisely the opposite was true. Hamish Cameron, executive director of the ACP, said about the change of ownership: "[NAL] have an extensive sales force and they market books. . . . They have the fundamentals of a publishing operation. All they lack is a publisher."⁴⁰ Marcel Masse, who by then was Minister of Energy, Mines and Resources, wrote a letter to Robert de Cotret, Minister of Regional and Economic Expansion, who

³⁹ Hamish Cameron, "Copp Clark Pitman Acquisition Approved," *Quill & Quire* July (1986): 36.

⁴⁰ Elise Levine, "Feds Allow Penguin to Keep NAL," *Quill & Quire* May (1988): 14.

made the NAL decision. In the letter, Masse stated that NAL "whether characterized as a book publishing or distribution company, clearly falls under the guidelines established by our government. . . . The decision not to apply the policy will cause significant problems."⁴¹

Many Canadian-owned companies expressed interest in NAL; it would have been fairly easy for Penguin to find a majority buyer. NAL could have been vertically integrated with existing Canadian operations. Penguin went so far as to threaten to shut down the distributor if it was forced to divest. This was somewhat uncharacteristic of Penguin, which had a good reputation when it came to publishing Canadian titles. It was second only to Doubleday Canada in doing so. Since NAL did not publish original material, it did not fall under the Baie Comeau policy's guidelines although the policy clearly stated that it would review purchases of companies "in the field of book publishing or distribution." Nevertheless, in March 1988, the takeover was allowed.⁴²

Anna Porter was one of the first publishers to benefit from a trouble free transaction thanks to Baie Comeau. A West German firm, Bertelsmann AG (worth \$3.8 billion U.S.), purchased all of Doubleday & Co. in September 1986, indirectly acquiring Doubleday Canada. Bertelsmann bought Doubleday & Co.'s printing, publishing, and

⁴¹ Diane Shepherd, "ACP wary of free trade agreement," *Quill & Quire* August (1988): 8.

⁴² MacSkimming, "Sunset over Baie Comeau," 59.

book-club operations for \$475 million U.S.⁴³ Bertelsmann was founded primarily on book clubs, magazines and record clubs in Europe. The multinational, however, demonstrated none of the reluctance that the American companies had; it complied willingly with the policy within a matter of weeks, and was the first company to do so.

By mid-December, Porter gained 51 percent controlling interest in Doubleday Canada and had been named chairman of the company. She promised to "more than double" the number of Canadian titles, and added: "The book clubs are very well run, and they do extremely well in Canada, but they actually select very few Canadian books. . . . One of the things that will change is there will be a lot more Canadian titles selected." Most of Doubleday's sales were through book clubs, which accounted for \$20 to \$25 million in sales each year. In 1986, Doubleday had 50 Canadian titles in its book clubs but none of them were included in the main selection list.⁴⁴

After the sale, the federal government refrained from emphasizing this instance of the policy's success. Communications Minister Flora MacDonald did not comment on the sale either, since it was under attack by several sources, including the federal government.

⁴³ Hamish Cameron, "Bertelsmann to purchase all of Doubleday," *Quill & Quire* November (1986): 11.

⁴⁴ Hamish Cameron, "Bertelsmann Deals Doubleday to Porter," *Quill & Quire* February (1987): 8.

Harcourt, Brace Jovanovich (HBJ), with \$450 million (U.S.) in sales every year, caused particular problems of its own in December 1986 when it purchased Holt, Rinehart and Winston (HR&W), W.B. Saunders Company Canada, and Les Editions HRW, all educational or medical textbook companies. HBJ acquired the companies when CBS Inc. divested itself of its publishing assets. Their total sales were worth \$34 million, and it was the largest transaction to occur under Baie Comeau. Although controlling interest of HR&W was sold to Canadian investors led by HR&W president Anthony Craven, they had no control over voting rights, therefore no input in how many Canadian works would be published each year.

The HBJ case was later reopened by Investment Canada when it was discovered that Canadians had no real management control. Although they owned 51 percent of the company, no transfer of control had occurred, although new shares had been issued. Ironically, the parent company, HBJ, had fought off a hostile takeover bid from U.K. publishing magnate Robert Maxwell in May 1987. Maxwell had bid \$2 billion to take over the company, but did not succeed. HBJ chairman William Jovanovich fought the take-over attempt because he objected to foreign ownership in American educational publishing.⁴⁵

⁴⁵ Hamish Cameron, "HBJ Sells Holt, Rinehart and Winston to Canadians," *Quill & Quire* September (1987): 68.

In 1988, Addison-Wesley Publishers Limited, the Canadian branch of a U.K. company, also came under the policy. The 51 percent divestiture was accomplished without incident; the government had a very small role to play. The buyer--Pearson PLC--complied with the policy willingly. Canadian investors headed by the former president of Addison-Wesley, George Bryson, bid on the majority ownership.

Early 1989, as well as signalling the debut of a new era in Canada-U.S. relations, also brought about the return of Marcel Masse as Minister of Communications. Having spent two years at Energy, Mines and Resources, Masse had continued to maintain a staunch nationalistic attitude with respect to the publishing industry, as was evident by his letter to Robert de Cotret. Since Articles 2005 and 1607 seemingly protected Baie Comeau, it was an appropriate time to call back the minister who initially implemented the policy. Yet Prime Minister Mulroney did this only because it was certain that Masse, despite any efforts he might make to the contrary, was constrained by the new regulatory environment. Despite his efforts to continue to act in the national interest, Masse had his hands tied by the FTA.

Soon after he returned to his Communications portfolio, Masse had a meeting with the ACP and the CBPC in Toronto to discuss the state of the publishing industry. The idea of getting the policy moved from Investment Canada to the DOC was discussed. But the change would have required new legislation, which would have been very time-consuming, and would never have successfully taken place since the government no

longer supported the policy.⁴⁶ There was little Masse could do since he no longer had any Cabinet support.

After a six-month battle, in 1988, Robert Maxwell acquired Macmillan Inc. (USA), indirectly acquiring Collier Macmillan (Canada). Collier Macmillan earned \$16 million a year. Faced with possible divestiture, and aware that the policy would be easy to circumvent if he made some concessions, Maxwell made an unusual move by offering to relocate the company from Ontario to Québec, and praising Québec premier Bourassa's language laws, hoping this would be enough to soften the Canadian government's will. His efforts kept Investment Canada's decision in limbo for four years, well past the two-year deadline. When Maxwell died in 1991, he was still awaiting a ruling from Investment Canada. Since Maxwell's assets were put up for sale, Investment Canada delayed its review until a new owner could be named, in this case, until 1993.⁴⁷

Rupert Murdoch, the Australian media magnate, also made inroads into the Canadian market in these years. Murdoch's News International acquired William Collins PLC in January 1989. Knowing that he would be asked to divest controlling interest to Canadian investors, Murdoch decided to make use of a loophole in Baie Comeau, then ask for the same deal that Penguin had received when it purchased NAL, the distributor. Murdoch split the company into two separate companies, one which retained its status as

⁴⁶ Shepherd, ed., "Masse Vows Support for Baie Comeau," 4.

⁴⁷ Lorimer, *Canadian Journal of Communication*, 71.

a publisher, and the other which became a distributor. The publisher was sold to the Canadian Colbert family, becoming HarperCollins Publishers Ltd., and it was to publish Canadian titles. The distribution business, far more profitable than the publishing company, retained its foreign-owned status and became known as HarperCollins Canada Ltd. As a result, the company ended up with distribution rights that had previously been held by Canadian-owned Fitzhenry & Whiteside. Murdoch then asked for the same deal as Penguin.⁴⁸ The decision dragged on until 1993, after the demise of the Baie Comeau policy. The decision granted by the government was an indication of things to come for the publishing industry.

In its seven-year existence, the Baie Comeau policy was successful in patriating only five (Ginn & Co., GLC, John Coutts Library Services, Doubleday, HR&W and Addison-Wesley) out of over a dozen companies, a small number for a policy designed to increase Canadian ownership. Even then, success was difficult to gauge in actual numbers, because it depended on whether or not Canadians actually had control over the decision-making process. HR&W, for example, which had been purchased by Harcourt, Brace Jovanovich, gave little decision-making control to its Canadian partners. And although the Ginn story appeared to be a success, it was to prove to be the Baie Comeau policy's most resounding failure by 1994.

⁴⁸ Carol Martin, "Writing Off Canadian Publishing," *Canadian Forum* March (1992): 20.

vi) The Demise of Baie Comeau and the Implementation of a "Net Benefit" Policy: The Ginn Saga Continues

At the end of 1991, there were rumours that Baie Comeau would be put to rest. Michael Wilson, Minister of Finance, had said about Baie Comeau: "This requirement (divestiture) runs counter to the government's open-for-business philosophy, has the potential to be very costly in the future, and could pose a continuing irritant to our relations with the United States."⁴⁹ The DOC was reviewing proposals which included: amending the Copyright Act so that Canadians had exclusive territorial rights; "an investment tax credit program"; restructuring Baie Comeau and creating added incentives for divestment such as cash or tax incentives; marketing programs for Canadian-authored titles.⁵⁰

The replacement of Marcel Masse by Perrin Beatty prompted new initiatives in book publishing in 1992, including the demise of Baie Comeau and a new bill that would facilitate foreign takeovers. There were three parts to Beatty's new policy: 1) revising restrictions on foreign ownership; 2) raising funding from \$38 million to \$140 million over a five year period; 3) changing the Copyright Act so that "buying around" is no longer such a popular alternative for libraries and bookstores.

⁴⁹ Maude Barlow and Bruce Campbell, "The Attack on Culture," *Take Back the Nation* (Toronto: Key Porter Books, 1991) 94.

⁵⁰ Lori McDougall, "Feds' publishing proposals take aim at buying around," *Quill & Quire* January (1991): 6.

Many of the takeovers that took place under the Baie Comeau policy will now be resolved under the new "net benefit" policy, which states that:

- i) Foreign investment in new business enterprises will be limited to Canadian-controlled joint ventures.
- ii) Acquisition of an existing Canadian-controlled business by a non-Canadian will not be permitted. Under extraordinary circumstances, the Government may consider an exception to this guideline. In such a situation, the Government must have credible evidence from the vendor that
 - a) the business is in clear financial distress
 - b) Canadians have had full and fair opportunity to purchase.

If a non-Canadian is the successful bidder, its proposed investment will be subject to the net benefit test set out in (iv) below.

- iii) If a non-Canadian wishes to sell an existing Canadian business independent of any other transaction, the vendor will be expected to ensure that potential Canadian investors have full and fair opportunity to purchase; if a non-Canadian is the successful bidder, its proposed investment will be subject to review under the net benefit test as set out in (iv) below, and credible evidence from the vendor that Canadians had full and fair opportunity to purchase will be required.
- iv) Indirect acquisitions will be reviewed to determine whether they are likely to be of net benefit to Canada and to the Canadian-controlled sector and will be assessed on their merits by reference to the factors set out in Section 20 of the Act. More specifically, Investment Canada will typically seek from the foreign investor one or more commitments such as:
 - a commitment to the development of Canadian authors, such as undertaking joint ventures with Canadian-controlled publishers which would introduce the partner's Canadian authors to new markets both domestically and abroad;
 - a commitment to support the infrastructure of the book distribution system, e.g.:

- a) through distributing imported titles via a Canadian-controlled publisher/agent;
 - b) through maintaining a fully integrated warehousing and order fulfilment operation in Canada for both frontlist and backlist titles;
 - c) through active participation in industry co-operative ordering/distribution/marketing endeavours;
- accessibility of the company's Canadian marketing and distribution infrastructure (or international network) to interested and compatible Canadian-controlled publishers on a contractual basis;
 - a commitment to education and research through financial and professional assistance to institutions offering programs in publishing studies.⁵¹

Michael Wilson added that these: "guidelines will be strictly enforced and undertakings made will be closely monitored and enforced--the Act provides sanctions against non-compliance, and we will use them when necessary."⁵² Bill C-89 was included as an amendment to the Investment Canada Act, making it stronger than its predecessor, which was simply an administrative declaration. In many respects, the "net benefit" policy is similar to Baie Comeau, except that it has fewer restrictions.

It allows the direct purchase of Canadian-controlled firms by non-Canadian interests when firms are in financial difficulty or are unable to find a Canadian buyer; Baie Comeau did not allow direct acquisitions of any kind. Indirect acquisitions, on the

⁵¹ Communications Canada. News release. "Beatty announces \$102 million in new funding for Canadian publishing." January 28, 1992: 2.

⁵² Ibid., 2.

other hand, are allowed as long as the non-Canadian buyer adheres to certain "net benefit" guidelines, none of which will be hard to meet, and there is no guarantee of follow-up measures to ensure firms comply with these measures. In other words, the application of this policy will be lax. Since takeovers were often permitted under Baie Comeau, it was anticipated that they would occur even more frequently under this policy.

By offering positive incentives to Canadianize instead of negative ones, the government assumed the policy would be easier to enforce, and that foreign firms would be more willing to comply with the regulations. All that remained to be gauged was the reaction of the United States. In fact, an article in the *Globe and Mail* reported that Ottawa had discussed the changes in the policy with American publishers.⁵³ Ottawa did not want to risk the embarrassments incurred by Baie Comeau, and wanted to ensure that its American neighbour was receptive to the changes.

There have been a variety of reactions to the announcement that Baie Comeau has been shelved. Avie Bennett, chairman of McClelland & Stewart, says that Ottawa "does not care if all mainstream Canadian publishing is restricted to branch plants by the end of the century. . . . Canada is wide open for business to any multinational publisher with a good lawyer."⁵⁴ The ACP is also displeased and would have preferred something was

⁵³ Ted Mumford, "Proof's in Pudding," *Quill & Quire* March (1992): 6.

⁵⁴ Carol Martin, "Another Loss for Canadian Publishing: Perrin Beatty's legacy to Canadian culture," *Canadian Forum* April (1993): 33-34.

closer to Marcel Masse's Baie Comeau policy. Ownership is an important issue which is unresolved by the "net benefit" policy. In a speech announcing the new "net benefit" rules, Beatty said: "the technical definition of Canadian control can be met without real control resting with Canadians."⁵⁵

Beatty also announced more funding, \$140 million over five years to strengthen book publishing and distribution. This included \$102 million in new money in industrial development assistance to be supplemented in 1993-94 by a \$25 million-a-year postal subsidy replacement program. Beatty enthusiastically remarked:

This financial package represents a 260 percent increase over the existing funding of \$7.6 million per year now provided to the industry. The new funds will be used to strengthen the industry, support the marketing of Canadian-published titles here and abroad, and promote greater readership of Canadian books.⁵⁶

However, Beatty's figures are much diminished when the nature of the funding is examined.

The publishing industry has relied on postal subsidies for decades to help publishers with the cost of shipping their books. The old book-rate subsidy was \$60 million a year. That was changed to \$25 million in 1990 when branch plants and foreign book clubs were excluded from the program. Beatty announced a \$25 million

⁵⁵ Ted Mumford, "Proof's in Pudding," 1, 6.

⁵⁶ Communications Canada, "Beatty announces \$102 million in new funding for Canadian publishing," 2.

replacement subsidy program, which consists of direct grants to publishers. The grant will slowly be eliminated over the next few years. Moreover, Paul Audley and Rick Salutin argue that the government now earns approximately \$150 million a year thanks to the G.S.T. In this light, the announcement of \$20 million a year in "new" direct subsidies does not appear as stunning. In reality, the government has been cutting back on its funding in past years and hopes to continue to do so.⁵⁷

Since the mid-1980s, federal book publishing policy has been based on two premises: providing financial support through programs administered by the DOC and the Canada Council, and pursuing a foreign investment policy to give control of the industry to Canadians. Financial programs are based on short-term solutions. "Net benefit", as Beatty explained, was to be a long-term solution to distribution problems, to the lack of Canadian authors being published. What it really meant, however, was that the government had given up on the idea of giving Canadians control of their own publishing industry.

The "net benefit" policy began its existence by being applied retroactively. Unlike Baie Comeau, it aroused no anger on behalf of the United States. Its first decision was made with respect to the 1989 purchase of HarperCollins, and it infuriated many publishers. On November 27, 1992, International Trade Minister Michael Wilson

⁵⁷ Rick Salutin, "\$102 million for publishers? Whooppee," *Globe and Mail* 14 February (1992): C1.

approved a corporate restructuring program that permitted Rupert Murdoch to own HarperCollins' \$20 million book distribution business.

HarperCollins made commitments in the following areas: developing more Canadian authors, establishing a replenishment depot, instituting competitive pricing practices, and it cooperated with the Oberon Press on a mass market line of books. However, the claim to have published 111 new Canadian titles in 1991-92 was disputed by publisher Avie Bennett, who searched the National Library's list to find these 111 titles and found only 83. Also, the replenishment depot was only 400 square feet and was serviced by one employee. Stoddart, Besse, and Bennett dispute HarperCollins' claims that it is being a good corporate citizen; instead, it is trying to get away with the minimum.

Early in February 1993, McClelland & Stewart, Stoddart Publishing and Canada Publishing Corp. (composed of Gage Educational Publishing and Macmillan Canada) held a press conference denouncing the Investment Canada decision about HarperCollins. Ronald Besse said that he had made offers on numerous occasions to purchase HarperCollins, but never received a response. The new policy, they argued, is sending the message that Canada is open for business again, and that the book industry's most lucrative areas--which publishers like Avie Bennett and Ronald Besse depend on to subsidize their Canadian publishing programs--will only rarely be contested. What angers Ronald Besse about this decision is that HarperCollins has now taken over distribution of

a line of college textbooks on which his Canadian college textbook program depended. His publishing company has now been forced out of the college publishing business.⁵⁸

Ronald Besse has considered selling part of his Canada Publishing Group to a foreign firm in order to ensure prosperity in the future. He predicts a future where agency lines and popular authors will go to well-capitalized foreign-owned firms. After all, in order to purchase controlling interest in a Canadian firm, all foreign firms have to do is promise to publish more Canadian authors, etc. Besse warns: "It's great for our authors, but eventually you'll find your entire literature is going to be controlled by foreigners."⁵⁹ Besse does not want to sell his company, but he views a joint venture as a wise investment. However, he will probably not have the opportunity to sell to a foreign multinational because the "net benefit" policy prevents him from doing so unless his company is "in financial distress."

In the meantime, the government still owned 51 percent of Ginn Company. After four years, it had still not sold its share to Canadian buyers. Benita Warmbold, vice-president of the CDIC, said the corporation is "trying to resolve issues that resulted from the acquisition. . . . in the near future, we'll have them resolved and will be able to

⁵⁸ Val Ross, "US purchase of 2 publishing firms called 'beginning of end.'" *Globe and Mail* 19 February (1994): C4.

⁵⁹ Lori McDougall, "Own Up: Ottawa's new stance on ownership inspires Besse to weigh sale to foreign company," *Quill & Quire* July (1993): 6.

commence the sales process." Part of the delay was due to the fact that Paramount was arguing over the issue of voting control.⁶⁰

vii) Epitaph for Ginn: The Liberal Government and Paramount

After nine years of neo-conservative Tory government a Liberal administration was elected in the fall of 1993. Jean Chrétien's party represented a new hope for the publishing industry. The new Minister for the Heritage Ministry (formerly the Department of Communications) was Michel Dupuy. At an ACP meeting in June 1994, Dupuy discussed his most important priorities for publishing: ownership, copyright, and tax reform. Other issues to be looked into were the status of publishing subsidies under NAFTA as well as the privatization of the Book Publishing Industry Development Program. Overall, publishers were disappointed by his lack of a specific plan of action.

The first decision to be made by the government in the publishing industry was with respect to Maxwell Macmillan in November 1993. Under the Tory government's "net benefit" policy, the Liberals acquiesced to a sale to Paramount. Ironically, this was the intransigent multinational that had caused the Conservatives so many problems from 1984 to 1989. Maxwell Macmillan was never offered to Canadian buyers. Ronald Besse, who had attempted on many occasions to purchase companies under the Baie Comeau and

⁶⁰ Ibid., 6.

then under the "net benefit" policy, was disregarded as a potential buyer although he made his interest known to Investment Canada.

The Ginn saga continued under the "net benefit" policy. In 1994, ten years after its initial purchase by Gulf & Western, it was announced that Ginn and GLC (united under one corporate entity by the name of Ginn Canada) would be sold back to Paramount (now Viacom Inc.) for a total of \$10.3 million dollars, which is what the federal government paid for the companies. This was the result of a secret oral buy-back deal made between Paramount and the Conservative government.

Vice-president of Paramount Don Oresman wrote to Ward Pitfield of the CDIC in 1991, saying that the oral buy-back deal would be put into effect if Baie Comeau was changed. The *Toronto Star* reported it uncovered secret documents which proved that the Liberal government was not legally bound to sell Ginn back. The document said:

A purchase agreement was finally arrived at in early 1989 for Ginn together with GLC. Underpinning it was an understanding worked out at a meeting between Gulf & Western and senior officials of DOC, Privatization and Investment Canada. This unwritten arrangement was that in the event of a policy change during CDIC's possession of an interest in Ginn, G&W could ask to repurchase and the Minister responsible for Investment Canada would recommend the proposal to Cabinet. CDIC subsequently acquired a 51% interest in the business for approximately \$10 million.

Given adoption of the policy ending automatic forced divestiture, Paramount can be expected to seek repurchase shares, pointing to the government's moral commitment in this regard.⁶¹

All the deal said was that the minister responsible for Ginn would recommend the sale to Cabinet if Baie Comeau was changed, if Ginn still belonged to the CDIC. There was never any firm commitment that the sale would take place if Baie Comeau was amended or replaced. Furthermore, there was no reason for the Liberal government to be bound by the deal of a previous administration. The Heritage Ministry did not research the deal properly before approving it. Michel Dupuy didn't ask for a copy of the legal opinion until he had agreed to the resale.⁶² Dupuy claimed that: "We have inherited contractual obligations which we have to fulfil." Therefore, the deal was allowed to take place, and Ginn's resale to Paramount was approved on February 24, 1994.

The Liberal government's obligation, however, was to sell to Canadian buyers. The resale to Paramount occurred despite the fact that five publishers, Avie Bennett, Anna Porter, Ronald Besse, Linda Weigl of Weigl Educational Publishers, and Randy Morris of Reidmore Books, had for several years expressed interest in buying Ginn Canada. The CDIC never responded to their letters; it never issued a prospectus for the company. Ronald Besse sent his lawyer to Investment Canada in November 1993 and was told technical difficulties were preventing the CDIC from putting the company up for sale

⁶¹ Rosemary Speirs, "Secret cabinet papers challenge Ginn sale," *Toronto Star* 20 May (1994): A1, A8.

⁶² Rosemary Speirs, "Liberals red-faced over book firm sale: sources say deal not as binding as was thought," *Toronto Star* 21 March (1994): A1, A10.

immediately. Ward Pitfield of the CDIC said he: "never saw any offers. No one was rattling the doors to get in."⁶³ Furthermore, former Conservative Cabinet ministers denied knowledge of the deal. Robert de Cotret, John McDermid, Marcel Masse, and Harvie André all insisted they had no recollection of an agreement with Paramount.⁶⁴ Yet the Liberals insisted they were still bound by an agreement that no one will admit to. To transgress the agreement, said Adam Ostry, a director of Cultural Industries at Heritage Canada, would have left them open to a breach of contract lawsuit. Moreover, if the CDIC had sold Ginn to Canadians it would have lost money because it would have had to sell the company at a loss of \$6 or 7 million.⁶⁵

The Ginn deal was the Liberal government's first major decision on a cultural issue. Adam Ostry, instrumental in negotiating the resale, went on to say that the deal: "is one of a kind. . . . The government hasn't flung open the door."⁶⁶ Ostry seemed to have forgotten that Maxwell Macmillan had also been approved. The new Liberal government, therefore, has shown itself no better than its Conservative predecessor. The ACP protested the terms of Ginn's sale, demanding a government inquiry. Why did the government adhere to a secret deal made by the Conservatives, the Association demanded

⁶³ Diane Turbide, "Sell-off or sell-out? Secret dealings stir protests about a sale to Paramount," *Maclean's* March 7 (1994): 63.

⁶⁴ Rosemary Speirs, "Second Tory denies secret deal to sell book firm," *Toronto Star* 26 March (1994): A8.

⁶⁵ Anderson, "Big Deal," 4-5.

⁶⁶ Ross, "US purchase of 2 publishing firms called 'beginning of end,'" C4.

to know, when it unceremoniously reversed other agreements like the privatization of Pearson airport and the billions to be spent on helicopters for the military? The government, however, deemed that no inquiry was necessary.

Under the "net benefit" policy the deal with Paramount (now Viacom Inc.) includes: Canadian-controlled publishers or agents will be the primary distributors for the companies' \$4 million of business in distributing foreign books, the development of new Canadian-authored works, and a commitment to ensure that any personnel affected by the integration of Maxwell & Prentice-Hall Canada will be considered for job opportunities within the organization.⁶⁷ This is all without ownership being given to Canadians. Adam Ostry considered that Canadians should take advantage of these benefits because: "The one area where Canadian publishers can realize true financial benefit is in distributing foreign books in Canada."⁶⁸

Viacom immediately attempted to get out of its promise to give \$4 million of its distribution business to Canadians. It took existing distribution rights to cook books and travel books from Distican, a Canadian company, and gave them to Prentice-Hall Canada, one of its American subsidiaries. Investment Canada was aware of these changes, yet did not take any action. After a complaint to Michel Dupuy from the ACP, which represented

⁶⁷ Val Ross, "US purchase of 2 publishing firms called 'beginning of end.'" *Globe and Mail* 19 February (1994): C4.

⁶⁸ Turbide 63.

140 publishers across Canada, Heritage Canada finally took action and stopped the changes from taking place.⁶⁹

viii) The End of Twenty-Five Years of Government Commitment to Publishing

With the demise of Baie Comeau and the implementation of the "net benefit" policy, twenty-five years of government commitment to publishing--since 1969--has collapsed. It is obvious that the new Liberal administration is following in the footsteps of the previous Conservative government. The Canadian publishing industry is continuing its slow decline as fewer and fewer profitable firms remain in Canadian hands.

In 1991-92, total book sales in Canada by publishers and exclusive agents approached the \$1.5 billion mark, a slight decrease from the year before. One hundred and seven companies published educational materials; 88 were Canadian-controlled and 19 were foreign-owned. But foreign-owned ones accounted for 75 percent of the textbook market. Total domestic sales of English-language textbooks by Canadian-controlled publishers in 1990-91 was 82 million. The foreign-owned companies controlled 238 million.⁷⁰ Despite government efforts, the problems in publishing are still present. The

⁶⁹ Rosemary Speirs, "Giant US firm denies breaking book deal," *Toronto Star* 28 April (1994): A15.

⁷⁰ Roy MacSkimming, "Ginn & tonic: a symposium on the sale of Ginn Publishing," *Canadian Forum* May (1994): 16.

situation has not changed very much since 1985, when the government decided to implement Baie Comeau.

There have been other significant changes within the industry. Lester & Orpen Dennys, a well-known literary publisher, was shut down on January 9, 1991 due to its \$2 million debt. Random House, in August of 1991, decided to move much of its distribution facilities to Maryland, causing many Canadians to lose their jobs. Random did this to increase its speed in filling orders and to centralize its operations. A similar decision was made by the Book-of-the-Month Club, which shifted most of its Canadian distribution to a warehouse in Pennsylvania.⁷¹

While larger Canadian-owned houses face competition from international conglomerates, smaller ones, the literary presses such as Oberon, Talon Books, Turnstone, and Black Moss, and regional presses like Breakwater, Ragweed, Western Producer Prairie Books, and NeWest, survive thanks to their specialization and with the aid of federal and provincial grants. Medium-sized publishers, those that earn between two and five million a year, are becoming an increasingly rare breed.⁷² The responsibility of publishing Canadian-authored works now rests with smaller companies that are not attractive to multinationals.

⁷¹ John Loring, "Random C. der, *Quill & Quire* September (1991): 1, 10.

⁷² Roy MacSkimming, "Rewriting the Book: New markets, new players transform trade publishing," *Quill & Quire* December (1989): 12.

Even giant Canadian companies seldom want to get involved in Canadian publishing because it is such a high-risk venture. Maclean Hunter, as did Thomson, sold their publishing interests because they were not profitable enough. If these firms do get involved, it is in the money-making businesses: Southam owns the Coles bookstore chain; Torstar owns Harlequin. In other words, the huge Canadian multinationals behave much like the U.S. ones. They publish what is profitable. And these were the types of firms that were most affected by the Baie Comeau policy; they were the only ones with the resources to purchase majority control of a divesting American-owned firm.

The Canadian book publishing industry, without appropriate government support, will continue to weaken. The FTA, and now NAFTA, will continue to have their impact, as will the influx of foreign firms in Canada. The Ginn deal raised questions about the cultural industries' exemption in NAFTA. Soon after Jean Chrétien's election, in November, Washington tested the Liberals' resolve by trying to reopen the cultural exemption clause because of a "legalistic phrase slipped into the U.S. NAFTA implementing legislation." Chrétien's spokesman, Peter Donolo, confirmed that the U.S. wanted to reopen the cultural exemption.⁷³

The "net benefit" policy is a dramatic departure from the focus on ownership. Canadian publishers cannot try to make their long-term future secure. They cannot sell to foreigners. At this moment, as Ronald Besse said, a joint venture with a foreign-owned

⁷³ McDonald 18.

company will be the only way to ensure that a Canadian firm has enough capital to compete with all the foreign companies invading the market. As of yet, however, the government will not allow Canadian firms to sell to non-Canadians. A few years down the line, however, they may be allowed to sell because they are no longer financially viable.

ix) Conclusion

The Baie Comeau policy was undermined from the beginning, both by the federal government, which favoured lowering trade barriers, and by the United States government and its multinationals. The policy unravelled completely after the signing of the Canada-U.S. Free Trade Agreement. The agreement indicated the abandonment of a nationalist vision for Canadian publishing and Canadian cultural sovereignty. It signified not only the loss of economic sovereignty, but the loss of political independence. Glen Williams has argued that two factors led to the re-entry of free trade talks into the Canadian political environment: the search for a means to address Canada's economic difficulties, and the rise of protectionism within the American political system that threatened to disrupt the amount of exports Canada sent to the U.S. However, this gave the U.S. leverage to influence other sectors of the economy.

By giving more latitude to the market-place, the FTA placed many matters beyond the government's control and into the hands of corporations. Despite arguments to the contrary, some degree of policy harmonization was inevitable. The agreement gave the

United States a role in the Canadian policy-making process; federal and provincial policies had to conform to it. The FTA entrenched Canada's continentalist policy positions and prevented it from issuing further challenges to the continentalist status quo. The agreement adjusted the continental relationship so existing commercial associations could be preserved.

Certainly, Articles 2005 and 1607 compromised Canada's ability to deal adequately with the Baie Comeau policy. Article 1607 was included at the insistence of the United States, not Canada. The Conservative government simply did not have the political will to force divestiture from international takeovers, especially not from the United States, with whom it was attempting to cultivate a lasting relationship based on lowering barriers to trade.

There is a dichotomy between culture and economy, one which the government is no longer willing to accept. The dichotomy has long been challenged by the U.S., which has criticized Canada's costly exemptions in the name of "culture." Yet the definition of culture is changing. It is becoming more closely attuned to communications and information. Culture, from the U.S. perspective, has to be brought in line with other forms of economic activity. This makes trade liberalization far easier to attain. For Canada, the implications are serious. If the current trend continues, it will become impossible to stop international takeovers of Canadian cultural industries, and Canada's share of the publishing market--which is already very small--will diminish even further.

Baie Comeau had very limited success, repatriating only a handful of companies. Out of this handful, of course, some still remained under American decision-making control. Baie Comeau's replacement, Perrin Beatty's 1992 "net benefit" policy, fared no better, giving foreign multinationals even greater license to take possession of Canada's remaining profitable publishing firms. It was, as a matter of fact, formulated in consultation with American publishers. The most indicative sign of the government's future intentions toward the publishing industry is the CDIC's sale of Ginn to Paramount. The firm was never offered to Canadian buyers. The government has abandoned its resolve to protect book publishing. Restrained by the Free Trade Agreement, the Liberal administration is following in the Conservative government's path.

Conclusion:

Economic integration into the American empire has led to political integration, compromising Canada's ability to enforce and implement cultural policy. From the late 1960s to the early 1990s, the problems faced by the publishing industry--despite government support of all kinds--have been similar. Publishers are under-capitalized and rely heavily on government grants. They are marginalized in the less profitable sectors of the industry (i.e. trade publishing) while foreign firms have cornered the more lucrative educational market. Many publishers compensate for their losses by distributing foreign-authored books, but bookstores often buy directly from sources outside Canada, bypassing the Canadian company. The common thread linking all these problems is foreign ownership--mostly American ownership--of the Canadian publishing industry.

The precarious financial state of the Canadian book publishing industry first gained widespread attention in 1970 when McGraw-Hill Ryerson and W.J. Gage, two formerly successful Canadian-owned firms, were bought by American interests. The same fate would have befallen McClelland & Stewart if the Ontario government had not stepped in to save the publishing house. These events spawned the formation of the Association of Canadian Publishers, which has been devoted to the Canadianization of the publishing industry since its inception in 1970. The Ontario Royal Commission on Canadian Publishing was established the same year, to analyze why these takeovers had occurred, why publishers in general had difficulty staying in business, and what means could be undertaken to strengthen the industry. A variety of problems needed to be resolved, yet

at the centre of these problems was foreign ownership of the Canadian industry. The Canadian market was overwhelmed by branch plants. The only function of branch plants is to sell the works of the parent company in another market. They have several advantages over Canadian companies: more capital, the backlists of the parent company, and economies of scale.

The next logical step for the government was to implement a policy which curtailed foreign investment in Canada. For various reasons, however, this was not an easy task. Canada's location in the international political economy complicated the Department of Communications' desire to Canadianize the industry. Continentalism influenced Canada's ability to assert its economic sovereignty in the 1940s, after Canada turned away from Britain during the war. After being a colony of the British empire, Canada slowly moved into the empire of the United States, where decades of continental integration curtailed the government's ability to implement and enforce nationalist policies. Even prior to the dissociation from Britain, Canada had attempted--on many occasions--to develop closer economic ties to the United States. Each of these attempts was met without success since the U.S. saw no advantage to formulating trade deals with Canada.

Continentalism began with Canada's participation, since it desired access to the American market and to American goods. The 1940s and 1950s were a time of accommodation, when Canada's goals were similar to those of the U.S. The 1970s,

however, presented a challenge for Canada as the United States, concerned with its weakening status in the world order, decided to terminate the "special relationship" that existed between the two nations. At this time the Canadian government realized the extent to which its economy was intertwined with the American economy. When American and Canadian interests diverged, the integration placed Canada in a precarious situation. As a result, Canada attempted to assert its autonomy by implementing Mitchell Sharp's "Third Option." The Canadian government searched for other markets for its products, and implemented policies like FIRA and the NEP. By the late seventies, however, the Canadian economy's unbalanced integration had produced a deficit in manufactured goods and required constant borrowing of foreign capital.

When Ronald Reagan was elected in 1981 the idea of free trade was once again brought to the surface of Canadian-American politics. The U.S. economy became more protectionist, a recession ensued, and Canada became a victim of retaliation to an even greater degree. The U.S. would not allow Canada to deviate from its traditional role as a provider of natural resources. Neither would it be allowed to become protectionist and close its markets to American exports, although the U.S. was increasingly operating in this vein where Canadian products were concerned. When Brian Mulroney's Conservative government was elected it adopted pro-business free trade, and the ensuing negotiations between the U.S. and Canada confirmed that a free trade deal was in the works. The talks affected the publishing industry and plans for the Baie Comeau policy. Curbing the influx of American multinationals in Canada's publishing firms was contradictory to the

spirit of the deal. Publishing presented the Canadian government with a dilemma: it was difficult to differentiate between the economic relationship from the need to maintain independence in cultural industries. What began as integration at the economic level soon grew into cultural integration.

Despite American opposition, the Baie Comeau policy was announced in July 1985. Its mandate was to repatriate Canadian publishing companies by forcing foreign firms to divest majority ownership. Despite its claim to help the industry in general, it was a partial instrument, dealing with foreign ownership, and was constructed so that it affected only the most profitable firms in Canada. These were the firms most likely to fall into foreign hands. Moreover, the government rationalized, these were the firms most capable of publishing Canadian-authored titles once majority Canadian ownership had been achieved.

In spite of the difficulties enumerated above, Canadian writers flourished in the early 1980s. Regional presses became known for their literary contributions, and Canadian novelists gained international prominence. Margaret Atwood, Robertson Davies, and Mordecai Richler are only a few of the authors who gained wide recognition for their work. Foreign-owned firms suddenly became aware that Canadian authors were capable of bringing in profits. Canadians were sought out in a way that they had never been sought out before. Rather than ignore Canadian talent, foreign-controlled publishers began to capitalize on it.

Since the majority of Canadians read foreign (mostly American) books, Mulroney's Conservative government decided it had the right to determine how the industry develops without having to concern itself with the eventuality of reprisal from other nations. Canadians have the right to expand their awareness of themselves, to learn about their society, geography, and history from Canadian writers. Books published by Canadian authors, far more numerous and far more popular in the 1980s and 1990s than they ever were before, still make up a small share of the market when compared to foreign books.

Without a doubt, the Baie Comeau policy became one of the most embarrassing mistakes ever engineered by the Department of Communications. What began as a bold initiative, praised by the majority of Canadian publishers, metamorphosed into a costly error for the federal government. The policy was an anomaly, incapable of surviving the continental relationship between the U.S. and Canada. The free trade deal being negotiated between the two nations constrained Baie Comeau even more, making it difficult, and most often impossible to apply.

Since the Investment Canada Act responded to economic determinants and the DOC was responsible for culture, Marcel Masse's Baie Comeau policy could only be applied under rare and difficult circumstances. The difference between policy implementors and policy formulators caused an irreparable contradiction. The Baie Comeau policy, due to underlying assumptions on behalf of the government and

contradictions inherent between it and the Investment Canada Act, was an example of stabilizing compromises. Many contradictory stakeholders were allowed into the policy-making arena, creating a policy full of loopholes. After making efforts to have his policy enforced, Masse was removed from his cultural portfolio and placed in Energy, Mines and Resources, where he could do less damage to Brian Mulroney's free trade plans. Even from his post at that department he continued to deplore Investment Canada's government's inconsistent application of his policy.

Although the state claims to be neutral in its apportionment of rights, dividing goods equitably between conflicting actors, allocation is influenced by the dominant forces in society. Clearly, the state is biased in its decision-making, favouring private interests. Cultural production has long been hindered by its relationship with the free market. The regulation of culture is a contentious issue, presenting particular difficulties to policymakers. Stability is one of the primary aims of the capitalist state, but striving to avoid instability, in the context of cultural nationalism, inevitably signifies contradiction and compromise, in this case, a compromise which favoured American corporations.

The Baie Comeau policy, due to continental integration, was replete with contradictions that the United States and foreign multinationals from several nations attempted to circumvent. Firstly, the policy was only an administrative declaration, not a law. Investment Canada, as mentioned earlier, was in charge of protecting a cultural industry, in direct violation of its mandate, which was to encourage foreign investment.

The F.T.A. forced Ottawa to act as a buyer of last resort when no other buyers could be found, obligating it to spend an enormous amount of money on Ginn and GLC when Paramount refused to divest. Moreover, Canadian buyers were scarce, and since Canadian companies could not be sold on the international market, their value diminished. Applying the policy retroactively to both Prentice-Hall and Copp Clark Pitman was another mistake, demonstrating to everyone that the government was not serious in enforcing the policy.

The political economy of culture is complicated by the conflicts that exist between culture and the market economy. The demise of Baie Comeau had therefore been seen by some individuals as inevitable. Despite the efforts of the Communications Minister, structures exert influences that limit actors' decision-making capabilities. Compounded by the fact that the Canadian government habitually yields to pressure from the United States, Baie Comeau had little hope of having a substantial impact. Baie Comeau was a way of increasing ownership without spending taxpayers' money--yet taxpayers paid \$10.3 million for Ginn & GLC. It could not realistically be put into practice without incurring threats of retaliation. Nevertheless, publisher Jack Stoddart remarked that Baie Comeau could have a powerful effect on the industry, but if it was discontinued Canada would not have the resources to compete with international conglomerates; publishing will continue to deteriorate.

Canada's policy capacity has been influenced by continental integration. For example, in 1986, during free trade negotiations, the Canadian government appointed fifteen representatives of U.S. subsidiaries to sit on Canada's trade advisory committees. The U.S. did not do Canada the same courtesy. Canadian subsidiaries were denied the privilege due to reasons of national security. Minister of State for International Trade Pat Carney stated that this would: "We have appointed representatives to our trade committees because we want to ensure the broadest possible consultation with all sectors of Canadian industries, Canadian provinces, and Canadians generally on the issues before the negotiators to ensure a free trade agreement which meets the concerns of all Canadians."¹ This is an example of the asymmetrical interdependence that exists between the two nations. Canada no longer has the necessary tools to solve many of the economic, political, and social problems that confront it. The Bush Administration, in an attempt to further the continental cause, implemented NAFTA. It was to discourage the creation of similar trade barriers in other countries. The U.S. already has control of most of Canada's cultural market, now it can ensure that European nations do not try to formulate their own "Baie Comeau" policies.

Ginn and Company, once the symbol of triumph over the American threat of a "scorched earth" retaliation when it was purchased by the CDIC, now represents Canada's lack of autonomy. Its sale back to Paramount demonstrated the Canadian government's

¹ Williams, *Studies in Political Economy*, 108.

unwillingness to support the industry by Canadianizing it. From now on, support will take place in the form of ever-diminishing direct funding.

Canadian sovereignty has been limited due to its relationship with the nations to which it had the closest ties. It was first a colony of France, then England, before coming under the influence of the United States. The continental relationship has progressed to the point where Canada is unable to make its own decisions with respect to its political and economic future. Achieving independence in the continent in the future will be very difficult. Due to the amount of integration with the U.S. any moves to increase autonomy--such as Baie Comeau--will become increasingly scarce in the foreseeable future.

Bibliography:

Books:

- Aldana, Patricia. *Canadian Publishing: An Industrial Strategy for its Preservation and Development in the Eighties*. Toronto: Association of Canadian Publishers, February, 1980.
- Audley, Paul. "Book Publishing." *Canada's Cultural Industries: Broadcasting, Publishing, Records and Film*. Ottawa: Canadian Institute for Economic Policy, 1983. 85-136.
- Barlow, Maude and Bruce Campbell. "The Attack on Culture." *Take Back the Nation*. Toronto: Key Porter Books, 1991. 91-112.
- Carr, Graham. "Culture." Duncan Cameron and Mel Watkins, eds. *Canada Under Free Trade*. Toronto: James Lorimer & Company, 1993. 203-213.
- Clarkson, Stephen. "Canada-U.S. Relations and the Changing of the Guard in Ottawa." *Canada Among Nations 1984: A Time of Transition*. Brian W. Tomlin and Maureen Molot, eds. Toronto: James Lorimer and Company, 1985. 149-163.
- , *Canada and the Reagan Challenge: Crisis and Adjustment, 1981-85*. 2nd ed. Toronto: James Lorimer & Company, 1985.
- , "Constitutionalizing the Canadian-American Relationship." *Canada Under Free Trade*. Duncan Cameron and Mel Watkins, eds. Toronto: James Lorimer & Company, 1993. 3-20.
- , "Disjunctions: Free Trade and the Paradox of Canadian Development." *The New Era of Global Competition: State Policy and Market Power*. Daniel Drache and Meric S. Gertler, eds. Montreal: McGill-Queen's University Press, 1991. 103-126.
- Crean, Susan. "Reading Between the Lies: Culture and the Free Trade Agreement." *The Free Trade Deal*. Cameron, Duncan, ed. Toronto: James Lorimer & Company, 1988. 223-237.
- Doern, Bruce G., ed. *The Regulatory Process in Canada*. Toronto: The Macmillan Company, 1978.

- and Brian W. Tomlin. *Faith & Fair: The Free Trade Story*. Toronto: Stoddard Publishing Co. Ltd., 1991.
- and Peter Aucoin. *The Structures of Policy-Making in Canada*. Toronto: The Bryant Press, 1971.
- and Richard W. Phidd, eds. *Canadian Public Policy: Ideas, Structure, Process*. Scarborough: Nelson Canada, 1992.
- and V. Seymour Wilson, eds. *Issues in Canadian Public Policy*. Toronto: The Macmillan Company, 1974.
- Ernst and Ernst. *The Book Publishing and Manufacturing Industry in Canada: A Statistical and Economic Analysis*. Ottawa: Information Canada, 1970.
- Garos, Casper. *Canada-United States Free Trade: Background, Issues and Impact*. Amsterdam: VU University Press, 1990.
- Gold, Marc and David Leyton-Brown, eds. *Trade-Offs on Free Trade: The Canada-U.S. Free Trade Agreement*. Toronto: Carswell, 1988.
- Hawes, M.K. *Principal Power, Middle Power, or Satellite?* Toronto: York University, 1984.
- , "Canada-U.S. Relations in the Mulroney Era: How Special the Relationship?" *Canada Among Nations: The Tory Record/1988*. Brian W. Tomlin and Maureen Appel Molot, eds. Toronto: James Lorimer and Company, 1989. 189-207.
- Henderson, Michael D., ed. *The Future on the Table: Canada and the Free Trade Issue*. North York: Masterpress, 1987.
- Independent Publishers' Association: Submission to the Ontario Royal Commission on Book Publishing*, n. pag.
- Laxer, James. *Leap of Faith: Free Trade and the Future of Canada*. Edmonton: Hurtig Publishers, 1986.
- Levitt, Kari. *Silent Surrender: The Multinational Corporation in Canada*. Toronto: Macmillan, 1970.

- Leyton-Brown, David. "A Refurbished Relationship with the United States." *Canada Among Nations: The Tory Record/1988*. Brian W. Tomlin and Maureen Appel Molot, eds. Toronto: James Lorimer and Company, 1989. 171-188.
- MacLaren, I.S. and C. Potvin, eds. *Questions of Funding, Publishing and Distribution/Questions d'édition et de diffusion*. University of Alberta: Research Institute for Comparative Literature, 1989.
- Montcalm, Mary Beth. "Free Trade and Continental Integration." Duncan Cameron, ed. *The Free Trade Deal*. Toronto: James Lorimer & Company, 1988. 176-182.
- Moore, S. and D. Wells, *Imperialism and the National Question in Canada*. Toronto: Hogtown Press, 1975.
- Norton, Roy. *Canada's Nationalistic Book Publishing Policy: A Review of Stakeholders' Criticisms, 1985-1990*. Center for Information Policy Research: Harvard University, February 1991.
- Peat Marwick Consulting. *English-Language Book Publishing and Distribution in Canada: Issues and Trends*. October 16, 1989.
- Orchard, David. *The Fight for Canada: Four Centuries of Resistance to American Expansionism*. Toronto: Stoddard Publishing Co., 1993.
- Pross, A. Paul. "Pressure Groups: Talking Chameleons." *Canadian Politics in the 1990s*. Michael S. Whittington and Glen Williams, eds., 3rd ed. Scarborough: Nelson Canada, 1990, 285-312.
- Rugman, Alan M. "Why Business Supports Free Trade." *Free Trade: The Real Story*. John Crispo, ed. Toronto: Gage Educational Publishing Company, 1988. 95-104.
- Stevens, Paul. "Reciprocity 1911: The Canadian Perspective." *Canadian-American Free Trade: Historical, Political and Economic Dimensions*. A.R. Riggs and Tom Velk, eds. McGill University: Institute for Research on Public Policy, 1987. 9-21.
- Williams, Glen. "Canadian Sovereignty and the Free Trade Debate." *Knocking on the Back Door: Canadian Perspectives on the Political Economy of Freer Trade with the United States*. Allan M. Maslove and Stanley L. Winer, eds. Carleton University: The Institute for Research on Public Policy, 1987. 101-120.

- , "Regions within Region: Canada in the Continent." *Canadian Politics in the 1990s*. 3rd ed., Michael S. Whittington and Glen Williams, eds. Scarborough: Nelson Canada, 1990. 3-22.

Journal and Periodical Articles:

- Cameron, Duncan. "Resisting Free Trade." *Canadian Journal of Political and Social Theory* Vol. XII, No. 1-2 (1988): 202-211.
- Comor, Edward. "The Department of Communications Under the Free Trade Regime." *Canadian Journal of Communication* 16 (1991): 239-261.
- Drache, Daniel. "Canada in American Empire." *Canadian Journal of Political and Social Theory* Vol. XII, No. 1-2 (1988): 212-229.
- Lorimer, Rowland. "Book Publishing in English Canada in the Context of Free Trade." *Canadian Journal of Communication* Vol. 16 (1991): 58-72.
- , "The Socioeconomy of Scholarly and Cultural Book Publishing." *Media, Culture and Society* Vol. 15 (1993): 203-216.
- and Eleanor O'Donnell. "Global Restructuring in Publishing: Issues for Canada." *Canadian Issues* Vol. 14 (1992): 129-144.
- Smith, Allan. "Canadian Culture, the Canadian State, and the New Continentalism." *Canadian-American Public Policy* No. 3 (October 1990): 1-36.
- Williams, Glen. "On Determining Canada's Location Within the International Political Economy." *Studies in Political Economy* 25 (1988): 107-140.

Newspaper and Magazine Articles:

- Amiel, Barbara. "The survival of Canadian culture." *Maclean's* 20 April 1987: 9.
- Anderson, Scott. "After Ginn." *Quill & Quire* May 1994: 4-5.
- , "Big Deal." *Quill & Quire* April 1994: 4-5.
- , "Paramount Importance." *Quill & Quire* January 1994: 5.
- , "Waiting for Dupuy." *Quill & Quire* June 1994: 14.

Audley, Paul. "Ottawa just hates to say no to U.S. investors." *Globe and Mail* 14 February 1992: A13.

Beatty, Perrin. "Plenty of confidence [The Canadian government clearly has more confidence in Canadian publishers than Paul Audley does.]" *Globe and Mail* 2 March 1992: A12.

"Big publisher selling three units to Canadians." *Toronto Star* 7 August 1987: C1.

"Block foreign takeovers, publishers urge Ottawa." *Globe and Mail* 11 May 1985: 6.

"Bold publishing policy in shambles." *Toronto Star* 7 February 1989: B1, B4.

"Book industry needs aid." *Calgary Herald* 16 June 1983: A4.

"British tycoon Maxwell bids \$2.06 billion for Macmillan." *Globe and Mail* 22 July 1988: B18.

Bruce, Alison. "Porter, Kent leave Doubleday." *Quill & Quire* June 1991: 4.

Budnarchuk, Steve and Sharon Budnarchuk. "Buying Around." *Quill & Quire* October 1990: 6.

Cameron, Hamish. "Baie Comeau Policy Survives Free Trade." *Quill & Quire* November 1987: 12.

-----, "Bertelsmann Deals Doubleday to Porter." *Quill & Quire* February 1987: 8.

-----, "Bertelsmann to purchase all of Doubleday." *Quill & Quire* November 1986: 11.

-----, "CBPC courts Ottawa at annual meeting." *Quill & Quire* March 1986: 56-57.

-----, "Copp Clark Pitman Acquisition Approved." *Quill & Quire* July 1986: 36.

-----, "Culture report: consumers can pay more." *Quill & Quire* May 1986: 10.

-----, "DOC book program increases Canada Council funds." *Quill & Quire* August 1986: 18.

-----, "DOC redesigning Book Publishing Development Program." *Quill & Quire* May 1986: 10.

- , "Federal book program finally official." *Quill & Quire* January 1987: 13.
- , "G&W subs to merge in Canada." *Quill & Quire* August 1985: 18.
- , "Gloves off as book industry assails feds." *Quill & Quire* January 1987: 12.
- , "Gulf & Western Wants 50% Control of Ginn." *Quill & Quire* October 1986: 25.
- , "HBJ Sells Holt, Rinehart and Winston to Canadians." *Quill & Quire* September 1987: 68.
- , "Impromptu visit by Masse at ACP meeting." *Quill & Quire* May 1986: 11.
- , ed. "Prentice-Hall Approved, Ginn for Sale." *Quill & Quire* April 1986: 16.
- , "Random House announces first Canadian list." *Quill & Quire* November 1986: 10.
- , "The publishing year in review." *Quill & Quire* January 1986: 10.
- "Canada-US publishers open summit with battle lines drawn." *Globe and Mail* 28 February 1986: D11.
- "Canadianization policy to be put to severe test." *Calgary Herald* 14 January 1989: D9.
- Clee, Nicholas. "U.K.: the year of mass mergers." *Quill & Quire* January 1986: 11.
- "Copp Clark Pittman spins off to joint venture under Canadian control." *Toronto Star* 28 March 1989: G4.
- "Does the political will exist to save the publishing industry." *Globe and Mail* 16 January 1991: C1.
- "Doubleday Canada sees enhanced future after sale of parent." *Toronto Star* 1 October 1986: G4.
- "Facts support federal publishing policy: Prentice-Hall should be sold to Canadians." *Toronto Star* 20 January 1986: A13.
- "Feds Reaffirm Support for Baie Comeau Policy at ACP AGM." *Quill & Quire* May 1987: 9.

- Francis, Diane. "Closing the Book on Government." *Maclean's* 12 June 1989: 13.
- French, William. "Branch plants draw low marks in CanLit." *Globe and Mail* 14 November 1985: D1.
- Fulford, Robert. "Blaming the Yanks." *Saturday Night* March 1986: 7-9.
- Gee, Marcus et al. "Fighting words on trade." *Maclean's* 16 February 1987: 16.
- Gillmor, Don. "Mordecai Richler: 'There are only two kinds of writing: good writing and bad writing.'" *Quill & Quire* July 1989: 20-21.
- Hargreaves, Sandra. "Q&Q Forum." *Quill & Quire* October 1990: 7.
- "Investment Canada to review publishing takeovers." *Montreal Gazette* 9 July 1985: E1.
- Johnson, Brian D. and Hilary Mackenzie. "The battle over the cultural border." *Maclean's* 18 Nov. 1985: 69.
- et al. "Secret Pressure in High Places." *Maclean's* 11 November 1985: 70-72.
- Kirchhoff, H.J. "Publishers hear about merits of industry deregulation." *Globe and Mail* 2 May 1989: A23.
- Laxer, James. "Buying into Decline." *Canadian Forum* April (1993): 5-7.
- Levine, Elise. "Feds Allow Penguin to Keep NAL." *Quill & Quire* May 1988: 14.
- Lewington, Jennifer. "Ottawa book policy target of quiet attack by Congress veteran." *Globe and Mail* 18 March 1989: A7.
- , "Plan for Canadian publishing has Washington fuming." *Globe and Mail* 30 September 1985: 11.
- Lorimer, James. "Dying Dreams of Independence." *Canadian Forum* September (1993): 6.
- Loring, John. "Random Order." *Quill & Quire* September 1991: 1, 10.
- , "From Here to Eternity." *Quill & Quire* July 1993: 8,9.
- , "Ottawa Watch." *Quill & Quire* February 1994: 5.

"A question of identity." *Maclean's* 5 January 1987: 42.

MacSkimming, Roy. "Ginn & tonic: a symposium on the sale of Ginn Publishing." *Canadian Forum* May (1994): 12-19.

-----, "Rewriting the Book: New markets, new players transform trade publishing." *Quill & Quire* December 1989: 10-12.

-----, "Sunset over Baie Comeau." *Quill & Quire* September 1989: 58-59.

Martin, Carol. "Another Loss for Canadian Publishing: Perrin Beatty's legacy to Canadian culture." *Canadian Forum* April (1993): 33-34.

-----, "Writing Off Canadian Publishing." *Canadian Forum* March (1992): 18-21.

"Masse letter shows cabinet split in takeover of book distributor." *Toronto Star* 22 April 1988: A1, A2.

"Masse may use party to review book policy." *Toronto Star* 9 February 1989: D1.

McDonald, Marci. "The Paramount Connection: Paul Martin's dealings with the US giant raises questions." *Maclean's* April 25 (1994): 17-18.

McDougall, Lori. "Colbert Counters: HarperCollins president blasts "harassment" by publishers over Investment Canada approval." *Quill & Quire* April 1993: 4.

-----, "Feds' publishing proposals take aim at buying around." *Quill & Quire* January 1991: 6, 17.

-----, "Feds Strike Deal for Ginn, GLC." *Quill & Quire* June 1989: 6.

-----, "Industry welcomes back Masse." *Quill & Quire* March 1989: 8, 22.

-----, "Own Up: Ottawa's new stance on ownership inspires Besse to weigh sale to foreign company." *Quill & Quire* July 1993: 6.

-----, "W.H. Smith sold for \$54-million." *Quill & Quire* November 1989: 4.

"Masse plans to curb direct importing by booksellers." *Montreal Gazette* 31 January 1986: B1.

"Megamergers rock book publishers." *Sunday Sun* 14 June 1987: F1-F2.

- Millinoff, Holly. "Communications probes future of BPIDP." *Quill & Quire* January 1990: 10.
- . "Ontario reviews publishing policy." *Quill & Quire* January 1990: 10, 11.
- Miliot, Jim. "U.S.: strong on hard-soft deals." *Quill & Quire* January 1986: 10-11.
- Milner, Brian. "Book industry wants Ottawa to take action on takeovers." *Globe and Mail* 19 December 1988: B1, B2.
- . "Ottawa bid for publisher sends signal." *Globe and Mail* 12 March 1988: A1, A2.
- . "Penguin has no plan for paperback firm." *Globe and Mail* 5 April 1988: B10.
- Mumford, Ted. "Gage deal clears way for HarperCollins College." *Quill & Quire* November 1990: 4-5.
- . "Proof's in the Pudding: Publishers are uniting behind Ottawa's new policy, while booksellers are wary--though the real content of Perrin Beatty's aid package remains to be seen." *Quill & Quire* March 1992: 1, 6, 8, 9.
- . "Publishers assess globalizing trends." *Quill & Quire* November 1989: 10.
- O'Donnell, Brian. "In textbook publishing, adapting leads to adopting." *Quill & Quire* December 1989: 15.
- "Ottawa eases law to enable Penguin to buy publisher." *Toronto Star* 2 April 1988: C1.
- "Ottawa's publishing policy finds foes in Washington." *Toronto Star* 29 April 1989: C4.
- Partridge, John. "Canadian publishing policy imperils US ties." *Globe and Mail* 4 November 1985: A1, A5.
- "Penguin books surrenders book distributor's license." *Toronto Star* 7 July 1988: E1.
- "Policy on ownership of publishing cautiously welcomed." *Globe and Mail* 9 July 1985: F12.

Porter, Anna. "Up Baie Comeau Without a Paddle." *Quill & Quire* September 1991: 10.

"Post-book rate: postal subsidy replacement program targets Canadian-owned publishers." *Quill & Quire* 59 June 1993: 11.

"Proposed takeover of Ginn by Ottawa may lead to others." *Toronto Star* 19 March 1988: C2.

"Publishing company takeovers given okay." *Vancouver Sun* 8 April 1987: E3.

"Publishing policy won't apply to Prentice-Hall deal." *Calgary Herald* 13 February 1986: D2.

"Random's decision surprises publishing industry." *Globe and Mail* 6 July 1989: C12.

Ross, Val. "US purchase of 2 publishing firms called 'beginning of end.'" *Globe and Mail* 19 February 1994: C4.

-----, "Viacom reverses book decision." *Globe and Mail* 3 May 1994: C1.

"Sales of Canadian books 26% of total." *Halifax Chronicle Herald* 24 November 1985: 3E.

Salutin, Rick. "\$102 million for publishers? Whooppee." *Globe and Mail* 14 February 1992: C1.

Shepherd, Diane. "ACP wary of free trade agreement." *Quill & Quire* August 1988: 18.

-----, ed. "Free trade battle lines drawn." *Quill & Quire* September 1988: 58-59.

-----, ed. "Masse Vows Support for Baie Comeau." *Quill & Quire* April 1989: 4.

"Southam prepares its defense: proposed bylaw changes aimed at foiling takeovers." *Vancouver Sun* 13 July 1985: C7.

Speirs, Rosemary. "Fifth publisher bid for Ginn." *Toronto Star* 22 March 1994: A1, A26.

-----, "Giant US firm denies breaking book deal." *Toronto Star* 28 April 1994: A15.

-----, "Liberals red-faced over book firm sale: sources say deal not as binding as was thought." *Toronto Star* 21 March 1994: A1, A10.

-----, "Publishers seek probe into Ginn: Viacom bid nears federal approval." *Toronto Star* 13 June 1994: A1, A19.

-----, "Second Tory denies secret deal to sell book firm." *Toronto Star* 26 March 1994: A8.

-----, "Secret cabinet papers challenge Ginn sale." *Toronto Star* 20 May 1994: A1, A8.

-----, "US publisher allowed to buy Canadian firms." *Toronto Star* 19 February 1994: A1, A30.

"Ten Years That Shook the Trade." *Quill & Quire* December 1989: 8-9.

Thompson, Valerie. "G&W and Ottawa Square Off over Ginn." *Quill & Quire* April 1988: 10.

-----, "Pagurian acquires Lester & Orpen Dennys." *Quill & Quire* September 1988: 58.

Turbide, Diane. "Sell-off or sell-out? Secret dealings stir protests about a sale to Paramount." *Maclean's* March 7 1994: 62-63.

"US book plan 'crucial' PC test." *Calgary Herald* 5 November 1985: A22.

"US firm's effort to sell Ginn was not serious." *Toronto Star* 16 March 1988: F1, F13.

"US firms control Canadian publishing." *Halifax Chronicle Herald* 22 July 1988: 10.

Westell, Dan. "Masse reaffirms, vows to toughen publishing policy." *Globe and Mail* 11 Mar. 1989: B3.

"Who should own and control book publishing in Canada." *Toronto Star* 26 October 1985: D1.

Winsor, Hugh. "Committee head rejects inquiry in Ginn sale." *Globe and Mail* 25 March 1994: A7.

-----, "De Cotret defends action on takeover." *Globe and Mail* 23 April 1988: A6.

Government Publications:

Canada. *Canada-U.S. Free Trade Agreement*. 1989.

Communications Canada. News Release. "Marcel Masse dévoile la politique sur l'investissement étranger dans l'édition canadienne." July 6, 1985: 1-2.

Communications Canada. "Notes pour une déclaration de l'honorable Marcel Masse, député de Frontenac, Ministre des Communications à l'occasion de l'annonce de la nouvelle politique sur l'investissement étranger dans l'édition canadienne." July 6, 1985: 1-5.

Communications Canada. "Book Publishing." *Vital Links: Canadian Cultural Industries*. April 1987, 27-34.

Canada. *Investment Canada Act: Investment Canada Regulations*. March 1986. 1-43.

Communications Canada. "Fact Sheet on Book Publishing in Canada, 1989-90." 1-3.

Communications Canada. Fact sheet. "New Book Publishing Measures for Canada." 1-14.

Communications Canada. Fact sheet. "Revised Foreign Investment Policy in Book Publishing and Distribution." 1-3.

Communications Canada. News release. "Beatty announces \$102 million in new funding for Canadian publishing." January 28, 1992: 1-3.

Communications Canada. *Revised Foreign Investment Policy in Book Publishing and Distribution*. January, 1992.

Communications Canada. "Speaking Notes for the Honourable Perrin Beatty, P.C., M.P. Minister of Communications Canada at a Press Conference "Publishing in Canada."" 1-6.

George, R.E. and M. Bradfield. *The Canadian Controlled Book Publishing Industry*. Final report to the Department of Communications. April 30, 1984.

Statistics Canada. *Culture Statistics: Book Publishing Industry 1983*. 1985.

Ontario. *Royal Commission on Book Publishing: Background Papers*. Toronto: The Queen's Printer for Ontario, 1972.

Ontario. *Canadian Publishers & Canadian Publishing: Royal Commission on Book Publishing*, Toronto: Ministry of the Attorney General, 1973.

Appendix:
1970s Provincial Support Programs

PROVINCIAL PROGRAMS

1. British Columbia

(a) Cultural Services Branch, Ministry of the Provincial Secretary and Government Services

(i) Publishing Assistance Program

1978-79 was the first year of this program. Grants are made to B.C. based publishers for the publication of books written by B.C. authors. Applications are reviewed by a committee appointed by the Cultural Services Branch of the Min. of the Provincial Secretary and Government Services. The maximum grant per title is \$1,500. The 1979-80 budget for the program is \$80,000.

(ii) Public Library Bulk Purchase Program

A one-time program under which \$100,000 from B.C. Lottery funds was made available to B.C. public libraries to purchase B.C. books listed in the catalogue produced annually by the Association of Book Publishers of B.C.

(iii) Aid to Publishers' Association

The B.C. Cultural Fund assists the operations of the Association of Book Publishers of B.C. with an annual grant (\$21,500 in 1979). Activities of the association include a joint display program for members, production of an annual catalogue of books published in B.C. (not restricted to members of the association), publication of a newsletter, etc.

(b) Ministry of Economic Development

(i) Export Development Program

In 1979, the B.C. Ministry of Economic Development made available \$4,000 to the Association of Book Publishers of B.C. to support the association's participation at the American Booksellers' Association Convention Exhibit in Los Angeles.

Some assistance, its exact nature yet to be determined, may be available in 1980.

(ii) Market Development Assistance Program

Publishers may apply to this program for assistance in developing markets outside B.C. Assistance is in the form of a grant for the economy return airfare involved. It is available to one representative from a firm only and can be used only once to attend any given trade fair or exhibit.

(c) Ministry of Education, School Library Bulk Purchase Plan

Under this program, between 35 to 1,800 copies of selected books are purchased by the Dept. of Education for distribution to school libraries in B.C. Selection of titles is made upon the recommendation

of teacher evaluators. The program began operation in 1977 on an ad hoc basis. In its first year of operation, approximately \$100,000 was expended. At present only books from publishers located in B.C. are eligible for the program.

2. Alberta

While no formal programs of assistance to book publishers exist in Alberta, grants are made by Alberta Culture to Alberta publishers for the publication of eligible books. Grants are also sometimes made to a non-Alberta publisher to assist with the publication of an Alberta author.

The Alberta Publishers Association also receives a small annual grant (approximately \$3,500) towards the production cost of a catalogue of their members' titles.

3. Saskatchewan

Ad hoc grants to book publishers are made by the Saskatchewan Arts Board.

4. Manitoba

The Manitoba Arts Council in early 1980 announced a block grant program of assistance for Manitoba book publishers. The grant is based on the publishers' output in the previous year of books written by Manitoba authors and amounts to between \$1,000 - \$1,500 per book

5. Ontario

(a) Ontario Arts Council

(i) Block Grants and Marketing Grants

Block grants and a marketing supplement are made by the Ontario Arts Council to Canadian-owned book publishers located in Ontario. To be eligible a publisher must have published at least two books in the previous year. Grants are allocated on the basis of the number of eligible books a publisher produced in the preceeding year.

Eligibility: to be eligible for the Ontario Arts Council programs, a publisher must

- be Canadian-owned and Ontario-based;
- demonstrate a significant and continuing trade publishing program;
- regularly produce original titles by Canadian authors, falling within the areas which the Arts Council has designated as a principle concern: fiction, verse, the arts and contemporary Canadian social concerns.

The formula by which the grants are determined takes into account the number and size of qualifying books published as well as the number of reprints. To accurately reflect the activities of a publishing house, the output is measured against the mean page length of all books submitted. The books examined represent the publishing performance of any house throughout the previous calendar year.

In 1979, grants totalling \$467,750 were made to 56 book publishers under this program.

(ii) Writers' Reserve Program

Each publisher receiving a block grant also receives an equal amount as a Writers' Reserve. Publishers are able to nominate writers who then receive a grant directly from the Arts Council. The purpose of the program is to buy time for the writers in which to write. By having publishers nominate writers for these grants, the Ontario Arts Council avoids having to set up a complex jury system, ensures that the grants go to writers with potential, and enables the publisher to encourage a writer they might not otherwise have been able to.

Conditions attached to this program are:

- that the total recommendation for any single writer not exceed \$4,000 in any one year;
- that the writer not already be in receipt of a grant of more than \$10,100 from the Canada Council;
- that the grant must not be designed in any way as a royalty payment either owed or advanced; and
- that a recommended writer not be an employee or director of the publishing company making the recommendation.

(iii) Assistance to Joint Publisher Projects

The Ontario Arts Council provides assistance to national co-operative publishers' projects designed to increase promotion and/or distribution of those publishers' Canadian books.

Examples of grants in this area in 1979 are:

Canadian Book Information Centre	\$51,325
Literary Press Group	5,500

(b) Ministry of Culture and Recreation

(i) Loan Guarantee and Interest Subsidy Program

Canadian-owned, Ontario based book publishers may be eligible for assistance from the Province of Ontario in the form of

(a) a guarantee of a loan made by a commercial lending institution and/or

(b) a rebate of interest.

Under this program, loan guarantees of up to \$250,000 and interest subsidy up to \$50,000 are available. The full details of the program are contained in the program brochure "Information and Guidelines for financial assistance to Canadian book publishers", a copy of which is enclosed.

(ii) Assistance to Associations

Under this program of the Ministry of Culture and Recreation, assistance is given to the national association of Canadian-owned publishers (Association of Canadian Publishers) towards the cost of their operations. In 1979, this grant was \$30,850.

(c) Ministry of Education

(i) Book Purchase Plan

Under this program, copies of new titles on Circular 14 (the Ministry's list of approved books for use in Ontario's schools) are purchased in bulk from the publisher and one copy of each distributed free to elementary and secondary schools requesting them.

In 1978, over \$2 million was spent on this program.

(ii) Learning Materials Development Plan

The purpose of this program is to encourage the development and production of Canadian learning materials. It is designed primarily to meet the needs for learning materials that might not otherwise be fulfilled because of prevailing market conditions.

Project applications are submitted by publishers to the Ministry and are reviewed by an Advisory Committee established by the Minister of Education.

Total grants under this program were:

1975-76	\$1,078,671
1976-77	989,007
1977-78	390,160
1978-79	496,840

(iii) French-Language Fund

The purpose of the program is to encourage the development and production of Canadian learning materials for French-language schools or units at the elementary and secondary levels. It is designed primarily to meet the needs for learning materials that might not be fulfilled for reasons such as prevailing market conditions.

The program operates in a similar fashion to the Learning Materials Development Plan mentioned above. A brochure describing the French Language Fund is enclosed.

Total grants under the French-language Fund have been:

1977	\$2 million
1978	\$2.5 million

6. New Brunswick

Block Grants

The New Brunswick Department of Youth, Recreation and Culture administers a program of project grants to book publishers for the publication of books by New Brunswick authors who have been resident in New Brunswick for at least three years.

Manuscripts are reviewed by an independent committee which then makes its recommendations to the Department. Grants per manuscript are up to approximately \$1,000.

The program applies to both English and French language book publishers in the province and began in 1977. Total grants each year have been approximately \$10,000

7. Nova Scotia

An interim policy to assist Nova Scotia publishers was implemented by the Department of Culture, Recreation and Fitness in the fall of 1979. It's purpose is to assist established publishers in the province to produce Nova Scotian material they feel is marketable. Special priority is placed on books of verse, fiction, history, biography and the arts that reflect past and present life in Nova Scotia. Publishers meeting the criteria for the program are eligible to receive a grant of 40% of the cost of the book up to a maximum of \$4,000 per publication.

8. Newfoundland & Prince Edward Island

These provinces do not have established programs of support for publishers. Newfoundland has made support available on an ad-hoc basis and may be moving towards the development of formal programs.