

EXECUTIVE SUMMARY

This paper briefly reviews the debate about trade and culture in the context of film. The word culture has caused tensions in the Canada-United States relationship because of the difference between what Canadians term "cultural industries" and what the Americans call "entertainment industries." In Canada and the United States, there are diverging views over the justification for support for the "cultural industries" in general, and for film policy in particular due to the unique character of this industry. These diverging attitudes have resulted not only in different views as to how trade and investment agreements should address this sector, which is the focus of this study, but also in the structure of the industries in both countries.

The film industry is, and always has been, international in both production and distribution. In other words, big successes are usually achieved not only in the domestic market, but also in the global market. The United States has dominated this industry since the early days. It is argued that Hollywood's success results from the fact that producers rarely make films only for the home market, but for the world. The argument follows that others could also succeed if they too perceived the market as global. While this argument has some merits, it does not fully explain why film industries in other countries have not had the same success as Hollywood. The global economic environment creates a different reality for most countries. The small country argument has been that producers cannot afford as expensive production budgets as the United States because the domestic markets in which their programs are sold are more limited. However, it is questionable whether or not this argument provides a complete answer. A language argument is often made which is similar to the small country argument.

While the reasons for United States success in this sector are not always obvious, it is clear that the overwhelming presence of the United States in the cultural or entertainment industries encourages other countries to develop regulatory measures, tax incentives and subsidies to develop domestic film industries. Such policies are justified on political and cultural grounds but have led to international ramifications, including ones in the area of international trade.

The Canadian term "cultural industries" and the American term "entertainment industries" reflect different choices in the way in which both countries understand the issue and/or want to convey their position. This difference has resulted in conflict between Canada and the United States in recent years. The Canadian view is that the issue must have maximum flexibility to continue and implement measures that preserve a space in Canada for Canadian products. The American view is that by requiring flexibility, or the ability to take exceptions to international obligations, Canada is discriminating against United States' entertainment products. These different attitudes have resulted in different opinions about how culture should be treated at the World Trade Organization (WTO), in the North American Free Trade Agreement (NAFTA), and in the Multilateral Agreement on Investment (MAI). Some of the obligations that have resulted from these negotiated agreements have challenged Canada's support measures notwithstanding the exceptions on special provisions. Canada should find the best means to address these international challenges. In order to undertake them, Canada will have to start by