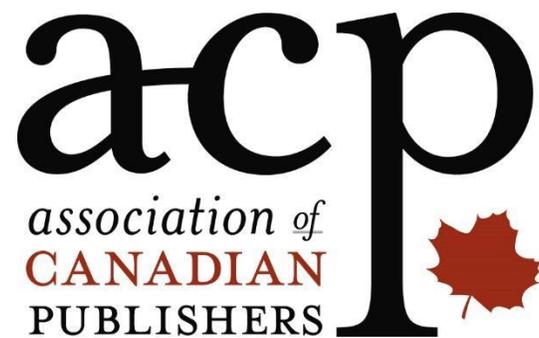


**Resilience, Agility & Innovation:  
Canadian Publishers and COVID-19 Recovery**

**Written Submission to Canadian Heritage  
from the Association of Canadian Publishers**

**September 2020**



## Summary of Recommendations

1. Increase Canadian publishers' competitiveness in a post-COVID-19 economy by immediately increasing the permanent annual budget of the Canada Book Fund from \$38.4M to \$58.4M.
2. Provide additional emergency support through renewal of the Emergency Support Fund for Cultural, Heritage and Sport organizations.
3. Implement market-based solutions that encourage fair remuneration of rightsholders for use of copyright protected work through reform of the *Copyright Act*.
4. Stimulate local economies by introducing measures that encourage the purchase and reading of Canadian books.

### A. Introduction

The Association of Canadian Publishers (ACP) represents 115 book publishers, located in all ten provinces and Nunavut. Our members are independent businesses, owned and operated by Canadians, and they make critical contributions to Canada's creative industries. Along with our francophone counterparts, we are responsible for 80% of the new books written by Canadian authors each year and contribute to a \$1.6 billion industry.

Publishers are the hub of the book supply chain and have direct business relationships with authors, illustrators, printers, distributors, bookstores, libraries, and the education sector. As small businesses, we contribute to local economies; independent English-language publishers alone generate an economic impact of \$454.9M,<sup>1</sup> supporting the employment of 5,940 FTEs.<sup>2</sup>

Like other industries, publishing has been severely disrupted by COVID-19. On average, English-language publishers anticipate a decline in sales revenue of approximately 50% this year.<sup>3</sup> Across the Canadian-owned sector (French- and English-language), a loss of this scale would represent approximately \$218M.<sup>4</sup> Fewer sales will reduce royalties paid to authors and limit publishers' ability to invest in new titles and maintain staffing levels.

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<sup>1</sup> Nordicity, *The Canadian English-Language Book Publishing Industry Profile*, 2018, p. 4.

<sup>2</sup> Nordicity, p. 10.

<sup>3</sup> ACP membership survey, June 2020.

<sup>4</sup> In 2019-20, publishers eligible for Canada Book Fund support reported \$436M in sales (Canada Book Fund, August 2020).

Only 16% of publishers have full confidence that they will be able to maintain their publishing programs at pre-pandemic levels.<sup>5</sup> Cash flow concerns are paramount. In the mid- to long-term, distributors may not be able to pay publishers with any regularity.

The unexpected shutdown of retail, schools, and libraries; disruption to local and international supply chains; declines in tourism; and widespread cancellation of events have negatively affected revenues and created unprecedented market uncertainty. At the same time, the continued relevance of books has come into sharp focus. Demand for print and digital books has increased among consumers, public libraries, and educators, affirming the important role publishers can play in Canada's economic recovery.

Publishers are grateful for the Government of Canada's rapid response to COVID-19. 48% of ACP members have benefitted from the Canada Emergency Wage Subsidy (CEWS) and 53% from the Canada Emergency Business Account (CEBA).<sup>6</sup> ACP is encouraged by the Government's commitment to extend these programs into 2021.

The accelerated release of 2020-21 Canada Book Fund (CBF) and Canada Council for the Arts (CCA) funding also helped to relieve this spring's cash flow challenges, particularly for those companies not eligible for universal benefits. Phase 1 of the Emergency Support Fund for Arts, Culture, Heritage and Sports Organizations resulted in \$7.9M in emergency funding being recommended through the CBF to assist the crisis response of 236 publishers.<sup>7</sup> An additional 47 book publishers are eligible for support through the CCA under this program (amount TBC).<sup>8</sup> The \$10M recently invested in the temporary Support for Distribution program will maintain cash flow across the book supply chain. We look forward to evaluating the effectiveness of this measure in consultation with Canadian Heritage in the coming months.

Existing programs are helping publishers in the immediate crisis, but companies will face the mainstay of challenges in early 2021 and beyond. An uncertain retail market, vulnerable supply chain, and myriad sales and marketing challenges will require resilience, agility, and innovation. These characteristics are inherent to independent publishers who are experienced in adapting to challenging market conditions. However, given the magnitude of the crisis, a combination of government policy intervention and strategic investment is essential to protecting existing publishing infrastructure and stimulating sales, so that the industry not only survives, but thrives, in the years to come.

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<sup>5</sup> ACP membership survey, June 2020.

<sup>6</sup> ACP membership survey, June 2020.

<sup>7</sup> Source: Canadian Heritage staff, July 2020.

<sup>8</sup> Source: CCA staff, July 2020.

## **B. COVID-19's Impact**

The pandemic has amplified the challenges that make the Canadian English-language book marketplace among the most competitive in the world:

### **A small and competitive domestic marketplace**

- Amazon dominates online sales and has benefitted from the recent surge in online shopping. However, its inordinate terms of trade leave publishers with little to no margin on books sold.
- Chapters-Indigo dominates sales of print books in English-speaking Canada. With COVID-19 prompting some permanent store closures, many communities do not have access to a physical bookstore, further increasing consumer reliance on online channels.
- Independent booksellers have quickly adapted and are offering a mix of shopping options: online, curbside pick-up, and in-store where possible. The effort required to maintain sales is significant, and like other parts of the supply chain, the future is uncertain.
- Publishers have traditionally compensated for a small domestic market through international sales, but travel restrictions and the cancellation of major US and international trade shows have limited these opportunities. A return to regular business is tied to global recovery from COVID-19.
- In short, the sector remains concentrated and fragile, and the loss of sales revenue through any one channel is potentially devastating.

### **Discoverability**

- Bookstores and public libraries are among the most common ways readers discover new books.<sup>9</sup> With in-person browsing opportunities diminished, discovery is challenged, particularly for books by new authors. Readers are more likely to fall back on bestselling or heavily promoted international titles.
- Marketing has shifted online to a greater degree. Though social media and email marketing offer direct ways to connect with readers, publishers are

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<sup>9</sup> BookNet Canada, *Canadian Leisure & Reading Study 2020*, 2020, p. 20.

not only competing with each other, but with other industries that are relying on online promotion.

### **Returns**

- Introduced during the Great Depression to encourage booksellers to stock titles by untested authors, books are sold to retailers as returnable products. Unsold inventory can be returned for full credit.
- As in-person festivals and other literary events are cancelled, and tourism declines, books do not sell through. Retailers, whose own revenue has dropped, are returning unsold inventory for credit, effectively reducing publishers' future sales and putting pressure on distributor and publisher cash flow.

### **Digital transition**

- Canadian publishers produce books in numerous digital formats; however, the return on investment in digital production has been incremental. Print sales remain central to publishers' business model.
- Demand for digital products has increased as a result of the pandemic, among both consumer and institutional customers, but revenue generated by these sales does not come close to compensating for the loss in print sales.

### **Limited access to capital**

- Publishing is a low-margin business, with long-term investment required to create new titles, and independent publishers have limited access to capital. At the best of times, this persistent financial challenge undermines stability and limits growth; during a time of widespread economic uncertainty, the viability of companies is at greater risk.
- The CEBA has helped bridge the gap, but limits on commercial credit are adding pressure. Publishers' ability to respond to changing market conditions and opportunities is compromised.

## A broken copyright framework

- The damaging effects of the *Copyright Modernization Act* and unfair copying policies have had a dramatic impact on educational sales revenues while reducing publishers' ability to invest in new works.
- Calls from user groups for expanded fair dealing provisions, and the expectation of free or heavily discounted content, has grown during the pandemic. Concern that temporary emergency measures will become entrenched is growing.

## C. Tools for Recovery

Thanks to judicious government investment and far-sighted public policy, Canadian publishers have built an industry that is recognized around the world for its editorial excellence, creativity, and innovation. This will be celebrated internationally at the 2021 Frankfurt Book Fair, where Canada's role as Guest of Honour, originally scheduled for 2020, has been postponed. ACP thanks Minister Guilbeault and Canadian Heritage for their continued commitment to this initiative.

Publishers want to showcase the very best of Canadian writing and publishing in Frankfurt in 2021, and the industry is working actively to recover from the COVID-19 crisis. Government intervention is needed to ensure the publishing infrastructure that has developed over the last fifty years is sustained through 2021 and beyond.

ACP recommends the following measures be included in Canadian Heritage's COVID-19 recovery plan:

**Recommendation #1: Increase Canadian publishers' competitiveness in a post-COVID-19 economy by immediately increasing the permanent annual budget of the Canada Book Fund from \$38.4M to \$58.4M.**

The need for an increase to the Canada Book Fund (CBF) was widely accepted by government and industry before COVID-19; the pandemic has shifted this longstanding need from overdue to critical. ACP remains aligned with l'Association nationale des éditeurs de livres in calling on government to increase investment in the program. Existing CBF resources are inadequate to respond to this unprecedented crisis.

Recommendation #2: Provide continued emergency support to the book industry through renewal of the Emergency Support Fund for Cultural, Heritage and Sport organizations.

Though existing programs are helping publishers weather the immediate crisis, publishers will face the mainstay of challenges in early 2021 and beyond. Given the magnitude of the crisis, additional emergency investment in the sector on a temporary basis is essential to protecting existing publishing infrastructure and stimulating sales. With this support publishers can continue to make the necessary investments in sales and marketing for books launching in 2021, and in editorial development for titles scheduled for 2022 and beyond.

ACP recommends that the government:

- Provide additional emergency support to book publishers through extension of the Emergency Support Fund for Cultural, Heritage and Sport organizations (i.e. through a second round of investment at the same level of phase 1 support).
- Provide additional emergency support to support Canadian book distribution and retail through extension of the Emergency Support Fund for Cultural, Heritage and Sport organizations (i.e. through a second round of investment at the same level of phase 2 support).
- Refine the Support for Distribution program (phase 2), if needed, based on results of the initial investment and further consultation with the book industry.

Recommendation #3: Implement market-based solutions that encourage fair remuneration of rightsholders for use of copyright protected work through reform of the *Copyright Act*.

ACP's position on the need for copyright reform is well-established. The education sector's arbitrary interpretations of fair dealing since 2012 and illegal copying policies have resulted in market damage. The accumulated liability of the sector is now more than \$150M in licensing revenue alone, and this loss is exacerbated by an unknown loss of primary book sales.

COVID-19 has exposed longstanding weaknesses in the *Copyright Act*. The legal framework that should underpin our industry does not currently encourage publishers to invest in the content and infrastructure the pandemic demands; the educational market is broken. As K-12 and post-secondary educational institutions offer online or

blended learning this school year, clarity around fair dealing is urgently needed to ensure creators and publishers are fairly compensated for use of their work, and to encourage the continued supply of Canadian-specific learning materials.

ACP joins other writing and publishing organizations in recommending that:

- Fair dealing for education should only apply when a work is not commercially available under licence by the owner or a collective.
- Tariffs established by the Copyright Board must be mandatory.
- Adequate statutory damages must be available to all copyright collectives.

Recommendation #4: Stimulate local economies by introducing measures that encourage the purchase and reading of Canadian books.

ACP encourages Canadian Heritage to champion measures across government that would support the book industry in its recovery from COVID-19:

- Respond to Canadian-owned book retailers and publishers' request to extend Canada Post's Library Materials Rate to the sector to improve competitiveness and support fulfilment of increased online orders.
- Upon request from the Canadian library sector, provide support to initiatives that will incentivize the purchase of Canadian-authored and -published books from Canadian suppliers.
- Respond to calls from Canadian book distributors for a loan guarantee program to support them in maintaining payments to publishers during a time of slow payments from retailers.
- Introduce a consumer tax credit to incentivize purchasing of Canadian books, help increase retail promotion of these titles, and encourage consumer spending.

#### **D. Alignment with PCH recovery framework**

The measures outlined above would have a meaningful impact on the book industry and support its recovery from COVID-19, and together are aligned with Canadian Heritage's COVID-19 recovery framework:

1. Foster the sustainability of the arts and culture ecosystem by ensuring more stable sources of revenues for organizations and better remuneration for artists, creators, and cultural workers;
2. Increase the demand for Canadian art, productions and cultural products;
3. Increase the number of individuals from under-represented and equity-seeking groups who can earn a living from the creation and production of art and culture and participation in sport, including in management and leadership positions;
4. Reduce the environmental footprint of the art, culture, heritage, and sport sectors.

New investment in the industry through the Canada Book Fund and Canadian Heritage Emergency Support Fund for Cultural, Heritage and Sport Organizations would:

- **Increase demand** for Canadian books through support for enhanced sales and marketing efforts, and **improve remuneration** for creators and cultural workers as Canadian book sales increase.
- Support **investment** in the development of forthcoming books, including **payment of advances to creators**.
- Encourage **experimentation** with **new licensing models** for libraries and the education sector, which are anticipated to continue to expand digital collections and **improve access to Canadian content** in response to the pandemic through 2021.
- **Enhance export activity**, including experimentation with **new B2B platforms and online tools** to reach international partners while travel to international events remains limited.
- Support **succession planning** efforts, including initiatives to prepare emerging publishing professionals from **diverse backgrounds** for management and leadership positions.
- Amplify CBF's impact in **prioritizing support** for publishing houses owned by **Indigenous people** and **official language minorities**.
- Ensure Canadian publishers remain ahead of the curve with respect to **inventory management** and **supply chain initiatives** that increase efficiency and **reduce environmental impacts** in the industry.

A strong copyright framework will:

- Ensure **fair remuneration to publishers and creators** for use of their work by the education sector.
- Encourage **investment** in new works for the Canadian education sector.
- Spark **innovation and experimentation** with **new digital products**, particularly in response to the pandemic and shift to online education.

Measures that incentivize the purchase and reading of Canadian books will:

- **Increase demand** for and **access** to Canadian books among readers.
- Generate **additional revenue** for Canadian publishers and **increase remuneration** to authors.
- Ensure **infrastructure** is in place to **encourage investment** and **innovation** in a post-pandemic economy.

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ACP is the national voice of Canada's independent English-language book publishers. The ACP supports its 115 members in creating an economically sustainable Canadian-owned and -controlled publishing industry.

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