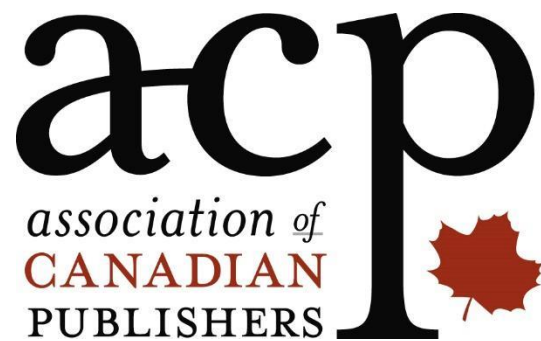


**Resilience, Agility & Innovation:
Canadian Publishers and COVID-19 Recovery**

**Written Submission to the Department of Finance
from the Association of Canadian Publishers**

February 2021



Summary of Recommendations

1. Increase Canadian publishers' competitiveness and support their recovery from COVID-19 by enhancing the Canada Book Fund for **three years starting in 2021-22. Double the program's existing \$38.4M budget to \$76.8M per year**, with additional support towards:
 - \$20M per year in new funding to support CBF's permanent programs (Support for Publishers and Support for Organizations).
 - \$10M per year to renew the temporary Support for Distribution program to maintain a robust book supply chain and support the sale of Canadian-authored and -published books.
 - \$7.4M to introduce a temporary program to stimulate the purchase of Canadian-authored and -published books by public libraries from Canadian suppliers.
 - \$1M to introduce a temporary postal subsidy to offset pandemic-related postage and shipping costs for Canadian-owned publishers.
2. Commit to **renewing the Canada Book Fund's permanent budget before 2024-25** to ensure that Canadian-owned and -controlled book publishers can compete in a post-pandemic economy.
3. Implement **market-based solutions that encourage fair remuneration** of rightsholders for use of copyright protected work through reform of the *Copyright Act*.
4. Continue to offer **universal emergency support programs**, including the Canada Emergency Wage Subsidy and Canada Emergency Rent Subsidy, through 2021.

A. Introduction

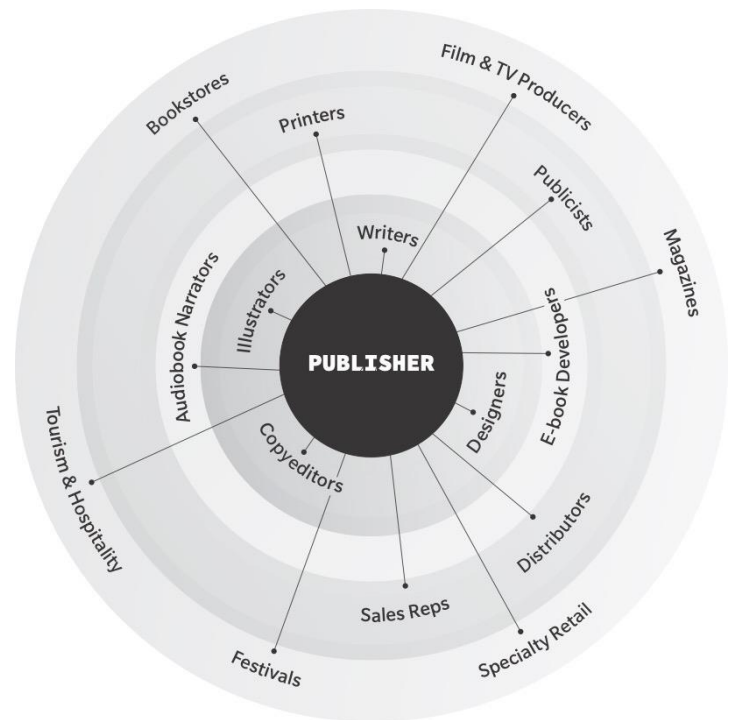
The Association of Canadian Publishers (ACP) represents 115 book publishers, located in all ten provinces and Nunavut. Our members are independent businesses, owned and operated by Canadians, and they make critical contributions to Canada's creative industries. Along with our francophone counterparts,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

Books play an important role among other media: they are long-lasting and authoritative, they contribute to building social cohesion, and they influence public debate. In today's media environment, Canadian book publishers make essential

contributions to democracy, culture, and education. The books they publish present a diversity of views and experiences, and provide education, information, and entertainment to Canadians.

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. Prior to the pandemic, independent English-language publishers alone generated an economic impact of \$454.9M,¹ supporting the employment of 5,940 FTEs.²

Like other industries, publishing has been severely disrupted by COVID-19. Among independent English-language publishers, 38% report a decline in domestic sales of between 20-40% in 2020. 32% report a decline of more than 40%.³



As we enter 2021, only 33% of publishers have full confidence that they will be able to maintain their publishing programs at pre-pandemic levels.⁴

Reduced sales revenue results in a corresponding decline in royalties paid to authors and also limits publishers' ability to invest in new titles and maintain staffing levels. Cash flow concerns remain paramount.

Though consumer book sales have rebounded, longstanding structural challenges have meant that pandemic recovery has been uneven across our industry. Barriers to market that small- and medium-sized independent presses faced prior to 2020 are becoming more entrenched.

Ongoing closures of retail, schools, and libraries; disruption to local and international supply chains; declines in tourism; and widespread cancellation of in-person events have negatively affected revenues and created unprecedented market uncertainty. At the

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

² Nordicity, p. 10.

³ ACP membership survey, February 2021.

⁴ ACP membership survey, February 2021.

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 commend the Government of Canada for its rapid response to COVID-19, which has allowed the sector to maintain publishing capacity through 2020. For our sector, a mix of complementary benefits has been essential to ensuring companies are adequately supported through the current crisis; one size does not fit all.

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 Canada Book Fund (CBF) to assist the crisis response of 236 publishers.⁵ An additional 40 book publishers received a total of \$564,000 in support through the Canada Council for the Arts under this program.⁶ The \$10M invested in the Support for Distribution program, administered by the CBF, has been widely praised by publishers, distributors, and booksellers alike, and is credited with maintaining cash flow across the supply chain and encouraging the stocking and promotion of Canadian-authored and -published books.

50% of ACP members have benefitted from the Canada Emergency Wage Subsidy (CEWS) and 44% from the Canada Emergency Business Account (CEBA).⁷ The Canada Emergency Rent Subsidy (CERS) has been accessed by 15% of ACP members.⁸ **Recent survey results demonstrate that need for these universal measures will continue through 2021**, particularly if economic lockdowns continue to disrupt regular business.

Now close to a year into the crisis, the long-term repercussions of the pandemic on the Canadian-owned publishing sector are becoming better understood. **It is clear that continued emergency support will be essential to recovery.** 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.

⁵ Source: Canadian Heritage staff, July 2020.

⁶ Source: CCA staff, February 2021.

⁷ ACP membership survey, November 2020.

⁸ ACP membership survey, February 2021.

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, which has entrenched its market position. 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 adapted and continue to offer a mix of shopping options: online, curbside pick-up, and in-store where possible. The effort required to maintain sales is significant, new costs—particularly consumer shipping—have been incurred, and like other parts of the supply chain, the future is uncertain.
- Instruction through K-12 schools and post-secondary institutions has been severely disrupted since March 2020, which has affected the purchase of new books and course materials. Publishers anticipate continued uncertainty in the education market as a result of the pandemic and are concerned that some measures—for example, the temporary closure of school libraries in some provinces—will become permanent and affect future sales revenue.
- Public libraries have adapted their services to accommodate changing public health measures, while patron requests for digital materials are growing. Print budgets are anticipated to be redirected to digital collection development, but libraries are seeking relaxed licensing agreements and borrowing limits. Many publishers have agreed to do so on a limited time basis; however, over the long-term this model is unsustainable and will have a direct impact on publisher revenue and author income.
- 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.⁹ With in-person browsing opportunities diminished, discovery is challenging, 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, and it is becoming clear that at least some of this shift will outlast the pandemic. Though social media and email marketing offer direct ways to connect with readers, publishers are 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.
- Continued uncertainty in the retail market is putting pressure on distributor and publisher cash flow. Retailers can return unsold inventory for credit, effectively reducing publishers' future sales. Close to half of ACP publishers expect returns in the first quarter of 2021 to be higher than the same period in 2020.¹⁰

⁹ BookNet Canada, *Canadian Leisure & Reading Study 2020*, 2020, p. 20.

¹⁰ ACP membership survey, February 2021.

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 develop 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, though few publishers are eligible for the Highly Affected Sectors Credit Availability Program (HASCAP).¹¹ Limits on commercial credit are adding pressure and 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.

¹¹ ACP membership survey, February 2021.

C. Tools for Recovery

Despite continuing market uncertainty, Canadian publishers are working actively to recover from the COVID-19 crisis. They are investing in new books, experimenting with new marketing strategies, and reimagining the way they do business with partners within Canada and internationally. Their ability to do this is thanks to judicious government investment and far-sighted public policy, which has provided a foundation that has allowed Canadian publishers to build an industry that is recognized around the world for its editorial excellence, creativity, and innovation. However, government intervention is needed to ensure that the publishing infrastructure that has been developed over the last fifty years is sustained through 2021 and beyond.

Recommendation #1: Increase Canadian publishers' competitiveness and support their recovery from COVID-19 by enhancing the Canada Book Fund for three years starting in 2021-22. Double the program's existing \$38.4M budget to \$76.8M per year.

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

In addition to immediate investment in existing programs, **additional emergency investment in the sector is essential to protecting existing publishing infrastructure and stimulating sales of Canadian-authored and -published books.** The CBF is the natural vehicle to deliver this support, as was demonstrated by the successful roll-out of the emergency Support for Distribution program in fall 2020.

ACP recommends that additional funds be invested in a mix of targeted, complementary measures:

<i>Investment</i>	<i>Rationale</i>	<i>Delivery Mechanism</i>	<i>Results</i>
\$20M per year in new funding to support CBF's permanent programs.	An essential piece of infrastructure for the Canadian-owned publishing sector, CBF's budget is recognized by both industry and government as being inadequate to meet its	Existing CBF programs: Support for Publishers and Support for Organizations	Job creation and retention: Creation of new jobs is cited by publishers most frequently as an anticipated outcome of new investment in the CBF, including recruitment of staff from racialized communities that are currently under-represented in the industry;

	objectives. The pandemic has made this challenge more acute.		<p>44% of survey respondents indicated they would hire more staff if their CBF grant were to increase.¹²</p> <p>Investment in new book projects and advances paid to Canadian writers.</p> <p>Investment in new sales and marketing strategies to reach new audiences and rebuild sales revenue.</p> <p>Enhanced investment in digital formats, including ebooks and audiobooks.</p> <p>Improved inventory management and supply chain initiatives, contributing to a reduction in the industry’s environmental footprint.</p>
<i>Investment</i>	<i>Rationale</i>	<i>Delivery Mechanism</i>	<i>Results</i>
\$10M per year to extend the Support for Distribution program.	Launched as part of Canadian Heritage’s Phase II Emergency Support Program, the Support for Distribution program has been widely hailed as a success by publishers, distributors, and booksellers alike. 100% of booksellers who responded to a recent survey about the program support its renewal. ¹³	Existing CBF program: Support for Distribution	<p>Maintenance of a robust book supply chain.</p> <p>Improved stability for Canadian distributors and publishers thanks to reliable cash flow.</p> <p>Sales support for Canadian-authored and -published books.</p> <p>Increased sales revenue for Canadian publishers.</p> <p>Increased royalties paid to Canadian authors.</p>

¹² ACP membership survey, February 2021.

¹³ Canadian Independent Booksellers Association survey, February 2021.

<i>Investment</i>	<i>Rationale</i>	<i>Delivery Mechanism</i>	<i>Results</i>
<p>\$7.4M per year to incentivize the purchase of Canadian-authored and -published books by public libraries through Canadian suppliers.</p>	<p>Canadian publishers have been actively working to diversify revenue streams and increase the presence of Canadian-authored books in public libraries. An incentive to increase the purchase of Canadian books by public libraries would increase publisher sales revenue and also provide a promotional outlet for these titles.</p>	<p>New CBF program.</p> <p>The Canadian Urban Libraries Council will support promotion of this program to public libraries and assist in identifying sales of eligible titles through Canadian library suppliers.</p> <p>CBF Support for Publishers recipients could report sales of eligible titles to the CBF as part of their annual funding application.</p> <p>A formula could be applied to eligible sales to assign funding to publisher recipients.</p> <p>Recipients would use this funding to offer rebates to libraries via Canadian suppliers for purchase of Canadian-authored books.</p>	<p>Increased sales revenue for Canadian publishers.</p> <p>Increased royalties paid to Canadian authors.</p> <p>Enhanced local collections in public libraries across the country and increased access to Canadian-authored books for the public.</p>
<i>Investment</i>	<i>Rationale</i>	<i>Delivery Mechanism</i>	<i>Results</i>
<p>\$1M to introduce a temporary postal subsidy for Canadian-owned publishers.</p>	<p>Canadian publishers have seen a dramatic increase in direct-to-consumer orders over the course of the pandemic, particularly for backlist titles that are not readily available through</p>	<p>New CBF program.</p> <p>CBF publisher recipients could report eligible shipping costs as part of their annual application to the program.</p>	<p>Publishers' ability to compete with major online retailers would improve.</p> <p>Margin on direct-to-consumer sales would improve, allowing increased investment in new books, staffing, and sales and marketing.</p>

	<p>traditional retail channels. Consumers have become accustomed to free shipping. The cost of shipping these titles, however, is prohibitive and often exceeds the margin a publisher would earn on sales.</p>	<p>A formula would be applied to publishers' eligible shipping expenses to assign funding on a proportional basis to recipients.</p> <p>A portion of the fund could be reserved for disbursement through national publishing associations for publishers who do not yet meet the eligibility criteria for Support for Publishers, ensuring more equitable access to this subsidy.</p>	
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Recommendation #2: Commit to renewing the Canada Book Fund's permanent budget before 2024-25 to ensure that Canadian-owned and -controlled book publishers can compete in a post-pandemic economy.

A highly regarded program of the Department of Canadian Heritage, the Canada Book Fund (CBF) is a sales-based program, which has been rigorously developed and administered to support Canadian-owned publishers who employ best business practices, commit to innovation, and promote Canadian authors at home and internationally. Its budget has been stable but static since 2001—before the widespread adoption of online retail, smartphones and e-readers; before the proliferation of digital formats; and before widespread consolidation in global book publishing, distribution and retail. **The real value of CBF's budget has declined more than 40% over the last twenty years**, and its erosion means that the program, and by extension the publishers it serves, must do more with less in a competitive and evolving market.

The Standing Committee on Finance is aware of the essential role the CBF plays, and in 2016 made an all-party recommendation to Parliament that the Fund be increased. That recommendation has not yet been implemented, but was reinforced in 2019 by

Heritage's own evaluation of the program, which found its resources were insufficient to meet its objectives.

As noted above, ACP recommends an increase to the CBF's permanent programs on a temporary three-year basis, which we anticipate will correspond with a period of COVID-19 recovery; however, **the need for permanent investment in the program is not expected to diminish during this period. Renewal of the program will be essential to the sector's future.**

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: Continue to offer **universal emergency support programs**, including the Canada Emergency Wage Subsidy and Canada Emergency Rent Subsidy, through 2021.

Continued uncertainty in the book market will persist through 2021 and many companies will continue to see sales revenue fluctuate in response to retail lockdowns, the absence of tourism, and other market disruptions. The emergency measures the Government of Canada has introduced over the past year offer a range of supports that respond to the needs of companies facing periods of reduced revenue. ACP recommends **extending universal emergency benefits through 2021 so that support can be accessed by companies who need it to maintain capacity.**

D. Conclusion

Canadian book publishers have risen to the challenges stemming from the COVID-19 pandemic and are poised to apply the experience gained over the past year to our businesses in the years ahead. **We are grateful for the longstanding support of the Government of Canada for our industry and look forward to working in partnership with you and others across the book supply chain to contribute to Canada's economic recovery.**

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