



December 3, 2020

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Members of the Standing Committee on Canadian Heritage
c/o Mr. Thomas Bigelow, Clerk of the Committee
Sixth Floor, 131 Queen Street
Ottawa, ON K1A 0A6

Delivered by email: chpc@parl.gc.ca

Dear Members of the Standing Committee on Canadian Heritage,

On behalf of the Association of Canadian Publishers (ACP), I am pleased to provide a submission to your current study on "Challenges to Art, Culture, Heritage and Sport Sectors caused by COVID-19."

Like other cultural industries, publishing has been severely disrupted by COVID-19. Among English-language publishers, 36% anticipate a decline in sales of more than 40% in 2020. 10% anticipate a decline of more than 60%. Fewer sales will reduce royalties paid to authors and limit publishers' ability to invest in new titles and maintain staffing levels. Only 33% of publishers have full confidence that they will be able to maintain their publishing programs at pre-pandemic levels. Cash flow concerns are paramount. In the mid- to long-term, distributors may not be able to pay publishers with any regularity.

Our recommendations to support recovery are provided in the attached brief, which has also been shared with the Office of Minister Steven Guilbeault as part of the Department of Canadian Heritage's recovery planning process. I have also attached an information piece on publisher cash flow, which provides an overview of why, in light of COVID-19 restrictions, cash flow will remain a challenge for publishers into 2021.

We would be pleased to provide more information as required. Thank you for your continued attention to our industry and its challenges.

Yours sincerely,

Kate Edwards
Executive Director

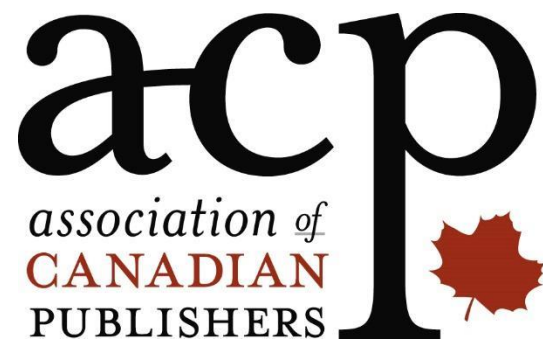
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Encls.

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

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

Updated November 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,¹ supporting the employment of 5,940 FTEs.²

Like other industries, publishing has been severely disrupted by COVID-19. Among English-language publishers, 36% anticipate a decline in sales of more than 40% in 2020. 10% anticipate a decline of more than 60%.³ Fewer sales will reduce royalties paid to authors and limit publishers' ability to invest in new titles and maintain staffing levels.

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

² Nordicity, p. 10.

³ ACP membership survey, November 2020.

Only 33% of publishers have full confidence that they will be able to maintain their publishing programs at pre-pandemic levels.⁴ 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, which has allowed the sector to maintain publishing capacity through 2020. 50% of ACP members have benefitted from the Canada Emergency Wage Subsidy (CEWS) and 44% from the Canada Emergency Business Account (CEBA).⁵ 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.⁶ An additional 47 book publishers are eligible for support through the CCA under this program (amount TBC).⁷ 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.

⁴ ACP membership survey, November 2020.

⁵ ACP membership survey, November 2020.

⁶ Source: Canadian Heritage staff, July 2020.

⁷ 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.⁸ 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

⁸ 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.

* * * * *

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.

For more information:

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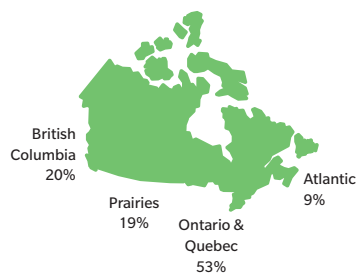
Cash Flow Crunch

The impact of COVID-19 on Canadian book publishers



Snapshot

245 English-language publishers

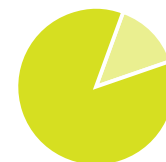


GDP impact: \$454.9 million



5,940 full-time jobs

\$404 million in revenue



78% of new titles published every year are by Canadian authors

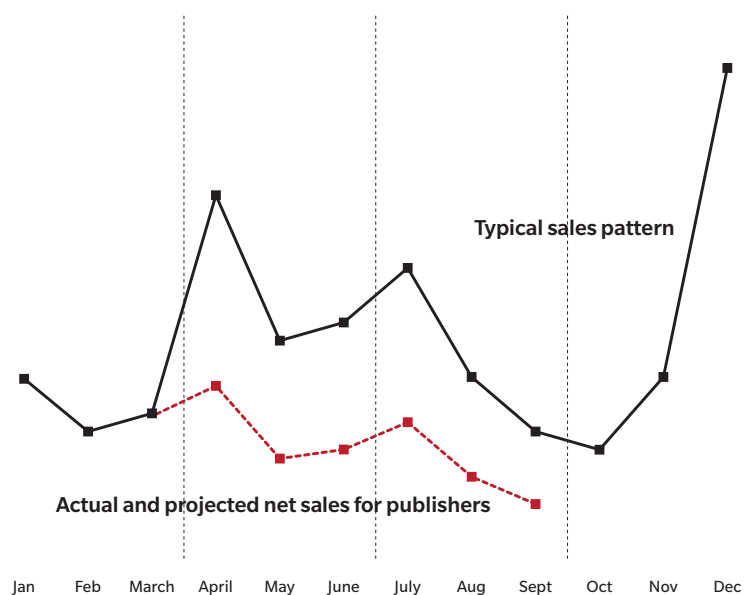
A year like no other

A look at 2020

The pandemic has been incredibly challenging for Canada's book publishers. Physical bookstores shut their doors for months, and online sales could not make up for the absence of consumers in stores. BookNet Canada reports that consumer sales were down 24% through spring and early summer; in some weeks, sales had fallen to nearly half (+44%) of what they were in the same period in 2019.

Store closures in the spring have had a lasting impact on Canadian publishers' cash flow – even though bookstores' sales to consumers bounced back in the summer months of 2020. This is because sales to consumers do not tell the whole story of what has happened in the Canadian book business this year. We'll look at why this is in the coming pages, but for now, you'll see from the graphic that publishers' sales are departing sharply from a typical annual pattern.

The latest survey numbers show that 72% of publishers project an overall sales revenue decrease of more than 20% in 2020. Thirty-six percent expect a decline of more than 40%.



BookNet Canada data illustrating the sales distribution pattern for the fiction category. Other trade categories are similarly dependent on November-December sales.

Supply chain slowdown

Impact of the shutdown

When the Covid-19-related shutdown occurred in the spring, bookstores were less able to buy from publishers and ended up holding more inventory because of lower consumer sales. Needing to conserve cash and reduce payables, many bookstores increased the number of books they returned to publishers.

The anatomy of a return

Returns are a decades-old market feature unique to the industry. In a nutshell, if stores decide that certain books aren't selling well or fast enough, they can return them to publishers. Instead of cash payments, publishers receive a box of books.



All Canadian publishers took a sales hit in the spring due to the closures, and many also had to cope with increased returns throughout the summer. The entire ecosystem of the industry was disrupted, causing a cash flow problem that threatened a multitude of jobs across the country.

The Canadian government acted immediately and generously to provide supports for the industry, helping to prevent the worst-case scenario that so many feared: having to lay off full-time staff and/or close down.

Even so, more than a third of Canadian independent publishers this year expect to see sales revenue fall by as much as half of what it was in 2019.

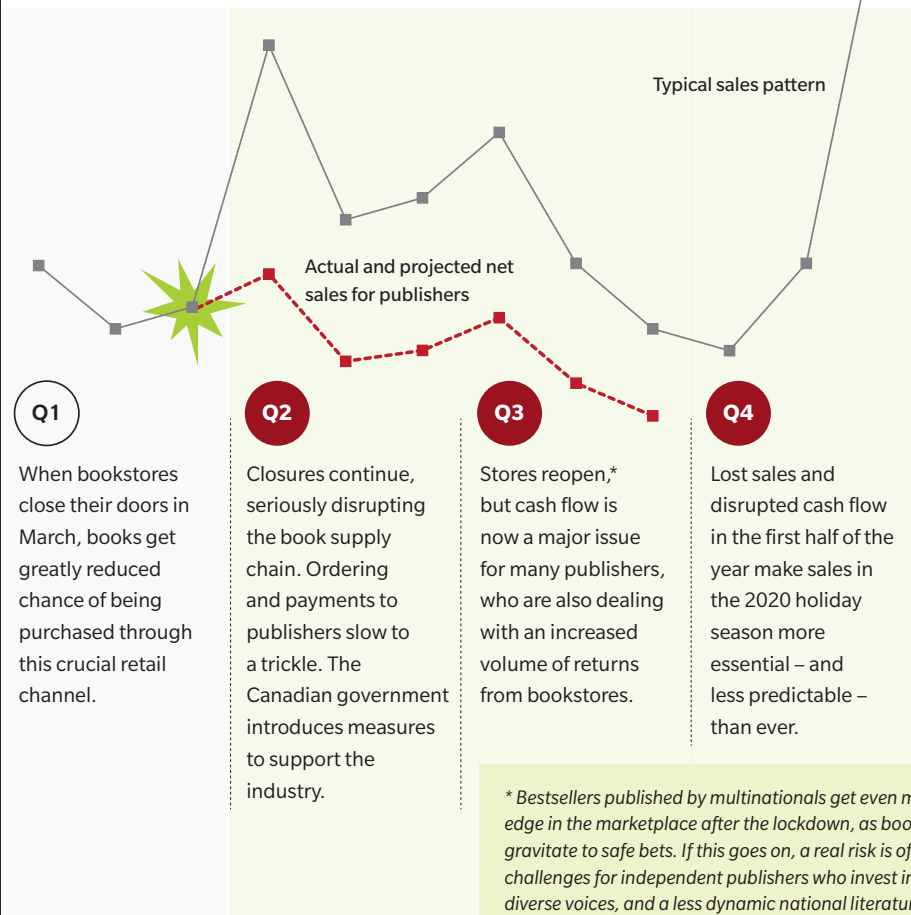


“As challenging as this year has been, we’ve experienced the unfailing support of our government and the Association of Canadian Publishers. Their exceptional efforts to keep publishers afloat in the crisis inspired me to work even harder in my business than before. It was clear that our contributions to Canada were viewed as essential.”

*Catherine Gerbasi, Publisher of **Portage & Main Press**
and Co-founder of **HighWater Press***

Disruption & uncertainty

A closer look at factors impacting cash flow in 2020



“We are struggling with greater uncertainty than ever before, which makes planning/producing enough to meet demand nearly impossible. Retailers are placing smaller orders than usual; this makes determining print runs exponentially more difficult, and fulfilling many smaller orders drives up shipping costs. All of this is additional strain during a time of unpredictable cash flow.”

*Leigh Nash, Publisher, **Invisible Publishing***

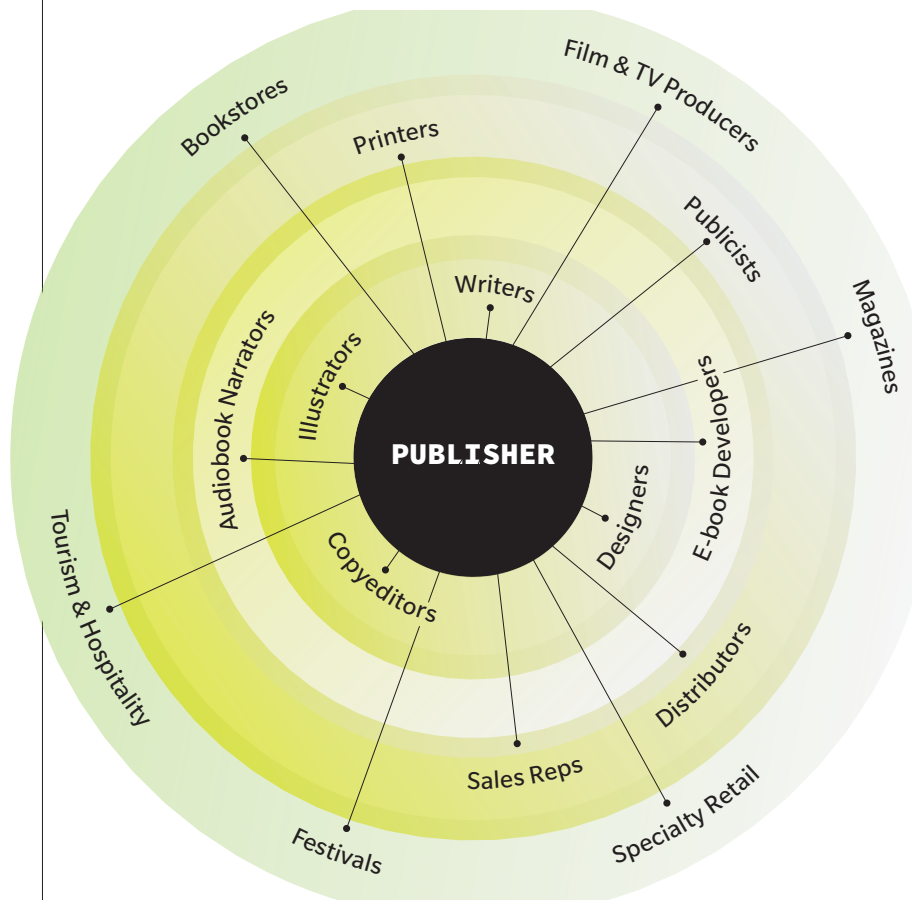
“The pandemic has helped Amazon further increase its market dominance, which is dangerous for our industry, among others. And, because discoverability for smaller books is much more challenging, big American titles are also increasing in market share. These trends, which benefit only the behemoths, are worrying.”

*Alana Wilcox, Publisher, **Coach House Books***

Chain reaction

When cash flow is interrupted, what is at stake?

Predictable and sufficient cash flow makes it possible for publishers to pay author royalties and staff salaries, and to support other crucial jobs in the Canadian cultural ecosystem. The livelihoods of many are at stake.



“This year underlined the crucial role of government interventions in ensuring that Canadian books keep moving from authors to publishers to bookstores to schools and libraries ... so they get to Canadian readers and students. There’s never been a more crucial time to strengthen the integrity of this supply chain.”

*Rebecca Rose, President, **Breakwater Books Ltd.***

What's next?



As you read this, thousands of people in the Canadian publishing and bookselling industries are working harder than ever before to get books into the hands of readers and gift-buyers – the holiday sales season is underway. What happens now will set the stage for the year ahead.

“Without the incredibly quick response of the Canadian government – including the top-up of the Canada Book Fund, the Canada Emergency Wage Subsidy, and now the emergency relief fund for distributors – this would have been an extremely damaging year for publishers across the country, with ramifications for our lists into next year too. These programs made all the difference.”

*Matt Williams, Vice President of Operations,
House of Anansi Press*



“The Canadian government introduced terrific measures to support our industry in this most challenging time – huge credit goes to them for supporting the book supply chain so effectively throughout the year. We’re hoping that enough books sell through from bookstores to consumers in November and December; if they don’t, we’re unfortunately going to face the same cash flow crisis in early 2021 as we did in the spring of 2020.”

*Hamish Cameron, Vice President of Distribution, **University of Toronto Press***

“The past eight months have been the most challenging time in Orca’s 35-year history. As a publisher and distributor we needed to look out for ourselves but also the publishers we distribute. Cash flow is a huge issue and while the CEWS was vital to our survival, the most important part became how we adapted and innovated. We were able to cut costs and adjust our program but our revenue this year will be off close to \$1 million. We have refinanced and borrowed a significant amount of cash to assist with moving forward. Orca is fortunate in that we own our building so we were able to access financing. However, the entire Canadian industry is struggling.”

*Andrew Wooldridge, Publisher, **Orca Book Publishers***

For more information, contact Kate Edwards, Executive Director,
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