

Protecting and Growing Market Share  
with a Powerful Neighbour Next Door  
*or*  
Underdogs and Overdogs

*Presentation to the CLÉ International  
Conference on Irish Book Publishing  
“Toward a National Book Policy”*

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I want to thank CLÉ, in the persons of Tony Farmar and Fergal Tobin, for inviting me to Dublin to speak with you. It's wonderful to be here.

And I thank them too for seeing the potential relevance of the Canadian book publishing experience to Ireland. Canada's culture is, of course, far younger than your own. But I understand our publishing industries have a lot in common – including what Tony terms “the problem of the over-mighty neighbour.” That's a phrase I intend to plagiarize as soon as I get home.

When I started in book publishing in the 1960s, Canada had the problem of two over-mighty neighbours. Not only were books from the United States dominant everywhere, but so, to some extent, were books from Great Britain. Publishing Canadian books in competition with these powerful forces was practically a subversive underground activity in our own country.

This was the legacy of having been colonized politically and culturally by first one English-speaking empire, then the other. Central to the situation was the fact of a common language – not a problem for other small populations sharing a border with a mighty neighbour, such as Denmark or the Netherlands, but a real issue for Canada or Ireland.

In addition to competition from less expensive imported books, Canada's relatively small market meant that economies of scale conducive to profitability were lacking. Compounding this disadvantage, Canadian publishers had to underprice their books in their own market to compete with cheaper American books.

In French-speaking Canada, representing one-quarter of the population, the situation was duplicated by competition from books imported from France.

Two quotations sum up the dilemma more succinctly than I ever could.

The first is from Morley Callaghan, a novelist of Irish descent who ushered in the modern era in Canadian fiction. In the 1920s, Callaghan's early work caught the attention of Ernest Hemingway and Scott Fitzgerald, who befriended him in Paris.

[Insert Hemingway boxing story.] Callaghan was able to live from the proceeds of his writing, but only because he published with Scribners in New York. Later he came up with this pithy observation:

*[Show Overhead #1]*

**“Canada is no publisher’s paradise.”**

That observation remained true for a very long time. A generation later, it was fleshed out by a 1973 Royal Commission on Book Publishing. Comparing book publishing in Canada and the U.S., the Commission stated:

**“The same percentage of publishing misjudgments is more costly in Canada, and the same percentage of publishing successes provides less income with which to underwrite the mistakes.”**

*[Remove Overhead]*

That quotation represents an elegant formulation of the dilemma. It reflects the economies of scale problem, as well as the unforgivingly narrow margins that result. From colonial times to the present, it has always been far more profitable to import books into Canada than to originate them. (I should add that, compared to

Ireland's population of 5 million, Canada's 20 million-plus English-speakers may seem like a pretty large market. But the crucial point is that our market is still less than 10 per cent of our chief competitor, the U.S.)

In the 1960s or '70s, no one would have dreamed of writing a book about Canadian publishing. There simply wasn't enough of it, and Canadian publishers had an estimated domestic market share of only 20 per cent. But by 2003, the industry had grown much larger – dynamic enough culturally, and successful enough internationally, even though still fragile economically, to merit a book unto itself – and I wrote it.

[*Show Overhead #2*]

This is the jacket of the first, hardcover edition of *The Perilous Trade: Publishing Canada's Writers*. I don't know what you think, but to my eyes, the design has a certain elegance to it.

[*Remove Overhead*]

By the time my publishers brought out an updated edition in paperback, they thought the design ought to reflect more frankly the precarious nature of the business:

[*Show Overhead #3*]

Perilous it may still be, but the industry does manage to stay upright, more or less, on that high wire. It's a constant balancing act, as I'm sure it is here, between robust cultural expression and hard business necessity.

[*Remove Overhead*]

The American trade magazine *Publishers Weekly* once devoted an issue to Canada, headed: "Canada, If You Can Make It Here, You'll Make It Anywhere." Undeniably the Canadian industry is battle-hardened from surviving in a highly

competitive environment. But it is also much larger and more diverse today than a generation ago. To give you some sense of that growth, I'll cite a few figures:

- In 1970, Canadian publishers in both languages had sales of just \$222 million. This includes both Canadian and imported books. In the most recent survey year, revenues were \$2.2 billion – a 1,000 per cent increase in 35 years. Even allowing for inflation, that's a substantial rate of growth.
- To make a more recent comparison, the past decade saw almost a doubling of Canadian publishers' revenues, and a tripling in their exports. Sales abroad now represent 16 per cent of total industry revenues.
- A total of 330 Canadian publishers now produce 17,000 new titles per year, about three-quarters of them in English and one-quarter in French.

Within this pattern of growth, there exists another significant pattern. Of the 330 publishers, all but 19 are Canadian-owned, and they produce well over 80 per cent of all titles by Canadian authors. But those same indigenous publishers control just 41 per cent of their domestic market.

The remaining 59 per cent is in the hands of 19 multinational subsidiaries. The subsidiaries, including Random House, McGraw Hill, HarperCollins, Penguin and Hachette, are much larger and, on average, vastly more profitable than indigenous firms. They enjoy the inestimable advantages of access to capital and to profits from the high-volume, high-margin business of marketing their parent company's product lines. To give them credit, they also publish a great many leading Canadian authors.

There's a continuing sense among Canada's indigenous publishers of being underdogs, competing with the multinational overdogs. These two groups share the same market, but for the past 35 years have actually had separate industry associations.

Nonetheless: a 41 per cent domestic market share for indigenous publishers is *double* that of the 1970s. Doubling market share is a significant achievement, both economically and culturally. And in terms of foreign sales, over 90 per cent of export revenues are earned by the Canadian-owned publishers, who have greater incentive to export than multinational subsidiaries.

Equally important, Canadian books have dramatically increased not only in quantity, but in quality and international recognition. Canadian writers now travel extremely well. Between 1992 and 2003, Michael Ondaatje, Margaret Atwood and Yann Martel won the Man Booker Prize. Alistair MacLeod won the IMPAC Dublin Literary Award in 2001. Carol Shields took a Pulitzer and a National Book Critics Circle Award in the United States. Novelists Ann-Marie MacDonald and Rohinton Mistry have been anointed by Oprah Winfrey. International critics have hailed Alice Munro as the finest practitioner of the short story in English, although some make an argument for another Canadian, Mavis Gallant. (But are they as good as William Trevor? That's a matter of personal taste.)

How then did all this industry growth and literary development come about?

### **A National Book Policy**

It would be foolish and wrong to give governments too much credit for what I've called in the new edition of *LOGOS* "the Canadian publishing miracle." But there's no denying

that the unique policy model adopted in Canada has had a very strong, positive influence on the indigenous industry's ability to grow, to invest in Canadian authors, and to withstand economic downturns and other calamities – such as the dominant national bookstore chain in the late 1990s returning books in lieu of paying its bills.

Begun in a modest way in 1972, Canada's national book policy has evolved in stages over the past 35 years into a comprehensive strategy. Different measures were introduced as different needs arose: for example, having stimulated production of more Canadian books through public investment, it became clear that public awareness through improved marketing, and public accessibility through improved distribution, needed greater attention.

I'll give you an overview of the Canadian strategy by breaking it down into its interrelated parts.

*[Show Overhead # 4]*

## **CANADIAN MEASURES FOR BOOK PUBLISHING**

### ***1. FUNDING PROGRAMS***

#### **Book Publishing Industry Development Program**

- Aid to Publishers
- Aid to Industry and Associations
- Supply Chain Support
- Export Development

#### **Canada Council for the Arts**

- Writing Grants
- Block Grants for Publishers
- Translation Grants

#### **Provincial Grant Programs**

## **2. LOAN & INVESTMENT PROGRAMS**

**Federal & Ontario Loan Guarantee Programs**

**Quebec SODEC Program**

## **3. TAX MEASURES**

**Provincial Tax Credits for Production & Marketing Costs**

## **4. REGULATION**

**Foreign Investment Controls**

**Copyright: Reprography & Distribution Rights**

It's worth noting that the starting point for these policy measures was the American takeover of two venerable Canadian publishers in the early 1970s, and the financial struggles of the most important domestic publisher at the time, McClelland & Stewart.

The Royal Commission on Book Publishing was then called into being to address what was widely considered a cultural crisis. Royal Commissions are a quaint Canadian custom, usually convened when a government has a problem it wants to *appear* to be doing something about. But in this case, the Commission not only studied the issue but actually produced results.

The Commission's central idea was a cultural one: improving what it called "the climate for authorship." It saw Canadian publishers as working at a severe structural disadvantage to their multinational competitors in regard to capital and financing operations out of revenues. But since indigenous firms also showed by far the greatest

commitment to Canadian authors, the Commission's proposed remedy was a range of measures to enhance the climate for authorship by strengthening Canadian-controlled publishing.

With its rigorous analysis and vision, the Commission set in motion a chain of policy developments over many years. Today these measures fall under the four headings displayed before you: *Funding, Lending, Tax Credits, and Regulation*. Working together in an integrated fashion, each measure has a distinct purpose and methodology.

### **1. *Funding Programs***

*The Book Publishing Industry Development Program* wasn't the first federal program to be adopted but it's the largest today, at \$38 million. It takes a broadly based approach to the industry and is directed at Canadian-controlled firms that have reached a certain scale of development. The program is administered by the department responsible for culture, as opposed to the arts council, and has four components:

Under the *Aid to Publishers* component, the program makes annual financial contributions to some 200 firms. These contributions may be applied to any aspect of the publisher's operations until the firm reaches 15 per cent profitability, in which case the funds become repayable.

The amount of each contribution is calculated on a mathematical formula, based on the firm's previous year's sales of its eligible (mainly Canadian-authored) books. Using sales as the unit of measurement is intended to reinforce

success in the marketplace. In that sense, the program has an “industrial” focus, albeit with a cultural motive.

Under the *Aid to Industry and Associations* component, grants are made to associations and groups within the larger book industry. These grants support collective projects in marketing, research and professional development.

Under the *Supply Chain* component, funding is available to publishers and other industry players to support innovations that make book distribution more efficient. Areas of concentration currently include creation of electronic bibliographic data, electronic data interchange between suppliers and retailers, and sales data analysis.

Under the *Export* component, publishers receive assistance for international marketing of their books, with an emphasis on attending international book fairs and promoting Canadian writing around the world.

The other major federal programs are administered by *the Canada Council for the Arts*. This is the national arts council, and its programs are targeted very specifically to literary works. These can include non-fiction as well as fiction, poetry and drama, but certain large categories of non-fiction are excluded: e.g. educational materials, guidebooks, self-help books and other commercial genres.

The Canada Council is an independent agency operating at arm’s length from government. It uses peer-assessment, often through a jury system, to provide grants to:

- i. *Writers* to support creation of works in the literary arts;

ii. *Book publishers* to support production and marketing of books in the literary arts, and collective promotion and distribution projects; and

iii. *Translators* to render Canadian books from one official language to the other on behalf of domestic publishers, or from English or French into foreign languages on behalf of international publishers.

*Provincial Grant Programs:* Canada's 10 provinces also administer smaller grant programs to support book publishing in their jurisdictions.

## ***2. Loan and Investment Programs***

*Federal and Ontario Loan Guarantee Programs:* These loan programs no longer exist, but I mention them because they represent another practical solution to publishers' financing problems. For many years the Ontario program, in particular, played an important role in assisting some Canadian firms to obtain bank credit.

The programs addressed publishers' chronic difficulty in gaining acceptance of their receivables and book inventories as security for bank loans. Using criteria that limited exposure to default by borrowers, the programs provided commercial lenders with government guarantees on loans made to eligible book publishers.

*Quebec SODEC Program:* The *Société de Développement des Entreprises Culturelles*, or Cultural Industries Development Corporation, is an arm's-length agency under provincial jurisdiction in Quebec. It lends money to private-

enterprise publishers, as well as film, television and record producers, and sometimes participates in publishing projects as an investor.

### **3. Tax Measures**

The most populous of Canada's 10 provinces, Ontario, Quebec and British Columbia, contain the lion's share of the nation's book publishers. Each of these provinces has a program of refundable tax credits for book publishers. The tax credits apply to a publisher's prior investment in specific categories of Canadian books. The methods of calculating these tax credits vary. But in each case, the credit either reduces the publisher's tax bill, or, if the publisher owes little or no tax on profits – as is all too often the case – the credit is refundable.

### **4. Regulation**

Canadian government regulation of the book industry applies principally to three areas: *Foreign Investment*, *Reprography Rights*, and *Distribution Rights*.

In order to build and strengthen the parts of the industry under Canadian control, the federal government began in 1974 to limit foreign investment in book publishing. As the responsible minister stated at the time, "Canadian books and magazines are too important to the cultural and intellectual life of this country to be allowed to come completely under foreign control, however sympathetic and benign."

New foreign investment was restricted to joint ventures with Canadian control. This ruled out a) foreign takeovers of Canadian-owned publishers, and b)

entry into Canada of new foreign-controlled publishers. It also meant that pre-existing multinational subsidiaries were grandfathered under the policy. This has effectively insulated them from competition from other multinationals within the Canadian market, which contributes to the dominance of a small handful of subsidiary publishers. But the foreign investment policy has also, in tandem with the funding and tax credit programs, stabilized the ranks of indigenous firms.

Canada's *Copyright Act* has been amended to provide two types of market protection for authors and publishers: Reprography and Distribution Rights. Apart from single copies for private study, authors and publishers must be compensated for copying of their works by fees paid to the national copyright collectives. And to stop the practice of what we term "buying around," Canadian book retailers may purchase books only from the authorized rights holder: i.e. the Canadian edition, if any, or, in the case of imported titles, the edition available from the authorized Canadian distributor.

[*Remove Overhead*]

### ***Conclusion***

Now in case it appears from the foregoing that Morley Callaghan is no longer right, and Canada *has* become a publisher's paradise, let me stress that the indigenous sector is hardly rich. It is, however, fairly stable – despite a string of disappearances of important firms over the years.

Public funding in the form of grants represents only 4 per cent of the sector's total revenues – somewhat higher if one includes the value of provincial tax credits.

Meanwhile, the sector's profitability in a typical year is 3 per cent. Hence public funding plainly makes the difference between red ink and black. It makes indigenous Canadian publishing, right across the country and across a wide diversity of genres, viable and possible.

It's also important to underline that Canada's book policy has always been based on a vital principle: delivery of public support in a fair and equitable way, and at arm's length from political control or bureaucratic censorship. The free market in ideas remains as free in Canada as anywhere else.

Governments have the capacity neither to generate good authors nor create good books. For those precious commodities, we must always rely on the native genius of writers and the skill and enterprise of publishers. But governments *can* positively influence the environment for writing and publishing by creating favourable conditions for creativity and investment.

As Canada has found, a well-conceived national book policy can be instrumental both in developing literature and getting books into the hands of readers. Provided it is designed in collaboration with the publishing industry, and implemented over a substantial period of time, a national book policy can close the gap between underdogs and overdogs, while enhancing the climate for authorship.

The political process of advocating on behalf of publishing and lobbying governments to adopt and implement a national policy is another story. It is related, in the Canadian context, in my book.

I'll just add a brief coda here, in response to a request from Tony and Fergal. It may be useful to you in advocating your cause to the Irish government. Based on my

experience of handling government relations for the Association of Canadian Publishers, these are what I call my **5 Habits of Highly Effective Lobbyists:**

**1. Make Your Cause the Government's Cause**

Find a way in which supporting book publishing can serve the government's agenda and work to its political benefit. Somewhere, somehow, there is always common ground for a win-win.

**2. KISS – Keep It Simple, Stupid**

This of course is the old slogan of the Bill Clinton campaign. At the ACP, we reduced our demands to a simple formula called the 3-Point Plan, which we constantly repeated like a mantra in meetings with government officials. This made it easier for them to remember what we wanted.

**3. Politicians *and* Officials**

As important as it is to get the ear of Ministers and MPs, always remember that it's the public servants who advise the Ministers, do the work and implement the agenda. It's essential to keep close and friendly relations with the bureaucrats.

**4. Mobilize your Membership**

The more pressure points you can influence in the political system, the better. At the ACP we made advocacy a collective effort by organizing an MP Network. Every member throughout the country had an MP in their constituency, and it was their job to get to know the MP personally, make him or her aware that there was a publishing company in the riding, present the MP with new books at Christmas and other special occasions, invite the MP to book launches, etc. This heightened

the profile of publishing in Parliament and educated MPs about its economic and cultural importance.

### **5. Finally, Don't Give Up**

Even when the cause seems lost or hopeless, the effective lobbyist knows it's possible to live and fight another day. Governments, Ministers, even public servants change. Many times I've seen a reversal of fortune just when things look black, so it's essential to hang in there, keep your head high and keep your issues before the government.

And now if I can answer any questions, I'd be happy to do so.