
F Design of financial support for book producers

Australia, like other countries, currently provides subsidies and other financial support for book related activity, in addition to legislated Parallel Import Restriction (PIR) protection. The three main mechanisms — the Australia Council Literature Board grants, the Public Lending Right scheme and the Education Lending Right scheme — expend around \$25 million annually on authors, publishers and other parties. In addition, Australian governments award various literature prizes and encourage literacy and reading through other programs. The rationale, eligibility, administration and payment rates for each program differ.

As noted in chapter 6, the rationale for industry assistance for local book producers arises principally from the ‘externality’ component of the cultural and related benefits that Australian books generate — benefits for the community beyond those reflected directly in the market value of local books.

The Commission found that the external benefits dependent on the PIRs are unlikely to be large. It also found that direct subsidies are potentially a more cost-effective mechanism for addressing externalities than PIRs, not least because of the substantial leakage of PIR assistance offshore.

For the reasons set out in chapter 7, the Commission has not recommended that the assistance provided by the PIRs be replaced by subsidies.

It has, however, recommended that current subsidies for the local books industry be reviewed ahead of the abolition of the PIRs, and that the arrangements be reviewed again five years after their repeal. These reviews will provide an opportunity to consider the appropriateness of the existing subsidies and whether they might be improved. Among other things, such reviews could examine the case for changing some of the current subsidies to more directly assist outputs that generate cultural externalities.

This appendix sets out the current forms of subsidy, and other financial support, to the book industry, and some design issues that could be relevant to the reviews.

F.1 Current subsidies and other financial support

Australia Council for the Arts Literature Board grants

The Literature Board aims to ‘support the excellence, diversity, vitality, viability and distinctiveness of Australian literature’ (Australia Council, 2009a).

The Literature Board is part of the Australia Council for the Arts. Established in 1974, the Australia Council is the Australian Government’s primary arts funding and advisory body. The Council’s vision is to ‘enrich our nation by supporting the practice and enjoyment of the arts’.¹

In 2007-08, the Council received an appropriation from the Australian Government of around \$163 million and had other revenues of around \$11 million (principally contributions by federal government departments for specific projects, such as *Books Alive!*, Visual Arts and Craft strategy and Creative Communities, as well as interest of \$4 million).

The Council decides on the allocation of revenues across the art forms. In 2007-08, the Literature Board provided about \$6 million in grants and other initiatives. The \$2 million for the *Books Alive!* scheme is additional to these general allocations. The Council’s administration costs were around \$16 million, representing about 10 per cent of delivered program funding.

The Literature Board expends most of its funding allocation on grants. There are several grant categories, open to both individuals and organisations, each with different eligibility, selection criteria and payment amounts (box F.1). Grant recipients are selected on the basis on merit assessment of applications.

Over half of the grants funding, over many years, has been directed to supporting individual authors in the creation stage, as distinct from being linked to the publication or sale of books *per se*.

¹ In April 2007, the governing Council reviewed its business plans and refocused the organisation on six strategic priorities which will frame the Australia Council’s activities over the next three years. Those six priorities are: artists’ income levels; greater appreciation for the arts; business and philanthropic involvement in the arts; knowledge centre on the arts in Australia; arts content for the digital era; and national impact of the Australia Council (Australia Council 2008a, p. 3).

Box F.1 Literature Board grants and other projects

The Literature Board administers several grant categories based on merit assessment of applications. The grant categories in 2009 cover: publishing and promotion; fellowships for highly accomplished writers; new work grants for developing and established writers and picture book illustrators; overseas and domestic residencies that provide a supportive environment for professional development; residencies with non-art businesses; overseas travel for publishers and literary agents; translation and publication of non-English works; and an annual Writer's Emeritus Award. (The triennial key organisations grant category, which cost about \$0.5 million in 2006-07, is currently under review and not at present accepting applications in 2009).

In 2006-07, 88 individuals received grants for new work and 19 received grants for residencies or fellowships (Australia Council 2007). Presentation and promotion grants were made to 92 organisations, of which about \$300 000 was for 40 overseas based entities.

Each grant category has more than one selection criteria, of which 'literary merit' and similar notions are at the core. Grant amounts for individuals vary widely. For 2009, Fellowships are \$100 000 over two years. New work grants for developing creators are \$15 000, \$25 000 or \$40 000 while established creators can apply for \$30 000 or \$50 000 per year for up to two years. Residencies with non-art industries are supported up to \$30 000. Overseas studio residencies range variously from six weeks to six months and cover living and travel expenses.

In 2009, Australian publishers can receive subsidies of \$4000 per title for new works in eligible genres by living Australian writers. (For poetry titles and play scripts the subsidies are \$2000 and \$2500, respectively). Overseas book and magazine publishers may apply for assistance to publish overseas editions of the work of living Australian writers in eligible genres; works of Australian cultural significance or issues of magazines devoted to Australian creative writing.

Aside from grants, the Literature Board engages in other initiatives, such as the annual Visiting International Publishers (VIP) program, which involves hosting overseas guests at one of Australia's prominent literary festivals. The objective is to promote rights sales of Australian titles. Since its commencement in 1998 over 300 Australian titles are claimed to have been sold as a result of VIP program meetings, worth in excess of \$3 million in rights sales. As part of 'projects and initiatives' in 2006-07, the Literature Board also provided 29 publishers about \$135 000 to attend international book fairs (Literature Board 2009).

Literary prizes

The Australian Government gives awards to authors for outstanding books in a number of categories. For example, the Prime Minister's Literary Awards comprise \$100 000 tax free prizes for the most outstanding fiction and non-fiction books published each year (Australian Government, 2008). State Premiers also offer a range of literary prizes. In addition, Australia's private sector sponsors a variety of literary awards such as the Miles Franklin Literary Award (\$42 000) for a published novel that best presents Australian life.

Public and Education Lending Right schemes

The Public Lending Right (PLR) scheme commenced in 1974. The rationale for the scheme is to provide 'a measure of recompense' to Australian creators and publishers for the availability of their books in public lending libraries. In 2007-08, \$6.3 million was paid to 8575 Australian authors and \$1.4 million paid to 363 publishers (box F.2).

The rationale for the Education Lending Right (ELR) scheme is to compensate authors and publishers for the use of books held in educational institutions including school, TAFE and university libraries. The ELR is said to be unique to Australia (PLRC 2008, p. 12). The ELR was established in 2001 as part of the \$240 million Book Industry Assistance Plan, developed in response to the introduction of the GST (appendix B). In 2007-08, some \$10.5 million was paid under the ELR scheme to 10 275 writers and 383 publishers (box F.2)

Books Alive!

The Australian Government's annual \$2 million '*Books Alive!*' program was developed in 2001 as part of the Book Industry Assistance Plan. The 'brief' was 'the development of a promotional campaign that could produce beneficial results for the book industry' (Australia Council, 2009b). The model for Books Alive was developed by a reference group, based on similar programs in the Netherlands, UK (World Book Day) and USA (Get Caught Reading).

Presently, the goal of the program is 'the promotion of books and reading to the general public, children and young people, including books by Australian writers.' (Australia Council, 2009b). It involves a range of activities including book advertising, author appearances in bookstores, distribution of a 'Top 50 Reads' consumer guide, and a free book giveaway for consumers who purchase a book from a selected list of titles.

Box F.2 The Public and Education Lending Right schemes

Public Lending Right (PLR) scheme

From April 2008 authors were eligible for a payment of \$1.57 per estimated copy of their books held in libraries, while publishers were eligible for 39.25 cents per estimated copy. (Prior to this payment rates were \$1.47 and 36.75 cents, respectively.) Copy estimates are derived by extrapolating from an annual survey by the ABS of books held in a sample of libraries (PLRC 2008).

Total payments to individual authors are generally small — in 2007-08 fewer than 15 per cent of the 8600 recipients received more than \$1000. The highest payment was \$108 791.58. Two other authors received more than \$50 000.

Payments to publishers follow a similar highly skewed distribution. The largest payment was \$195 054.53 while over 75 per cent of the 363 recipients received less than \$1000.

Five authors accounted for almost half of the 100 highest scoring books held in public libraries over the 34 years of the program. Children's short story writer Paul Jennings had the highest representation, with 10 titles in the top 30 (and 17 in the top 100). Nine of Bryce Courtenay's novels, mostly set in Australia or South Africa, were also in the top 30 (and 11 were in the top 100). Books by John Marsden (young adult fiction) and the mostly Australian-themed or set novels of Colleen McCullough and Di Morrissey collectively had 17 in the top 100.

Administration costs for the PLR were around \$280 000 in 2007-08, or about 3 per cent of payments.

Education Lending Right (ELR) scheme

Like the PLR, the ELR is based on an estimate of the number of copies held in education libraries. The per copy rate declines as the number of copies increases: for the first 50 copies authors receive \$1 per copy, declining to 58.5 cents per copy for the next 450, with further reductions until copies in excess of 50 000 earn 9.3 cents. Payment rates for publishers are 25 per cent of the author rates.

In 2007-08, some \$10.5 million was paid under the ELR scheme to 10 275 writers and 383 publishers. Distribution data, along the lines published for the PLR, are not provided. Mem Fox's book, *Possum Magic*, was the highest scoring book in the ELR survey in 2007-08. Paul Jennings had the highest representation in the top 100 (with 13 titles, mostly the same titles as under the PLR).

Source: PLRC 2008.

F.2 Some subsidy design considerations

Targeting cultural content

Subsidies to book producers ideally should be delivered only for books that yield material cultural and educational externalities that would not otherwise be generated. The externality value of books, and the likelihood that it would be generated without a dedicated subsidy, is likely to vary between classes or genres of books, as well as within them, and so ideally subsidies should vary to reflect these differences. At a broad level, for example:

- Children's books are potentially one of the more important sources of undersubscribed cultural externalities, raising the possibility of differential subsidy treatment relative to other books.
- Among the diversity of the adult trade sector, Australian stories, histories and biographies are examples of books which are more likely to generate cultural externalities than generic fiction or some non-fictional material such as Australian-authored computer manuals.
- In terms of education texts, general education policies are in place which, among other outcomes, realise the broader societal externalities of education. This argues against their inclusion in a scheme focussed on subsidising undersubscribed cultural externalities.

That said, the value of the cultural externality of any particular book is not readily quantifiable, and it can be difficult to differentiate (with much precision) between different books or even classes of books. This poses challenges for determining the eligibility of different books for subsidy, and the appropriate rate of subsidy.

Against this background, there is a range of subsidy models (box F.3), each with strengths and weaknesses. It would be a matter for further review to judge the most appropriate approach, recognising that any practical system will entail a compromise between different objectives and constraints, including accuracy of targeting, objectivity and administrative simplicity.

Box F.3 **Models for determining subsidy eligibility**

One model, currently used by the Literature Board for various grant categories, is for a 'panel of assessors' to evaluate grant applications against various selection criteria. When applied to the content of books, this approach should allow some alignment of subsidy entitlements with relative externality values, to the extent that the qualitative judgements of the panel mirror these externality values of different books. However, even with transparent criteria against which merit is assessed, the assessment of applications for support can be time consuming and involve some uncertainty for potential recipients, as well as being contentious. Indeed, in an overview of Literature Board grant programs over the period 1986-2000, Stevens (2004, p. 7) noted that there had been criticism from many sources:

Changes to long established funding patterns were not always appreciated; applicants challenged the validity and impartiality of decisions; some critics questioned whether a body such as the Literature Board produced a culture which could be seen as elitist; some queried what they saw as excessive emphasis on marketing and commercialisation; and a few cultural commentators accused the Literature Board of imposing a 'Big Brother' or 'Ministry of Culture' uniformity on creativity.

An alternative approach to aligning subsidies with potential differences in cultural externalities of books, that may be more suitable for a broad book subsidy scheme, would be to distinguish book content according to generally accepted bibliographic classification systems.² A potential advantage of such an approach would be some broad alignment of subsidies with relative externality value of different classes of books, without the need for panel-based assessments. A potential disadvantage (or practical challenge) is the need for a 'robust' subject classification system that distinguishes categories that may have marked differences in cultural value, and a system that cannot be manipulated by 'misleadingly coding' some titles in order to qualify for assistance.

A third approach that would avoid the need for the judgements inherent in the above models would be to include all Australian-authored books within a scheme and to pay the same rate of subsidy per book, regardless of content. The disadvantage of this approach is that it does not differentiate according to the cultural value of individual titles, or even classes of titles. But in comparison to the PIRs, it would avoid the leakage of support offshore and to the printing industry, and would spread the cost of assistance across taxpayers generally rather than book purchasers specifically.

² Book subject classification systems in Australia are many and varied. For example, there are many individualised, ad hoc, category classifications used by retailers for in-store shelving purposes. In contrast, there are also formal, independent, detailed systems such as US Library of Congress subject headings, as used by the National Library of Australia for its CiP (Cataloguing in Publishing) service. Other formal classification systems include BIC (Book Industry Communication) codes, adopted by the Australian Publishers Association (APA) for use used in conjunction with ONIX (Online Information Exchange), the international standard for storing and sharing title information between publishers, distributors and booksellers. There are also detailed subject classification systems developed by commercial entities such as the codes used by Bowker in its Global Books in Print database.

Targeting dissemination

Where subsidies are provided for book ‘outputs’, another consideration is whether they should be linked to an eligible book’s publication or its sales. Cultural external benefits can arise from the discussion of a book that surrounds its release, irrespective of whether it goes on to sell in numbers. However, as discussed in chapter 6, the cultural value derived from a book is likely to be amplified the more it is read. Sales would appear to be a workable, though imperfect, proxy for readership.³

Were a sales-based subsidy to be adopted, consideration would also need to be given to whether it be based on sales value or sales volume. A key point here is that cultural externalities depend on the consumption of the content of a book rather than on the format in which the content is presented, which suggests that a volume based scheme has a targeting advantage.

Funding, caps and eligibility restrictions

In principle, any subsidy should be funded to achieve a level of output of locally authored works where the value to the community of an additional ‘unit’ of externality generated was equal to the additional subsidy required to secure it. However, given the intrinsic difficulties in putting orders of magnitude on cultural externalities, in practice some under- or over-shooting of the necessary support is inevitable. Consideration would need to be given to whether there may be indicators that signal a material under- or over-shooting, such as significant divergences in book activity from previous sales trends, not attributable to changes in other demand and supply influences.

In Canada, expenditure under the Assistance to Publishers component of the Book Publishing Industry Development Program (box F.4) amounted to around A\$30 million in 2007-08. For illustrative purposes, if a sales-based scheme was instigated in Australia and confined to non-educational books, this quantum could fund a subsidy at the rate of around \$1.40 per sale of Australian-authored trade books, given present sales volumes.⁴

³ A two-part subsidy approach comprising a publication component along with a sales component would in principle have the advantage of targeting both elements of the dissemination spectrum, although a potential drawback is the additional administration costs and imprecision in aligning each part of the subsidy with the externality value.

⁴ Total local trade sales are around 70 million units (based on Nielsen BookScan data for 2007-08), of which around 31 per cent are Australian authored (appendix E).

Box F.4 Canada's Book Publishing Industry Development Program

Canada's Book Publishing Industry Development Program was established in 1979. The principal objective of the program 'is to ensure access to a diverse range of Canadian-authored books in Canada and abroad' and seeks to achieve this objective by 'fostering a viable Canadian book industry that publishes and markets Canadian-authored books.' (PCH 2009)

In 2007-08 funding was around CAN\$39 million (A\$45 million). About 70 per cent of the funding is for the Aid to Publishers (ATP) component, which provides a sales based subsidy to about 200 publishers, mostly for Canadian-authored trade, educational and scholarly books, printed in Canada.

The ATP operates on the basis of pre-set eligibility rules, for example small publishers and large, profitable publishers are excluded and publishers must be at least 75 per cent Canadian owned and controlled. Claims are submitted by publishers.

Capped program funding is pro-rated by the administrator among eligible publishers in proportion to eligible sales. The maximum publisher payment is \$850 000. Administration costs are about A\$1 million, or about 3 per cent of assistance provided (OCAEE 2008, p. 34).

Other program elements address such aspects as publishing technology, business planning and exports. Funding for these is based on merit assessed applications. Administration costs for these programs total about 5 per cent of assistance provided.

For any subsidy scheme, consideration needs to be given to whether to have an 'open ended' scheme or to cap program funding. Both designs are used in Australia for industry assistance programs — for example, the R&D tax concession is open-ended, whereas the Export Market Development Grants scheme and Automotive Competitiveness and Investment Scheme are capped.

With a pre-set subsidy rate and eligibility rules, demand for the scheme may exceed available funding. The most precise way of staying within a cap is to pro-rata all eligible claims equally — as occurs under the Canadian book subsidy scheme.

Other design matters

Recipients: publishers or authors?

In considering whether Australian publishers or authors should be the recipients of a books subsidy, neither option has clear advantages in terms of likely effects on the realisation of cultural externalities. In general, the 'sharing' of a tax or subsidy between buyer and seller will tend to be the same regardless of the incidence in the

production chain (output or sale). Although publishers are typically seen as having the upper hand in dealing with authors, especially those without a market presence, there is still considerable ‘competition for talent’. Thus, if publishers were to receive the subsidy, some of it would presumably be passed through to authors in the form of advances, royalties or a preparedness of publishers to take on marginally riskier projects than they otherwise would. Similarly, if authors received the subsidy, many would presumably have to share their payments with a publisher to secure a publication contract.

However, in considering to whom the subsidy should be paid, comparative administration and compliance costs are also relevant. In this respect, a potentially decisive consideration is that routing payments through larger publishers would allow for the aggregation of subsidy claims in respect of individual titles.

Data sources and payment administration

In considering the feasibility of a financial support scheme, the availability of data and audit implications are relevant.

Data relating to book sales are generated as part of everyday commercial activities — for example, recording business accounts, preparing GST remittances, royalty statements and lodging personal income tax. Most major bookstores have electronic point of sale (POS) systems which enable them to track their sales and stocks and to reorder books, with distributors using bar codes in their warehouse systems. And BookScan aggregates transactions across entities, providing a major commercial sales database for trade books in Australia with data on actual sales prices and volumes.

However, no single data source provides a *universal* ready-made list of Australian authors and sales of books by standardised category.

Administration costs are likely to differ according to whether entitlements are based on merit assessment of application or pre-set eligibility rules and whether claims and payments are targeted at publishers or authors.

- The Canadian scheme relies on publishers submitting their own claims, based on pre-set eligibility rules. The role of the administrator then is to perform any necessary arithmetic checks or adjustments to claims before processing payment, and to maintain an appropriate audit strategy. The administration costs for the ATP component of the Canadian scheme, are about A\$1 million, to deliver about A\$30 million in payments — or around 3 per cent of the support provided. (The other components of the Canadian scheme are based on merit application and

assessment and the administration costs are proportionately higher, at around 6 per cent of support provided).

- Similarly, the administration costs ratio for the Public Lending Right scheme, based upon pre-set eligibility rules, are noticeably lower than the operating costs of the Australia Council, which has a significant merit assessment process — approximately 3 percent and 10 per cent respectively.

Irrespective of the specific arrangements selected for the administration of a subsidy scheme, the costs of such administration would be modest relative to the costs of PIRs: indicative Commission estimates suggest that the equivalent figure for delivering assistance to copyright holders for Australian-authored trade books under the PIRs is at least 60 per cent, due mainly to the substantial leakage of assistance to foreign copyright holders that they entail (appendix E).