

Parallel Importing for Dummies

(Notes for Response to Parallel Importation Commission)

“The future is usually neither as good as we hope nor as bad as we fear.” (Isaiah Berlin)

The current review of the Copyright provisions relating to Parallel Importation (PI) has to date mainly focused on the possible implications for the local Australian Publishing Industry and for Australian Authors which may follow from further relaxing or total abrogation of the current 30/90 day rules.

The effect upon the tertiary publishing sector (Textbooks) has largely remained under the radar until recently. Amongst the terms of reference of the current commission is the requirement to ensure that amongst the various stakeholders affected by the status quo and any proposed changes including publishers, booksellers, printers etc is the also arguably the primary stakeholders in the form of Australian consumers

While it is true that consumers can and frequently do avail themselves of the opportunity to avoid paying Australian domestic prices for books by using Amazon to procure their requirements more cheaply than the prices on offer in the high st (especially since thereby avoiding GST) it remains true that in the case of textbooks relatively few consumers (students or parents) use Amazon or even Australian retail on-line suppliers to provide their textbook requirements.

The question remains as to whether students or parents are being well served by the current tertiary textbook supply industry and whether a change of copyright arrangements could better serve their interests

This is the issue I wish to address as a campus bookseller to determine whether abolishing the 30/90 day rule would serve the interests of students and parents.

A widely held view would hold that textbooks are significantly overpriced compared to prices in Asia and that a relaxation of the current PI rules would allow campus booksellers to source their stock from Asia at a significantly lower prices. This might be seen as a win-win outcome for both booksellers and customers since at lower prices bookshops would achieve an increased “sell-through”

As an equity issue it might also lead to improved educational outcomes by decreasing the likelihood that “disadvantaged” students would miss out on the available resources due to their limited financial circumstances.

This argument though highly persuasive in its import nevertheless masks key facts about the textbook supply chain that merits more attention.

Importantly, the power relationship between publishers and booksellers is far from equal. In basic economic terms Publishers are “price makers” whereas booksellers are “price takers”

A relatively small number of tertiary publishers (circa 6) dominate the textbook supply industry in Australia but equally importantly campus booksellers are not able to choose amongst competing textbooks to supply to their customers since the actual version of say the microeconomics textbook is determined by the lecturer teaching the course. So not only are booksellers price-takers they are also content-takers .

Another important consideration is that the “cheaper” prices available in Asia is largely a product of the fact that the large predominantly USA based tertiary publishers (McGraw Hill, Wiley, Pearson etc) are only able to reduce the prices of their books in Asia because these are “run on” copies which assist them increasing the size of their print-runs for the US market and thereby reduce costs.

Cost recovery from print run 150,000 might be \$ 25 per copy whereas from a print run of 250,000 cost might be lowered to \$15 per copy so by selling the additional stock in Asia even at greatly reduced prices allows publishers to increase the profit return from an edition sold predominantly in their domestic market

Where does the Australian market fit into this scenario? Currently a textbook that might cost US\$100 in the U.S. but might sell in Australia for A\$85 (significantly cheaper given current exchange rate) but nowhere near as cheap as in Asia (circa) A\$35. If the response of the big publishers (to PI) were to introduce parity pricing with the US, consumers here would be significantly worse off

So for cost saving given the lack of competition once a lecturer prescribes a textbook, the only way a cheaper copy of a textbook could be sourced is if the large publishers continue to have a policy of price differential between the U.S. and Asia would be if the booksellers in Australia could tap into the Asian market.

This would become legal post PI but the response of the Publishers will be crucial regarding whether this results in campus booksellers being able to source cheaper Asian textbooks or not.

The more conservative campus booksellers have a “why fix it if it aint broke?” philosophy and will ponder whether some of the benefits of the current arrangement like “sale or return” or “forward charge” will remain if tertiary publishers in Australia are being squeezed by cheaper Asian imports.

The efficiency of the supply chain is critical in textbook supply. For instance if there are 100 students in a class, a campus retailer will only risk purchasing 100 copies if they are confident of the following

- 1) The correct textbook is being supplied
- 2) The book will arrive before the commencement of the Semester
- 3) Unsold stock will be returnable
- 4) Damaged stock will be replaced free of charge
- 5) Another bookshop is NOT servicing the course and students will purchase from the campus store (not from Amazon or an alternative discounter etc)
- 6) There is no significant supply of used textbooks available

If the above conditions do not hold a campus bookseller will only purchase a percentage of the required text and a situation could develop where the student by 3rd week of semester could be unsuccessful in

acquiring a copy of the text because of its unavailability quite often resulting in the student withdrawing from the course or worse still plodding along but failing the course.

The “Brave New World” of open market textbook purchasing could lower prices in some cases if publishers remain compliant. But even in this case it needs to be balanced against disruption in the supply chain with uncertainty for students regarding sourcing their textbook in a timely manner.

I think many campus booksellers are up for the challenge and a number of student union run enterprises see the open market as an opportunity to provide their student base with cheaper textbooks which is part of their charter

Hitherto campus booksellers have attempted to meet this challenge by significantly discounting from the already narrower margins provided by educational publishers (30+%) compared to normal trade retail margins (40+%) with discounting up to 18% occurring in many stores including my own

One of the many considerations for the commission to decide is whether the possible equity gains from reducing the price of textbooks by allowing sourcing of textbooks from Asia can be balanced against the equity threats which may result from increased uncertainty in the supply chain.

The remarkable situation is that so much of this outcome depends of how the major publishers react to changes in the market. They alone know the comparative size and future potential of the asian as compared to the local market and no doubt they will make a commercial judgement as to whether they would introduce parity pricing in Asia just to protect returns from the local markets.

The Productivity Commission needs to guess right on this issue as a lot is at stake for all the stakeholders

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