

Submission to the Productivity Commission on Parallel Importation of Books by Ligare Pty Ltd*

This submission reports on the probable impact on the Australian Book Printing Industry in general, and on Ligare Pty Ltd in particular, of the abolition of the 30/90 day regulation of Section 37 and 38 and section 44A of the *Copyright Act (1968)*. It also suggests a public education program on book pricing.

The Book Printing Industry in Australia

There are a number of specialist book printers in Australia including three major companies: McPherson, Griffin and Ligare. McPherson is based in a Victorian regional town and is the largest by revenue; Griffin is based in Adelaide and is the second largest by revenue; and Ligare is based in Sydney and is the third largest by revenue. There are several other smaller book printing companies based in Perth, Melbourne, Adelaide and Brisbane. The total revenue of the Australian book printing industry is approximately \$250-300m pa, however most revenue of book printing gained from books published in Australia goes offshore to Asian printers who compete with Australian printers on price. Why then, if Asian printers are able to win on price, are books still printed in Australia?

The factors that contribute to publishers choosing to print some of their books in Australia include:

Time – is the number one reason publishers choose to print in Australia. It takes time for books, once printed in Asia, to be shipped into Australian publishers' warehouses. Depending on the price the publisher is willing to pay for freight methods from Asia it can take anything from 10 days to 30 days to ship books from an Asian printer to Sydney or Melbourne. All book printers in Australia benefit from this time delay. In many instances the publisher does not have this extra time. Additionally the 30 day rule induces publishers to have new publications available as soon as possible into the Australian market which may be held up by Asian printers and shipping disruptions. Griffin and McPherson benefit greatly from this provision (and to some extent Ligare). The threat to book printing industry in Australia of the repeal of the 30 day rule exists in that it threatens the output of Australian publishers of locally published works and thus reduces the revenue of the book printing industry, and the people it employs.

Close relationship with printer – it is important to many publishers to have a reliable relationship with on-shore printers to maintain aspects such as quality (press checks are important to some); very fast turn around times (having a close relationship means that if a book is required in a couple of days for any reason then this is only possible with an onshore printer – eg *The Garnaut Climate Change Review* published by Cambridge University Press was printed by Ligare within three days of receiving the files; and finally, and probably most importantly, publishers feel the ethical need to support Australian book printers to keep the industry alive and skilled people employed onshore.

Sustainability – a number of sustainability issues arise when a publisher chooses an Australian printer. (1) Less GHG emissions through shorter transport routes to market; (2) OH&S rules are rigorous and strictly enforced in Australia, and (3)

the use of Australian made publication paper which is made from sustainable forestry practices and supports further employment within Australia.

Considering these points above anything that threatens the strength and existence of the Australian Book Publishing Industry's continuance under the current 30/90 rules threatens also the book printing industry and the publication paper industry in Australia. As we have seen in New Zealand book publishing has changed dramatically since the introduction of parallel importation in 1998 and currently there are no specialist book printers in New Zealand. There is not enough business to sustain such a company, and the book printing that does take place in New Zealand is handled by commercial printers. We are sure the Commission will receive other submissions which examine the New Zealand model in depth so it is not our intention to do so here. But the evidence is clear to Ligare that parallel importation of books into the Australian market will have the same outcome as in New Zealand – there will not be a specialist book printing industry in Australia.

It is spurious to consider Japan as a relevant example of the relaxation of parallel importation restrictions as no other country in the world has Japanese as a first language and no other country publishes significantly in Japanese. Japan also has very little English language publishing, so there is no real threat to be considered to an industry that doesn't really exist.

The Future

Looking at the future without parallel importation restrictions there are three points to consider as a threat to the Australian Publishing Industry and therefore to the Australian Book Printing Industry.

Reduction of Risk Publishing

It is common knowledge that the risk publishing that Australian publishers undertake, whether it is within the highly risky trade market, the risky school education market or the tertiary and professional market, is enabled by the margin publishers make through the importation of books originating in other English speaking markets. This risk publishing often fails, as with any highly risky business activity, but there are enough wins to keep the momentum going. Also even though a particular book may fail in the market, the writer and publisher may discover from the exercise a more viable subject or approach – much is learnt by trial and error. It is highly doubtful that if booksellers are allowed to import books published in other countries *en masse* they will use the profits gained from the exercise to support the development of new Australian writers, or new and innovative approaches to educational subjects. Yes they will pass these extra profits straight on to the consumer, but in the end the consumer will have far less choice of Australian books whether for entertainment or education. In turn with less publishing taking place in Australia there will be less book printing in Australia.

Competition

The growth of web retailing of books from sites such as Amazon and also Australian book retailers such as Dymocks and Uni Coop has been significant in the past decade. Australians, like never before, have access to any edition with the addition of consumers paying a freight charge; and additionally have the choice of purchasing from any country or from within Australia. That Australians choose to purchase from an Australian web retailer over sites such as Amazon is interesting; there is obviously concern among the book buying public of Australia to support local companies and jobs. But also not all Australian editions of books can be purchased from sites such as Amazon. The future landscape for this avenue of revenue from Australian retailers may change dramatically with the abolition of 30/90 day rule. This could open the way for companies like Amazon to set up a warehouse in Australia and with their aggressive pricing and marketing power and the quicker delivery time it could impact detrimentally on the Australian bookselling industry. Have Australian booksellers

considered this in their advocacy of the abolition of 30/90 day rule? Independent booksellers and chain booksellers have already suffered with the massive competition from the explosion of Borders stores across Australia. Borders stores however still have to abide by the 30/90 day rule which means they are still operating on a level playing field. There is a distinct possibility that the number of brick and mortar book stores will decrease dramatically with the impact of a locally operated Amazon which will have the effect of decreasing competition and working towards monopolistic behaviour which in turn will have an effect on the ability of Australian publishers to satisfy small niche markets. These small run publications are the mainstay of many Australian book printers. McPherson and Griffin have printing presses which are ideal for runs of 5,000 plus, all other book printers, including Ligare, have presses which are more economical with smaller runs. The other book printers exist largely to satisfy the niche market books. Ligare's average book run for example is 1,500 copies, and the biggest growth area for Ligare is now short run digitally printed books of 100-500. The threat of monopolistic web retailing could severely hamper Australian publishers' ability to print for niche markets and thus threaten the book printing industry.

In reality the Australian consumer has choice, both of edition and price in their purchase of books; they can even order the specific overseas edition from their local bookseller who can then purchase it direct from overseas. The only apparent negative impact of the restriction on competition under the current regulations is on booksellers' ability to import in bulk overseas editions. It is not clear that booksellers would in the long run benefit from the change to this copyright rule – it may in fact reduce competition not enhance it in a relatively small market such as Australia. Additionally it is our contention that if in the largest free market in the world, the USA, believed that it would improve competition by de-regulating the copyright rules the USA would have done so by now.

There is also the issue of countries such as the USA being able to dump remainders to a greater extent in the Australian market instead of Australian publishers producing their own editions – this would have a direct negative impact on the Australian book printing industry, as well as on Australian culture.

Pricing

Australian book printers in most cases cannot compete on price with Asian book printers; labour costs, infrastructure and tax costs, adherence to all OH&S regulations as well as environmental regulations inhibit their ability to compete on price. Australian book printers have no argument with the highly regulated market in which they exist, in fact in terms of the growing concern for the triple bottom line of sustainability it has become a competitive selling point. However this means that books printed in Australia must have a relatively high price point compared with those publications printed in Asia. The following question needs to be asked within the parameters of sustainability. What price are Australians willing to pay for keeping Australian jobs, buying products with environmentally and socially sustainable credentials, and maintaining the cultural intellectual property which helps to sustain Australian culture and educational values and rigour?

Future Financial Viability of Ligare

Past examinations of pricing and competition within the Australian book industry have concerned themselves largely with asking questions about trade books (those books which concern themselves largely with entertainment such as novels and popular non-fiction subjects). Ligare's main source of revenue is from the educational publishers in Australia such as Thomson, Lexis Nexis, Oxford University Press, Cambridge University Press, Elsevier, Cengage, independent publishing companies such as Blake Education and government publishers such as PETA and ACER. The abolition of 30/90 day rule would have a dramatic effect on these companies also and would thus impact directly on the ability of Ligare to continue its operations.

There are over 100 people directly employed by Ligare and indirectly the outsourcing of services to specialist finishing companies, typesetters etc are supported by Ligare along with major suppliers such as PaperlinX and Australian Paper mills.

Educational Publishing Market

The education publishing market in Australia is highly competitive with anything up to ten companies risking large R&D costs to win the adoption of textbooks in all sectors of the education market. This competition certainly comes at a cost but also contributes to creative innovation in the development of textbooks and teacher resources second to none in the world. Textbooks or teacher resources may either be adapted from overseas publications to the Australian educational needs or be developed from scratch. This fosters the careers of academics within Australia, and satisfies the ever hungry schools and tertiary educators need for more and better choices of books to support their courses. All this activity is largely supported by the ability of the Australian publishing companies (generally the local divisions of multi-national publishing companies) to also import parent company titles into the market with far less risk and therefore a more stable revenue stream to support the local more risky publishing programs. The steady revenue stream would dry up with the abolition of 30/90 day rule and the Australian education publications would be the poorer for it; irrespective of the impact it would have on the careers of Australian academics and the employees at Ligare and its supply chain companies. It is true that Australian educational publishing would continue with the abolition of 30/90 day rule, however it would in all likelihood not be as innovative or as competitive as there would be fewer players taking far less risk. Of course Australian students pay a price for this, but compared to the cost of education itself this price is negligible.

There is also a continual additional threat to Australian educational publishing company's livelihood – the introduction of pirated copies which are imported principally from India. With the current regulations these poorly produced books are illegal and can be dealt with under the current laws if and when they are discovered. Yes they are cheaper for the students to purchase, but their existence is a cannibalization of the current excellent Australian industry. In a future without the 30/90 day rule, the original Australian editions may not exist, at least to the quality which they now exist.

Publishers do not make huge profits, like any industry in a competitive market they make enough profit to stay in business. The price Australian students pay for their textbooks is therefore not too much; but as an Australian book printer we acknowledge their right to complain about anything including pricing.

Public education into book pricing

To complain about the price of a book without understanding what goes in to produce a book including the market size it serves shows that what is needed is the education of the book buyer so that the choice the book buyer makes is an informed one. Therefore it is our suggestion that if any grant or funding could be made available to educate the Australian book buying public into why books are at the prices they are, this may help to mitigate the endless round of investigations into this subject the government feels compelled to undertake through the misguided lobbying of apparently disaffected groups. We call for an ability of the book buying public to make up its own mind once they are informed with all the facts of the book industry in Australia. We also contend that with the growing concern for corporate transparency, sustainability and climate change, a full and independent research and analysis of the book industry in Australia including a full supply chain and life cycle analysis be made accessible and available to the book buying public – this would be the ideal outcome of this current investigation. The important word here is “accessible” – that is, not only available in depth with a full report, but additionally an easy to read accurate summary that does not require too much time to read in this time-poor world; as well as a general advertising program designed to reach the full book buying public.

We support Malcolm Knox's education campaign in the Sydney Morning Herald where he has said: “Are our books too expensive? It is a legitimate question. The whims of moody currency markets, which make our books seem expensive one day and cheap the next, should not dictate long-term policy.”

Malcolm Knox, *Sydney Morning Herald*, 10-11 Jan, 2009

The Impact on Ligare and its Stakeholders of Parallel Importation

Ligare Pty Ltd is the largest specialist book printer in New South Wales and the largest educational book printer in Australia. Almost 30 years old Ligare is based in Sydney and currently employs over 100 people. It conducts regular tours of its plant, conducts free book production workshops for its customers, conducts sustainability seminars focusing on the printing and paper industries and supports a large supply chain of supplier companies including Australian Paper (mills).

The impact of the introduction of parallel importation of books would be felt fiscally upon Ligare and the supply chain to which it contributes. We estimate that over 26% of our revenue would be wiped out within 12 months; this would in turn cause the redundancy of at least 26 full time staff. The supply chain would also be affected – paper is approximately 30% of the cost of our services and other external supplies account for another 15% including transport.

The impact of parallel importation on the educational book industry would be a reduction in services to the educational market of Australia with higher prices being paid for locally published time-sensitive educational books such as text books for primary, secondary and tertiary educational institutions. The importation of educational titles published in other countries carries a lower risk than locally published books and the revenue gained by Australian publishers through the importation of these titles helps support the more risky enterprise of publishing local content specific to local courses. The reduction of Australian content publishing for Australian courses would have a negative impact on both the educational standards in Australia as well as the publishing and printing industries that support them

Ligare's parent company OPUS Print Group is a trans Tasman company which owns both book printing companies in Australia and large format printing companies in both Australia and New Zealand. (See www.opus.com.au and www.ligare.com.au)

Ligare is engaged in a Lean Manufacturing initiative supported by the Australian Commonwealth Government, and a Sustainability Advantage program supported by the Department of Environment and Climate Change NSW. Ligare also supports apprenticeship programs by employing apprentices and conducting educational tours of its plant for apprenticeship programs. Ligare has a strong CSR policy enriched with a full sustainability program. Ligare contributes regularly to charities and supports its employees in their charitable and community based activities.

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LCA (Life Cycle Analysis) – In brief

An understanding of the life cycle of books may assist the productivity commission's analysis:

Commissioned books (largely educational books)

Publisher researches need of a book for a particular market (eg aged care nursing in Australia) – publisher commissions experts in this field to write book – developmental editors work with experts to produce finished manuscript – manuscript goes out to expert reviewers for comment – designers/typesetters develop the internal text and cover – files sent to printer – finished book goes to warehouse – sales and marketing promotes and sells books to booksellers, other retailers including on-line retailers, lecturers, students, libraries and niche markets – booksellers have a right to return a certain percentage of unsold books – if book fails book is pulped, generally no remainder market for educational titles.

Unsolicited books (largely trade books)

Author writes book – approaches literary agent who works with author on book – agent approaches publisher – publisher edits and designs/typesets text and cover – sales and marketing promote and sell books to booksellers, other retailers including online retailers, libraries, 3rd party distributors and appropriate niche marketers (eg AIM for business books) – booksellers have a right to return all unsold books from front list – if book fails book is either remaindered or pulped.