



RANDOM HOUSE AUSTRALIA

# Parallel Importation of Books Study

*Productivity Commission*

Submission from Random House Australia

*20 January 2009*

# This submission

Random House Australia (RHA) is pleased to present its submission to the Productivity Commission's Parallel Importation of Books study.

Our submission supports our contention that territorial copyright and the 30/90-day rule are central to the success of the Australian publishing industry and should be maintained.

The submission has the following sections:

- An overview of Random House Australia
- Random House Australia's view on the parallel importation restrictions
- Why Random House Australia believes the current territorial copyright laws should not be changed
- The economics of the publishing business
- The challenge of Australian publishing
- The importance of international titles
- How a change in the territorial copyright laws would affect Random House Australia and its authors
- How a change in the territorial copyright laws would affect book buyers
- How a change in the territorial copyright laws would affect printers and retailers
- Conclusion

Regards,



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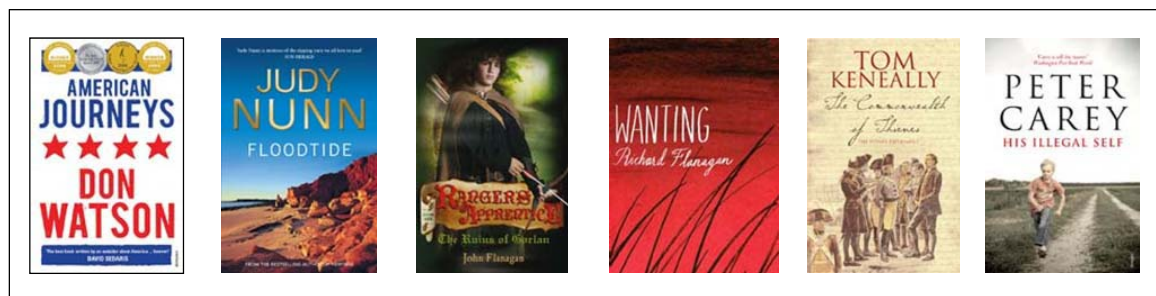
[www.randomhouse.com.au](http://www.randomhouse.com.au)

# An overview of Random House Australia

RHA is one of the top three book publishers in Australia, publishing over 2500 new fiction, non-fiction and children's titles every year. We publish some of the best-known Australian and international authors under a range of imprints including Arrow, BBC Books, Black Swan, Chatto & Windus, Corgi, Doubleday, Ebury, Jonathan Cape, Vintage and William Heinemann.

Around one-third of RHA's turnover comes from books by Australian authors. RHA invests significant time, effort and money to nurture local writers and to help them succeed. For many authors we eventually on-sell international publishing rights. Our Australian authors include Peter Carey, Peter FitzSimons, John Flanagan, Richard Flanagan, Gail Jones, Tom Keneally, Christopher Koch, Kathy Lette, David Malouf, Roger McDonald, Frank Moorhouse, Judy Nunn, Geoffrey Robertson and Don Watson.

*Exhibit 1: A selection of RHA's Australian authors*



The remainder of our business involves the selection, marketing, printing and distribution of titles from international authors including A. S. Byatt, Lee Child, John Grisham, Nigella Lawson, Ian McEwan, James Patterson, Christopher Paolini, Terry Pratchett and Salman Rushdie.

*Exhibit 2: A selection of RHA's international authors*



RHA does more than just import and sell our international titles. As with the company's Australian books, we spend considerable time ensuring that we offer the best of the world to our local retailers and readers, and then support those retailers to sell those books. RHA funds authors from all around the world to travel to Australia so that readers can hear their favourite writers speak about their work. This includes the funding of authors to attend literary festivals across the country.

RHA has supported the Indigenous Literacy Program (see [www.worldwithout-books.org](http://www.worldwithout-books.org)) since its inception. Via its Corporate Social Responsibility program, RHA annually donates funds and books to a range of other not-for-profit organisations.

The company was a founding partner of Titlepage, the industry price and availability database for booksellers in Australia. This service remains free of charge to Australian book retailers.

RHA employs around 200 people and prints 5 million books (units) annually through Griffin Press in South Australia. RHA also sells and distributes, or distributes only, the titles of several independent Australian publishers through our state-of-the-art warehouse facility in Scoresby, Victoria. RHA pays taxes and creates jobs in Australia in an industry that is central to the cultural richness of our society.

# Random House Australia's view on the parallel importation restrictions

RHA believes the current territorial copyright laws deliver to Australian book buyers the books they want, at affordable and competitive prices, and in a timely fashion.

RHA's success depends on having a strong publishing program across a broad portfolio of books, supported by good service to customers and third-party distribution clients. As a scale business, it is *title volume* that enables the company to employ the large number of staff we do. We need to publish a broad range of titles to ensure we can manage the risks of investing in Australian authors and to allow us to develop the staffing, systems and infrastructure we need in order to sell and distribute our books and to provide the rich range of titles that Australian book buyers want.

Removing territorial copyright or the restrictions on parallel importing will greatly reduce RHA's title volume, since it is the small number of bestselling books that will be the primary target for importers. If these titles are imported by others, RHA will lose a significant amount of its annual turnover.

This would force us to reshape our business and reduce our Australian publishing program, which would endanger jobs and deliver poorer outcomes to almost every sector of the industry, with the possible exception of the largest retailers – but even for those companies the presumed benefits are questionable. There are many supply-side costs which these companies would have to bear for the first time, including the significant cost of warehouse facilities to accommodate the stock they import. Currently, in most instances, RHA delivers books direct to individual stores.

Prior to 1991, when the current arrangements were put in place, RHA was a small company in Australia. Very little Australian publishing or printing was done and our investment in infrastructure was relatively small.

Since 1991, the development of our distribution centre in Scoresby, which employs around 100 people, has been driven primarily by our confidence in the security of the market and by the demand for our distribution services from smaller publishing companies, which have flourished under the current legislation. In 2008 alone, RHA invested several hundred thousand dollars to upgrade this warehouse facility to deliver even better service to retailers and third-party clients.

## **In summary**

*The current laws have allowed a vibrant and diverse publishing industry to develop that delivers (a) to Australian readers the books they want, when they want them, at affordable prices; and (b) to the nation a \$2-billion industry that employs over 5000 people and enriches us culturally.*

# Why Random House Australia believes the current territorial copyright laws should not be changed

RHA believes the current territorial copyright and parallel importation laws should remain in force because:

1. Currently, book buyers have excellent access to the books they want to read. A change in the law would not make them better off
  - *Book buyers are currently well served with excellent variety of choice in books and retailers, and won't be better off under the proposed changes.* Opening the market will not deliver lower prices overall, just fewer titles, fewer Australian stories and fewer independent bookstores.
2. Australian authors will suffer and Australia will be culturally poorer
  - *Australians want to read Australian stories.* ABS statistics indicate that over 60 per cent of books sold in Australian bookstores are by Australian authors. These books will be threatened by any change to the territorial copyright laws. The current rules ensure that local voices are heard.
  - *Territorial copyright is essential to our taking the risk to publish locally.* Reducing publishers' profits by allowing bestselling international titles to be imported directly would significantly reduce our ability and incentive to bear the inherent risks involved in discovering, fostering and maintaining new Australian authors, and in printing international books locally.
  - *In an open market, Australian authors will find far fewer publishing opportunities.* Publishers will be unable to bear the risk which they currently undertake in order to invest in Australian authors. Rights sales will decline and, as it is very difficult for a new author to secure a publisher overseas, many Australian writers may never be published in the first place.
3. Many other sectors of the industry will suffer
  - *Printers will be negatively impacted.* In an open market, significantly fewer books will be printed locally. One of the two major trade printers will likely cease to operate.
  - *Specialist independent booksellers will struggle to survive.* There will be a shift from sale-or-return policies to firm-sale arrangements. The big retailers will get bigger, while smaller independent booksellers, which would be particularly vulnerable to a shift to firm-sale arrangements, would be forced to close.
  - *Will the large retailers seeking change be better off anyway?* Currently these businesses, which can already order internationally to satisfy special requests, bear no currency risk, little stock risk (due to sale-or-return policies), in most instances receive direct-to-store deliveries, and are able to access a broad range of stock from local publishers. All of this would change.
  - *Publishers will be unable to compete with overseas companies.* None of the key territories in which RHA trades rights – the UK, Canada and the USA – is considering the surrender of its territorial copyright. If Australia becomes an open market, a foreign publisher or wholesaler will be able to sell a title into Australia but an Australian

publisher will not be able to reciprocate. The major English-language markets from which books will be imported are much larger than Australia's, so the flow will inevitably be one-way.

#### 4. The emergence of new technologies will not affect these arguments

- *New technologies (print-on-demand and e-books) need publisher investment, which in turn needs the security of territorial copyright.* Investment by publishers will hasten the viability of these delivery mechanisms and technologies – and publishers can only do that if they receive a return. Without territorial copyright, the level of return is significantly minimised. If the current legislation is maintained, it is likely that printing done in Australia via print-on-demand and digital printing will increase.

#### 5. The current laws work. Changing them risks dramatically reshaping the industry for no real gain

- *The current laws have given Australia a vibrant publishing industry with the broadest variety of available books of any English-speaking country.* The majority of titles sold in Australia are by Australian authors and are printed here. However, Australians also enjoy the best of US and UK titles as well. Since the copyright changes in 1991, which confirmed the security of territorial copyright, publishers have been able to invest in the industry and in Australian authors. The positive results of this are clear from the large proportion of Australian books which consumers now read.
- *Changing the rules could destroy Australian publishing in the long term.* Changes to the copyright laws will dramatically shrink Australian publishing. In the end, there will be one local printer, a small number of Australian publishers, a retail oligopoly including few independents, few titles on offer, increased prices driven by retail concentration, and a dwindling number of Australian stories and publishing industry jobs. Authors, book buyers and workers in all sectors will suffer.

# The economics of the publishing business

Publishing is a very challenging industry. For companies to survive, they need *scale* in their chosen markets.

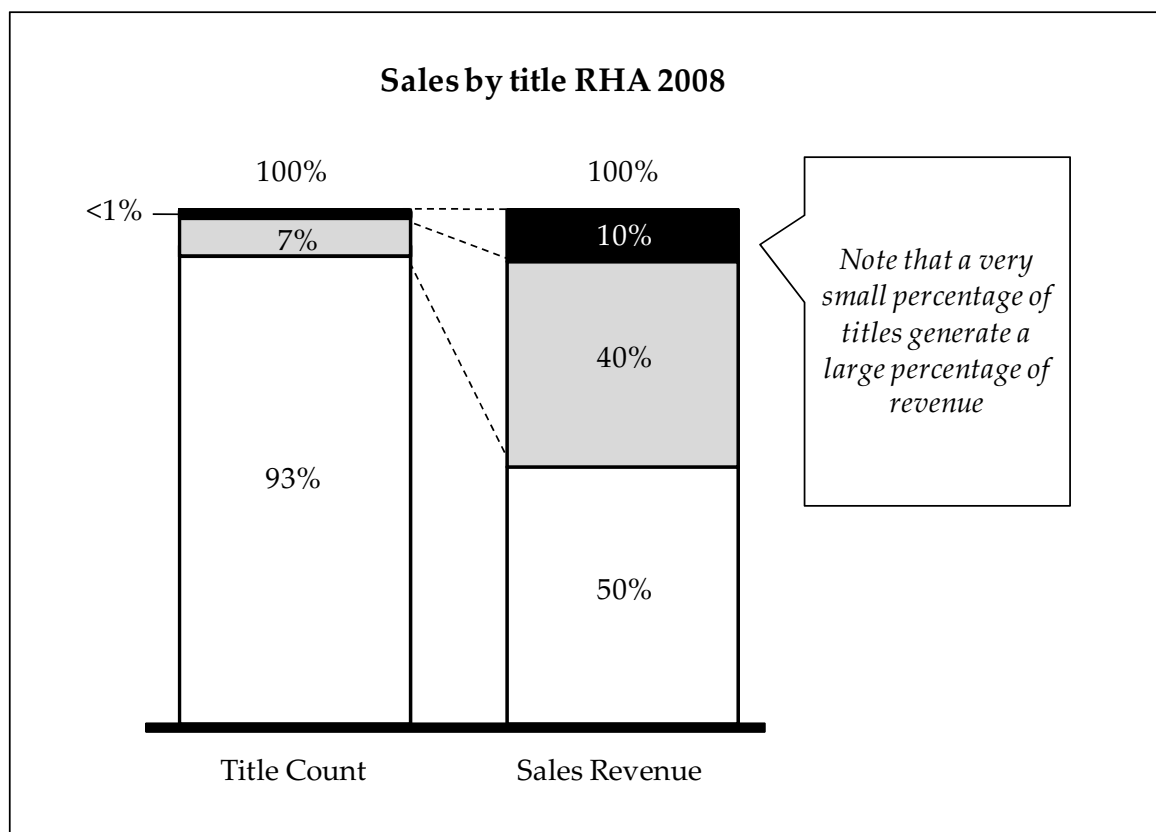
## The importance of scale

Two core economic drivers determine the success of RHA:

- a) Securing a broad mix of Australian and international titles to ensure that successful books cover the losses we incur on the many books that don't succeed; and
- b) Having enough scale to cover our costs, a high proportion of which are effectively fixed (warehousing, rent, print prices, and so on).

The chart in Exhibit 3 emphasises our reliance on the small number of titles that sell well.

*Exhibit 3: The Pareto principle in the publishing industry*



So why don't we publish more bestselling titles? Simply because it is very hard to pick winners in publishing. As with many creative industries, the economics favour scale.

If the current territorial copyright rules are changed, it will be the sales of our bestselling books that are threatened. Retailers (or distributors) will focus on importing these blockbuster titles. The loss of even a small number of our bestselling title volume would severely diminish RHA's business, and therefore our ability to nurture and promote Australian authors.



## Activities of Random House Australia

To bring a book to market, RHA undertakes a range of activities that are costly and often highly labour-intensive:

- *Publishing and marketing.* Our publishing and editorial teams select, edit, design and produce the books we publish. Our marketing and publicity teams market, promote and tour authors, and create campaigns for retailers and the consumer. Our rights team endeavours to sell RHA books to publishers in overseas English-language and translation markets, earning additional income for both author and publisher.
- *Sales.* Our sales team sells and merchandises our books across all retail channels – independent bookshops, regional bookshops, chain stores, department stores, and discount and department stores.
- *Distribution.* Our distribution centre sends books throughout Australia and processes unsold stock that is returned. The distribution centre is a major area of investment, which also provides distribution services to a number of smaller publishers which would struggle to survive without them (see Exhibit 4).
- *Back office.* Working alongside these teams are our finance and information systems departments, which manage our advance investments and customer risk, and ensure that our systems are appropriate for business and distribution requirements. Additionally, we are currently focusing on future digital publishing opportunities, and the need to ensure that our authors are taken into future delivery channels successfully and safely. In recent years, Random House globally has invested tens of millions of dollars in the development of future delivery channels. RHA has borne a portion of that cost, and continues to invest in and develop new methods for readers of the future to enjoy books.

All of this business activity requires significant investment, not least in training and development of staff. RHA spends several hundred thousand dollars on staff training each year. This ensures that our staff are equipped to serve the company well, but also to manage their own careers and be useful workers in the modern economy, no matter where they might be employed in the future.

### *Exhibit 4: Warehousing and smaller publishers*

#### **The importance of warehousing to smaller publishers**

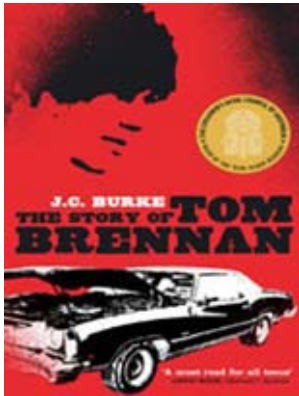
- RHA provides third-party distribution services to a number of smaller publishers
- Distribution in publishing is a challenging area. Because of the prevalence in the industry of sale-or-return agreements with retailers, there is significant two-way flow of stock
- On average, over half the stock RHA holds in its warehouse is for third-party distribution clients. In the last quarter of 2008, third-party distribution accounted for 30 per cent of warehouse throughput
- This significant volume has enabled RHA to build state-of-the-art facilities and infrastructure
- Without the third-party distribution services provided by RHA and some of our competitors, many small publishers would not survive

# The challenge of Australian publishing

RHA has a strong commitment to publishing Australian authors. We publish Australian writers both to respond to the demands of consumers and to fulfil what we believe is a cultural responsibility. Australians want to read relevant Australian stories, whether they be for adults or children. One-third of our annual turnover comes from publishing Australian writers, and this area of our business is growing as we invest further.

Local publishing makes relevant and important Australian voices available to the public. The impact can be very large, as illustrated in Exhibit 5.

*Exhibit 5: The importance of local writers*

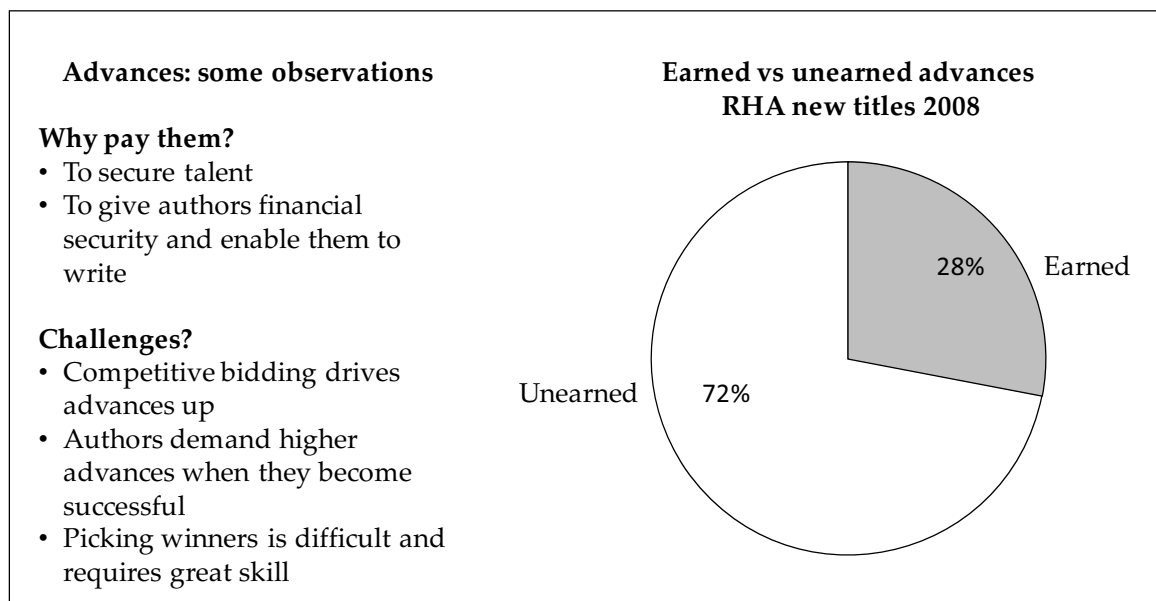
	<b>A particularly Australian story</b>
<ul style="list-style-type: none"><li>• <i>The Story of Tom Brennan</i> is an example of a locally authored and published book of the type that might be threatened if territorial copyright is removed</li><li>• The language and environment of the book is particularly Australian, and it has succeeded in connecting with adolescents around the country, winning numerous awards</li><li>• The book, which has sold over 34,000 copies, is used across Australia by police to educate young people about the dangers of drinking and driving</li><li>• It has also been set as a prose text in the NSW HSC curriculum from 2009–2012</li></ul>	

RHA has a proud – if, like most Australian publishers, relatively recent – history of developing Australian authors, many of whom we have nurtured since their first book. Some of these authors have become international successes. But publishing Australian books does mean facing some significant challenges.

New authors don't become bestsellers overnight. Typically, they must be supported over many years and many books. This is a challenging and risky proposition for a publisher. An unknown author will only receive the support they need from an Australian publishing company. But RHA and other Australian publishers can only provide this support if the security of income provided by the current territorial copyright laws is in place.

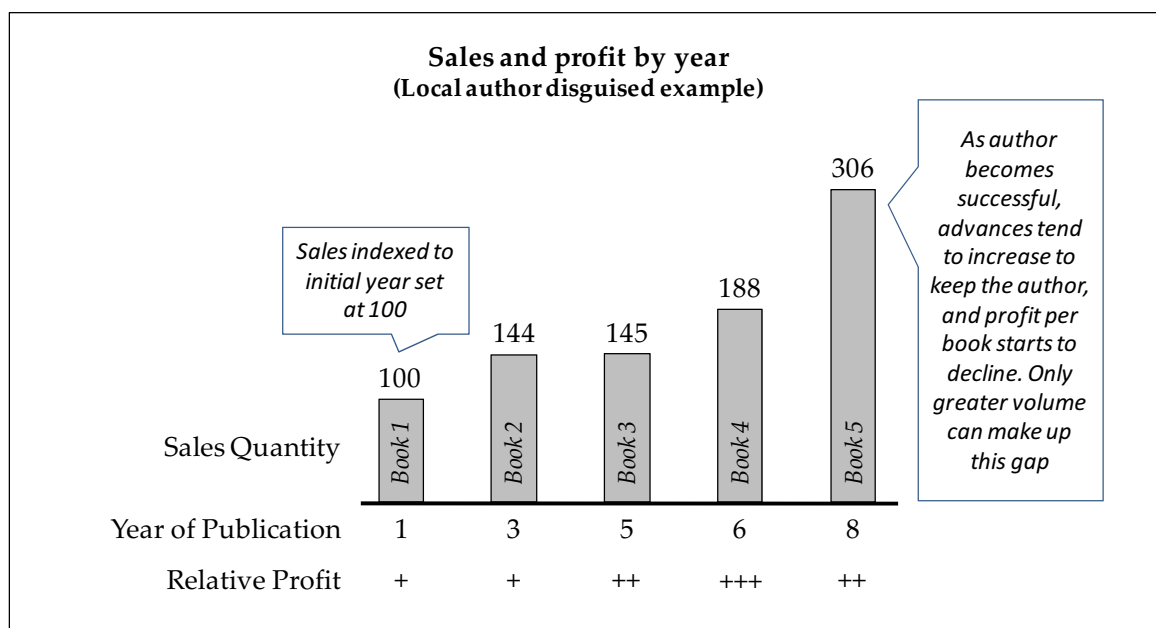
One of the initial commitments that a publisher makes to a new author is in the form of an advance payment against royalties earned through sales. This recognises the potential of the author and is central to their ability to commit to writing. But paying advances is highly risky for the publisher. Exhibit 6 shows that over 70 per cent of the advances we pay are not earned back through subsequent sales.

Exhibit 6: The challenge of advances



It takes a long time, and commitment over many books, to build an Australian author into a success, as illustrated by Exhibit 7, which provides a disguised example of RHA's experience with one Australian author of fiction.

Exhibit 7: Growth of a successful Australian author



It took five books and eight years for this Australian author's books to triple in sales and thus become a well-recognised and successful brand in Australian fiction. This required significant investment by RHA, in the form of advances, editing, marketing and publicity.

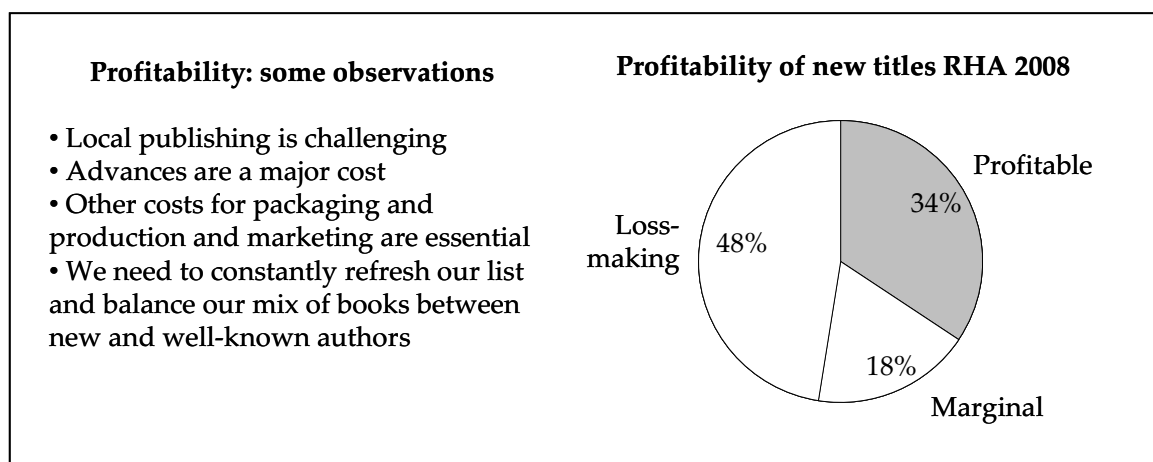
As in this example, it is often not until the fourth or fifth book that a publisher makes acceptable profits on the investment. However, it is at this stage that an author can start

to command increased advances due to their success; accordingly, the publisher's profit margins begin to be squeezed. The smaller profit margin is – hopefully – offset by increases in the volume of sales. It is worth noting that, if territorial copyright did not exist, it is at this stage that an importer would choose to import an author's titles, dramatically eroding the publisher's economics.

The example given above is not an unusual profile. While there are rare overnight success stories, most successful Australian authors take four or more books to become established.

To summarise, RHA relies on a small number of titles to generate the bulk of its profits in Australian publishing. Only one-third of our Australian books make a profit, as is demonstrated in Exhibit 8.

*Exhibit 8: Proportion of profitable titles*



## The importance of international titles

Sales of international titles make a critical contribution to our ability to bear the risk of local publishing. They provide us with a bedrock of bestselling titles, titles RHA needs in order to build scale and to defray the costs we carry for our Australian publishing program.

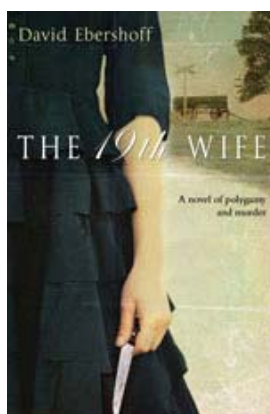
Distribution of the Random House Group's international publishing list (that is, titles from Random House companies around the world) would of itself be a profitable business in Australia. But Random House is a publishing company, not simply a distributor or wholesaler, and it seeks to publish local authors wherever it establishes companies. Investment in local publishing, however, must be funded by each local company itself, and it is the assured income from international titles that has allowed RHA to do this.

While picking international winners is no easier than picking Australian winners, there are more to choose from. Most significantly, the basic economic proposition of international sales involves much less risk than that of Australian publishing, and this is why sales of international books are vital.

We make distribution arrangements with Random House sister-companies overseas for international titles. Whether we import books or print them here (determined by minimum print run requirements), the originating publisher bears a greater part of the risk by paying the advance and other originating costs. The returns for international publishing are, therefore, more predictable. And because we don't have to pay advances or the many other costs of originating a book, we can order a small quantity and then reorder if the book succeeds. When originating a title, the economics of printing mean that we must print large quantities and therefore bear greater risk.

RHA doesn't act simply as a distributor but in fact adds value to these international titles. In many instances we identify books that we think would work in this market and commit to building them – delivering authors and stories that book buyers want to read, and from which retailers will profit by selling. This is not something a straight wholesaler would want to do or be equipped to do. An example of this is given below.

### *Exhibit 9: Discovering and growing an international title*



#### **Building an international title for the Australian market**

- RHA staff attend Random House UK sales conference and realise the potential for *The 19th Wife* in Australia
- RHA decides to publish simultaneously with the USA in a competitively priced trade paperback format
- We produce 500 advance reading copies in Australia, which are distributed to retailers to generate sales and interest
- We develop a new cover suited to the Australian market
- *The 19th Wife* sells over 10,000 copies in trade paperback
- The author is engaged to attend the 2009 Sydney Writer's Festival, and a B-format paperback will be published to tie in with his tour
- RHA publicity staff plan national media coverage for author

# How a change in the territorial copyright laws would affect Random House Australia and its authors

## The importance of territorial copyright

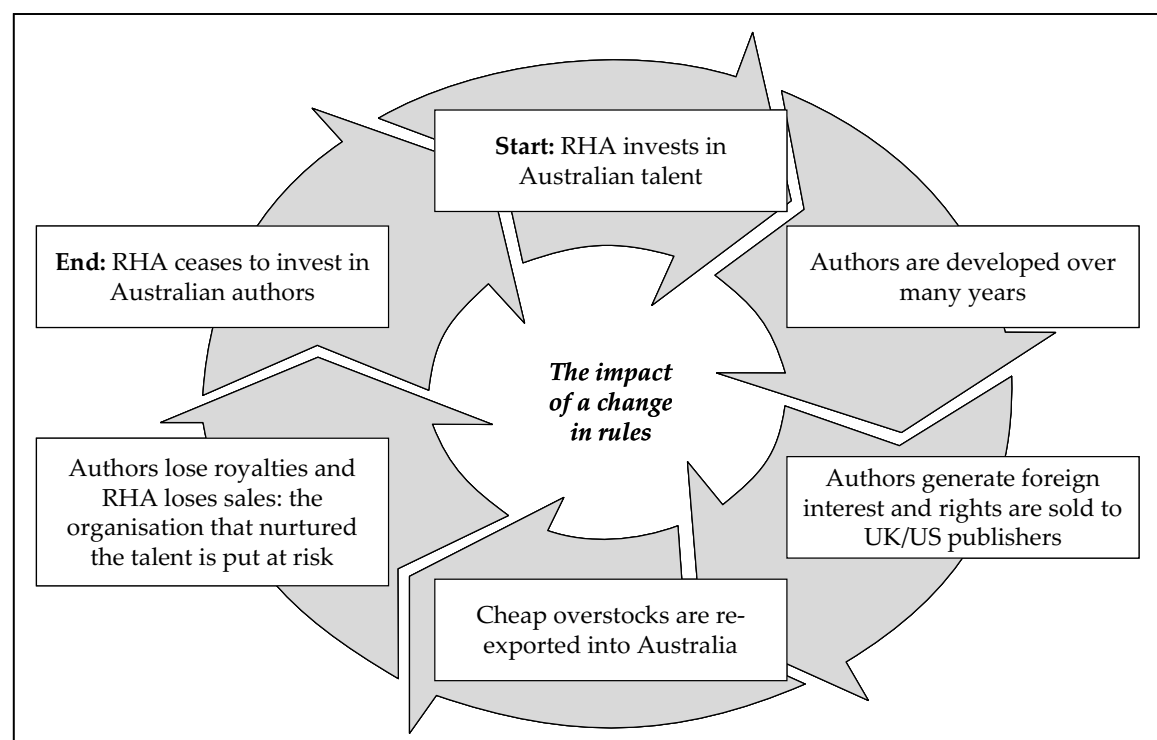
Territorial copyright is essential to RHA taking the risk to publish locally. In order to maintain our investment in Australian authors, and to print locally, we need to retain our scale. If territorial copyright is eliminated, RHA and other Australian publishers will be forced to review their investment in local publishing. If parallel importation is allowed, RHA will lose a significant share of its market to importers of books published overseas.

While it might appear that this change would make the publishing industry more competitive and efficient overall, in reality it would mean smaller profits for local publishers, which in turn would mean we have little incentive to bear the inherent risks of publishing new Australian authors.

The impact of this on local authors, industry workers and, ultimately, consumers – due to the reduced availability of Australian titles – cannot be underestimated.

The critical factor regarding territorial copyright and Australian authors is that, since it is the bestselling Australian titles which are sold internationally, these are the very books that are likely to be imported back into Australia if an open market were allowed. Along with these Australian authors, the cheaper ‘end of run’ international titles would also be imported. This ‘vicious circle’ of negative contributions is illustrated in Exhibit 10, which demonstrates how an open market will lead to erosion of investment in Australian talent.

*Exhibit 10: The vicious circle of a change in territorial copyright rules*



## Sale-or-return policies

Currently, RHA's sales team encourages retailers to stock new authors on the basis that the stock is returnable if the book is unsuccessful. Predicting the success of a new author is so difficult that the cost of purchasing stock on a firm-sale basis would discourage retailers from stocking these authors.

It is for this reason that RHA supports a sale-or-return policy for retailers on all frontlist and backlist titles. In a market with no territorial copyright, RHA could not afford to provide this option to retailers. The main reason for this is that when books can be bought from a variety of sources, it is no longer possible to be certain RHA was the supplier, and consequently sale-or-return is not feasible. The impact on the number of new authors published and stocked by retailers would be extremely great.

## The impact of a change on RHA's business

Our business is highly sensitive to the loss of bestselling titles. Last year our top 10 bestsellers represented nearly 15 per cent of our sales, and our top 30 titles accounted for around 25 per cent of our sales. Loss of these bestsellers, and the knock-on effect on the rest of the RHA publishing program, would have a dramatic impact on our business, as illustrated in Exhibit 11.

*Exhibit 11: The potential impact of an open market on RHA*

RHA sensitivity to sales changes			<u>ILLUSTRATIVE</u>
Sales down by 10 per cent	Sales down by 20 per cent	Sales down by 30 per cent	
<i>Significant belt-tightening</i> <ul style="list-style-type: none"><li>• Modest reduction in Australian publishing</li><li>• Some loss of staff</li><li>• Reduced stock of smaller international titles</li></ul>	<i>Cutting hard</i> <ul style="list-style-type: none"><li>• 'Cherry-picking' of Australian authors</li><li>• Increased reduction in staff numbers</li><li>• Further de-stocking of smaller titles</li></ul>	<i>Becoming a distributor</i> <ul style="list-style-type: none"><li>• Significant reduction in Australian publishing</li><li>• Significantly reduced range of stock – only the largest international titles are viable</li></ul>	
This is a realistic scenario if territorial copyright laws are removed			

## The impact of a change on Australian authors

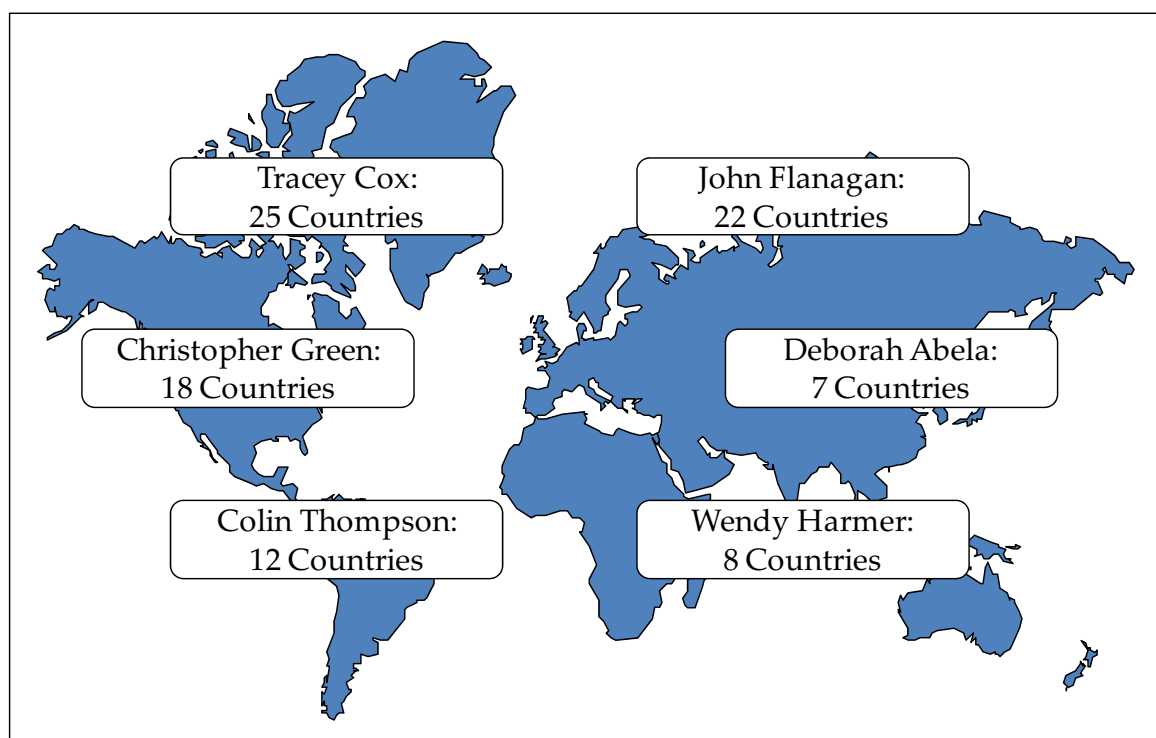
Typically, it takes five or more years and five or more books to build a local author into a success. In an open market, Australian authors will find far fewer publishing opportunities. Publishers will not be able to bear the level of risk they currently accept when investing in Australian writers. Those that are published will find publishers less willing or able to provide the kinds of editorial, marketing and distribution support that is currently available.

The economics for Australian authors will change dramatically. They would suffer both from a discounting of advances as risks increase, and from the loss of forward royalties from the imports of remaindered copies.

In addition, sales of rights for Australian books will be harmed. Should Australia not have an exclusive territory, RHA's incentive to sell rights is obviously severely reduced, since those titles may well be re-exported to Australia. It is likely that in order to have secure incomes, authors will seek to publish their works in New York or London, as was commonly done many years ago, instead of with an Australian publisher.

Exhibit 12 illustrates the extent of right sales we have made for some of our Australian authors.

*Exhibit 12: Rights sold overseas for selected Australian authors*



While rights sales are helpful to RHA's business, they are highly advantageous to authors, and critical to smaller independent publishers, whose very livelihood depends on them.



# How a change in the territorial copyright laws would affect book buyers

Book buyers currently enjoy an excellent variety of books and retailers, and will not benefit if the legislation changes.

Australian consumers enjoy access to a variety of book retailers, a range of available titles superior to that of any other English-language market, affordable prices comparable to those overseas, and the confidence that key titles will be published quickly and efficiently. And – if all else fails – they have access to internet booksellers around the world.

Opening the Australian market will not deliver lower prices to consumers, just fewer titles and fewer independent bookstores and franchises.

## Product offering

Consumers would be worse off under a change in the parallel importation rules as there would be a dramatically *reduced* range of books on offer.

Currently RHA's distribution centre stocks 10,000 titles, which can be quickly and efficiently dispatched to bookstores anywhere in Australia within 24 hours of receiving an order. RHA will also airfreight titles for delivery within a two-week period if a title is not stocked in Australia.

If the market opens, the risk for RHA to carry such a large amount of stock increases, as there is no guarantee that retailers will order from us. Accordingly, RHA's capacity to carry the variety of titles will be reduced. This then forces the retailer or consumer to purchase stock that must be airfreighted from other major publishing centres, rather than stock that is printed locally in Australia – a return to the book market of the 1980s.

Those who are in favour of the open market sometimes argue that more titles would become available if the rules were changed. However, our experience in 2008 was that our top five retailers purchased, on average, only 64 per cent of the titles we published and stocked in Australia. This debunks the notion that retailers would purchase more titles, and that a wider range of titles would be available to consumers, if an open market were introduced. Not one of our retail customers purchased our entire publishing list in any month of 2008. This is due to the strongly competitive market and the limited space in bookstores. It would only be possible to make additional titles available to consumers via online retail databases, as it is physically impossible for shops to stock all available books. And of course consumers already have access to these titles via global retail websites.

## Prices

The ability to deliver lower prices for books is often cited as a reason for changing the territorial copyright laws. Yet lower prices are not guaranteed by an open market.

Exhibit 13 shows some New Zealand prices for Random House bestsellers and indicates that the price to consumers of books in an open market is not necessarily lower.

*Exhibit 13: Comparable prices of books in an open market*

<b>Prices comparison Australia vs NZ Australian dollars at December 2008</b>		
<b>Title</b>	<b>RRP Australia (excl GST) AUD</b>	<b>RRP NZ price (excl GST) AUD*</b>
Bones to Ashes	\$18.14	\$18.62
Memoirs of a Geisha	\$21.77	\$20.86
George's Secret Key to the Universe	\$25.41	\$26.07
*Converted at RBA average annual exchange rate for 2008 of 1.19		

Exhibit 14 compares Australian and US prices of top ten RHA books in 2008 that were available in both countries. It shows that when freight, GST and the exchange rate are taken into account, books are better priced in Australia for the first available format (trade paperback in Australia; hardcover in the USA).

*Exhibit 14: Comparable price of Australian top sellers in the USA*

<b>Price comparison Australia vs US: Titles available in the US from RHA's 2008 Top 10 bestsellers Australian dollars January 2008*</b>				
<b>Rank in Top 10</b>	<b>Title</b>	<b>Author</b>	<b>Aus RRP</b>	<b>US RRP A\$ equivalent**</b>
1	Inheritance 003: Brisingr	Christopher Paolini	\$34.95	\$46.13
1	Cross Country	James Patterson	\$32.95	\$46.95
2	7th Heaven	James Patterson	\$32.95	\$46.95
3	Devil Bones	Kathy Reichs	\$32.95	\$43.53
5	Sail	James Patterson	\$32.95	\$46.95
6	Nothing to Lose	Lee Child	\$32.95	\$45.29
7	Honour Thyself	Danielle Steel	\$32.95	\$45.29
*Converted at RBA average annual exchange rate for 2008 of 85c; RRP taken from Nielsen Bookscan US; 30% freight cost estimate added to US RRP (based on RHA experience); 10% GST added to US RRP				
**Available first format				

Exhibit 15, showing comparative Christmas catalogue prices for a sample of popular books in New Zealand, indicates that it is by no means certain that retailers will pass on any gains – even if they become available.

Exhibit 15: Comparison of RRP vs selling price in major NZ retailers

NZ prices comparisons RRP vs prices NZ dollars from Christmas catalogues				
Retailer	Title	Author	NZD RRP	Retailer Price
<b>Borders</b>	The Folklore of Discworld	Pratchett & Simpson	\$54.00	\$59.50
	Kiwi Speak	Justin Brown	\$19.99	\$21.99
	Made in NZ	Nicola McCloy	\$19.99	\$21.99
	Delicious	Sophie Gray	\$34.99	\$38.50
	A Coming of Age	Duncan Petrie	\$44.99	\$49.50
	Rangers Apprentice	John Flanagan	\$19.99	\$21.99
<b>Whitcoulls</b>	Cross Stitch	Diana Gabaldon	\$26.99	\$29.99
	The Da Vinci Code	Dan Brown	\$24.99	\$27.99
	Memoirs of a Geisha	Arthur Golden	\$27.99	\$30.99
	Birdsong	Sebastian Faulks	\$27.99	\$30.99
	Atonement	Ian McEwan	\$27.99	\$30.99
	Eragon	Christopher Paolini	\$19.99	\$21.99
	Chocolat	Joanne Harris	\$26.99	\$29.99

There are, of course, a number of factors that impact prices. In times of a strengthened Australian dollar, it could be more attractive financially to purchase titles from overseas; however, when the Australian dollar is weaker the price differential would not warrant this.

Retailer cost bases would change under a relaxation of parallel importation laws, and that would flow through to prices. Retailers currently enjoy the right to return unsold books to RHA. If they were to buy these books from overseas, it would be on a firm-sale basis. For the retailer, the increased stock risk and necessary upgrade in systems would invariably drive up the price at which they could sell the book to the consumer, and these factors must also affect the number of individual titles they stock.

Most worryingly, US publishers could use the opportunity to realise some extra profit on books that would ordinarily have to be pulped by dumping international editions on the Australian market at a fraction of the price of production in Australia. But this is likely only in the medium term, as even if prices were to fall with the introduction of an open market, in the long term the increased concentration across the industry chain – fewer printers, retailers and publishers – would doubtless put upward pressure on the prices of books that aren't dumped stock.

## The internet

Those proposing change claim to be concerned about overseas internet retailers. The internet is ubiquitous and the large online retailers are well known to consumers. And Australian retailers can already order titles internationally for customers if they make a special request.

Changing the current territorial copyright laws will not discourage consumers from using the convenience of internet retailing. Applying a GST to books bought from an overseas source might give consumers a greater incentive to purchase books in Australia, and would at least create parity for Australian booksellers.

# How a change in the territorial copyright laws would affect printers and retailers

Any relaxation of the territorial copyright legislation will lead to increased concentration of businesses across the publishing industry. The retailers that survive will form an oligopoly, and a monopoly printer would emerge (if one survives at all).

## Printers

In an open market, significantly fewer books would be printed locally and it is likely that one of the major trade printers would close.

Australia currently has two major trade book printers. The market is only just big enough to support both, as evidenced by their attempt to merge in 2007 – a merger which the Australian Competition and Consumer Commission refused on the grounds that it would create a monopoly.

In an open market, local printing would largely be replaced by imported product (via airfreight) from US and UK wholesalers. This is not good for local jobs, Australian manufacturing or the environment.

Prior to 1991 and the 30/90-day rules, there was very little local printing of international titles. The 30-day rule improved the efficiency of publication, and many international titles that were previously shipped to Australia were transferred to local manufacture. Fifty per cent of Griffin Press's business today is the result of that change.

RHA currently prints 5 million units annually with Griffin Press. Approximately half of these are Australian titles, the other half being import replacement stock. It is possible that a move to an open market could see our printing volumes significantly reduced. The impact on our printers could be dramatic. For example:

- If sales from our top 50 locally printed international titles were halved, this would see a reduction in print quantities of 660,000 from these titles alone.
- If our locally printed international print quantities from all international titles were halved, this would result in a reduction of 1.4 million units printed.

RHA believes that a change in the current rules would lead to significantly reduced print runs in Australia. Under these circumstances, one of Australia's two major printers would likely close, leading to the very monopoly that the Australian Competition and Consumer Commission wished to prevent.

## Independent booksellers

If the rules change, the retail book trade would be reshaped. Large retailers would grow, and the charm and diversity offered by small independent bookstores would disappear.

In an environment with no territorial copyright, publishing companies such as RHA will be forced to reduce local publishing and to hold less stock of Australian and international titles. These new circumstances would force publishers to move from sale-or-return policies to firm-sale arrangements.

The classic independent bookstore still sells 20 per cent of all books sold in Australia and has always been the sector of the market that best supports new Australian authors. Many readers value these stores, with their unique atmosphere and personal service. Sale-or-return policies are critical to independent booksellers, enabling them to maintain a broad range of titles. These smaller bookshops are particularly vulnerable to a shift to firm-sale arrangements.

In an open market, the demise of the independent bookshop would deprive the retail trade of a significant source of diversity and richness. And new Australian authors would lose their greatest champions.

## Larger retailers

Whether the larger retailers, which are generally in favour of an open market, would be better off is debatable.

Currently these companies bear no currency risk. They have little stock risk or inventory cost, due to the prevalence of sale-or-return policies. They can order internationally to satisfy specific requests, and are able to access a broad range of stock from local publishing distribution centres. All of this would change with an open market.

Additionally, the terms which publishers provide to larger retailers – including free delivery for reasonable-sized orders anywhere in Australia, as well as promotional campaigns and marketing collateral – would alter dramatically in an open market. Most significantly, the investment required for new systems to interface with more complicated overseas buying regimes would impose new and restrictive costs.

RHA works well with retailers across all channels and has developed strong relationships, but in an open market we would be unable to provide the range of services which we currently do. Other publishers are unlikely to either, and the present rich diversity of retailers would likely disappear.

## Conclusion

RHA believes that the current laws have allowed a vibrant and diverse publishing industry to develop, which delivers to Australian readers the books they want, when they want them and at affordable prices. It is a \$2-billion industry that employs more than 5000 people and enriches the nation culturally.

Removing territorial copyright would have a devastating impact on Australian publishing. Opening the market is demonstrably *not* in the interests of the nation.