

Mr Mike Woods  
Presiding Commissioner  
The Productivity Commission  
GPO Box 1428  
Canberra ACT 2601

Dear Mr Woods

Re: March 2009 Discussion Draft on the Restrictions on the Parallel Importation of Books.

I am an Australian children's author with both Australian and overseas sales, with four books either published or contracted. On 19 January, I wrote to you with my thoughts on the proposed changes regarding parallel importation. I have since read the March 2009 Discussion Draft and was deeply concerned by the recommendations, in particular, the recommendation to limit Parallel Importation Restrictions (PIRs) to twelve months from the date of first publication of a book in Australia. My objections are outlined below:

### **Assessing the impact of the Commission's recommendations**

To assess whether or not the recommendations are warranted, or even advisable, two conditions need to be satisfied:

- 1) the benefits of the proposed changes must be shown to outweigh the costs; and
- 2) proof must be provided that the proposed changes will lead to the predicted outcomes.

At present, I contend that neither of these conditions has been met.

### **1) DO THE BENEFITS OF REMOVING PIRs OUTWEIGH THE COSTS?**

#### **Defining cost and benefits**

The Commission contends that PIRs place upwards pressure on book prices and that:

- *most of the benefits of these higher prices accrue to publishers and authors, with demand for local printing also increased*
- *most of the costs are met by consumers (p. XIV).*

I find the Commission's assessment of who bears the costs of higher prices (consumers) and who reaps the benefits (publishers and authors), surprising because the Commission has, in this instance, limited its interpretation of costs, to financial costs. This is contrary to its stated aim of interpreting costs and benefits 'in their fullest sense — that is, covering the values of social and cultural matters, as well as financial and material ones' (p. XVIII).

If the Commission were to remain true to its stated interpretation, it becomes clear that consumers do not meet most of the costs and receive very little of the benefits for the following reason: Higher prices mean Australian publishers, authors and printers are in the position to produce books with Australian content and still remain financially viable. The existence of such literature enhances our nation's cultural heritage and our nation is, of course, made up of consumers. Thus, the financial costs met by consumers are offset by these social and cultural benefits.

#### **Financial viability of Australian publishing houses**

Australian publishing houses' income will decrease through the diversion of royalties to overseas editions. It is likely some of the smaller houses will not be able to remain open. The larger houses will need to make up the shortfall in profits by publishing books with a global focus, thus, decreasing the number of titles with Australian content (see below for my point on the positive cultural externalities of Australian books).

### **Investment in new authors will diminish**

The Productivity Commission argues that:

*... the bulk of returns to publishers will come from sales in the months following release. Thus although a one year period of PIR protection may seem short ... it would not excessively diminish returns and thereby incentives for publishers to invest in new authors (p. 7.17).*

I strongly disagree with the conclusion drawn by the Commission. My first book continues to sell at a steady rate, two years after it was first published and, I hope, for many years to come. Therefore, what is to be served by allowing cheaper, low royalty-yielding copies into the Australian marketplace after twelve months? As an emerging author, this would severely affect my ability to remain financially viable. Furthermore, my Australian publisher will not see the return on the investment they hoped for when they signed me. Just as selling the US edition of my book in Australia will eat into my royalties, so too will the Productivity Commission's recommendation eat into the profits of my Australian publisher, leaving them little incentive to invest in future new authors.

### **Loss of author income**

I, and many other Australian authors, receive a lower rate of royalties for overseas editions than for the Australian edition. If Australian booksellers are able to import the potentially cheaper American editions of my books, my royalties will drop. As I earn less than the minimum wage, this would severely disadvantage me. This is a negative, not just for me as an author, but for the whole community. If Australian authors cannot support themselves, they will write less and the country will lose the fruits of their creative labour.

When outlining the sources of income for authors, the Commission makes mention of 'psychic income', suggesting that 'such rewards [as the joy of self-expression] may be a strong motivator for the generation of manuscripts' (p. 2.11), the implication being that authors will keep writing regardless, so decreasing their income is of no consequence. This argument is flawed for two reasons:

1. If writers sustain loss of income as a result of removing PIRs (through lower royalties and less Australian publishers willing to sign their books), they will have to work in other industries. As there are a finite number of hours in the day, if a writer has to work a different job, they will have significantly less, if any, time to write. Thus, regardless of the motivation to write, less manuscripts will be generated.

2. The Commission's argument sidesteps the issue of publishing opportunities. An author can generate as many manuscripts as they like, but if there isn't a publisher willing, or able, to sign them, such work will not become available to the general public. Thus, it will not contribute to the cultural heritage of our country. This is a clear case of a negative cultural externality (if PIRs are removed).

### **Externalities: cultural heritage and literacy levels**

#### **Cultural heritage:**

The Commission argues that:

*Although the total cultural and educational value of books is significant, it is the externality component of this value that is the appropriate focus of any government support of the books industry. Most of the benefits of buying and reading books are internalised by consumers, and reflected in the market price of their purchase. Hence, the Commission judges the externality component to be policy-relevant, but unlikely to be large (6.14).*

I confess to being baffled by the logic of this argument, especially since, on P. XXI, the Commission seems to be arguing the complete opposite viz.

*The dissemination of Australian culture can have a range of social and educational benefits (p. XXI).*

The Commission concedes that books have cultural value and that this can have a range of social and educational benefits, yet states that the chief benefit of books is internalised by the consumer. How so? This seems an arbitrary judgment since no evidence is provided to support it.

If books have cultural value, they are of benefit to the culture ie, the wider community. They increase social capital (p. 6.9), which is, by definition, a positive cultural externality. People read books and discuss them with others, informally, in book groups and in school, to name but a few places. Such discussions help our community define and explore what it means to be Australian, to diffuse social norms, to provide a sense of belonging. Yes, every individual who buys and reads a book, reaps some internalised benefit. This does not, however, preclude the great benefits gained by the wider community when people read, explore and celebrate Australian culture.

Put simply, if PIRs are removed after twelve months, it is likely Australian publishing houses will reduce the number of Australian titles on their lists. If less books with Australian content are available, the expression of Australian culture will suffer. Consequently, the community will suffer. The cultural externalities component of this issue is not, as the Commission suggests, 'policy-relevant, but unlikely to be large' (p. 6.14). It is policy-relevant and *likely* to be large. It is the Government's job to protect the cultural heritage of this country so this issue is therefore central to government support for the book industry.

### **Targeting government support for the cultural value of books**

The Commission is concerned that 'PIRs do not target the cultural value of books effectively' (p. 6.1), suggesting that there may be better ways of targeting and protecting the cultural component of books. Even if this is so, removing PIRs without putting alternative measures in place to protect the cultural component of books, is foolhardy. It is like sacking the police force because they only are only performing part of their job well, without having a replacement lined up. What kind of chaos will ensue once the police station is empty?

Unless and until a suitable replacement is found and proven to be effective, PIRs need to remain in place as they are, protecting Australia's cultural heritage.

### **Literacy levels:**

The Commission states that:

*Removing or relaxing the PIRs is likely to have little, if any, effect on Australia's literacy rate. The goal of increasing literacy is not relevant to the future of the restrictions (B.1).*

I was surprised to read this statement, particularly given:

- a) the absence of evidence to support it; and
- b) submissions, such as those from Magabala Books, make it clear how important culturally relevant material is in improving literacy outcomes in indigenous communities (p. 6.11).

As a children's author, I have found that children more readily relate to stories which reflect their own experience. Literacy levels are directly affected by the interest children have in reading books, and this interest is directly affected by the relevance of those books to the children.

I am concerned that there seems to be little input from the Education Sector on this issue. It makes sense, surely, to consult those with knowledge in this area *before* drawing any conclusions about literacy.

### **Job losses**

There is no question that the removal of PIRs will result in job losses in the Australian publishing sector. Given Australia is experiencing its highest unemployment rates in twenty years, it is reckless to recommend policy changes which will lead to jobs being sent overseas.

Secondary to this is the fact that the more jobs sent overseas, the higher the unemployment rate in Australia. This, in turn, will mean people will have less disposable income which will mean less demand for goods and services. This can hardly be considered a positive outcome.

### **Benefits of removing PIRs**

The benefits, as outlined by the Commission, centre around the notion that:

- a) books *may* become cheaper for the consumer if PIRs are removed; and
- b) that the unintended leakage of income to overseas authors and publishers, through PIRs, will cease.

### **Why these benefits do not outweigh the costs**

a) Cheaper books:

Even if books become slightly cheaper (and this is debatable), I contend that the non-financial costs far outweigh the benefits. If fewer books with Australian content are available, there is less choice for the consumer.

b) Income leakage:

It seems odd to me that, on the one hand, the Commission is concerned about sending money overseas through leakage of income through mis-targeted PIRs, yet, on the other hand, is eager to promote the idea of outsourcing printing etc, to Asia, which will lead to money going to overseas companies (another kind of leakage, you might argue).

Even if income leakage is undesirable, surely it is the lesser of two evils, the other evil being the irreversible damage done to the Australian publishing sector if PIRs are removed.

## **2) INSUFFICIENT DATA**

Is there sufficient data to show:

- a) that the proposed changes *will* lead to cheaper books; and
- b) the extent of the negative impacts on the book industry?

The Commission has stated that:

*... comprehensive and up-to-date data on the industry is not readily available ... (p. XVI).*

Further:

*... there are insufficient data to fully describe and analyse the books market. The ABS last surveyed the publishing sector in 2003-04 (p.XVI).*

And:

*The likely behaviour of market participants in the face of change is uncertain (p. XVIII).*

Also:

*Measuring the magnitude of any price effects caused by Australia's PIRs is problematic.*

And finally:

*... data and methodological issues often bedevil attempts to compare book prices in different countries in a way that sheds light on the effects of PIRs (p. 4.2).*

Nevertheless, despite the absence of reliable data, the Commission has recommended that, first, its proposed changes be adopted (7.20) and second, that the new arrangements be reviewed after five years and that:

*... the Australian Bureau of Statistics should, as soon as possible, undertake a revised version of its 2003-04 survey on the books industry and market, having regard for the information gaps and interpretation problems identified in this study ...' (p.7.20).*

Surely, this is putting the cart before the horse? Reliable, up-to-date data is required *first*. Once this data has been carefully examined, then, and only then, can wise policy recommendations be made. After all, what is the rush? The Commission concedes that were the publishing industry to contract and there was excessive 'associated loss of cultural externalities', it could 'take considerable time to reverse' (p. XXIII). It therefore makes sense to wait until the effects of any changes can be predicted with some certainty.

As the Commission states, 'What matters ultimately is the wellbeing of the community as a whole' (p.XVIII). Furthermore, in view of the 'information gaps and uncertainties ... a cautious approach to reform' (p. XXII) is needed. Thus, I urge the Commission to act in accordance with its own stated aims and:

- a) limit its recommendations to a call for further study into such areas as:

- the likely effects of removing PIRs after twelve months, on the cost of books
- the likely effects of removing PIRs on all aspects of the book industry, including jobs losses
- a more thorough look at the cultural externalities component of retaining/removing PIRs
- the effect on literacy levels if there is a decrease in the availability of books with Australian content; and

b) hold off making policy recommendations until the Commission is in possession of such data. In the mean time, PIRs should remain in place.

Thank you for taking the time to consider my submission.

Yours sincerely,

Marianne Musgrove  
Children's Author  
13 April 2009