

McPherson's Printing Pty Ltd
Submission to the Productivity Commission Study
Discussion Draft
Copyright Restrictions on the Parallel Importation of Books

April, 2009

McPherson's Printing Pty Ltd (trading as McPherson's Printing Group ABN 36004911308) is a major Australian book printer with sales revenues of approximately \$70 million per annum, employing 350 staff with the majority located in the regional central Victorian town of Maryborough. The company is a subsidiary of McPherson's Limited, a public company listed on the ASX (code MCP).

Key concerns raised by MPG in the original submission made to the enquiry are restated below as they have not been satisfactorily resolved in the Discussion Draft.

- "Introduction of the "30 Day Rule" in 1991 provided the catalyst for growth in the domestic book printing industry and its potential removal or weakening will certainly lead to significant reductions in available domestic book volumes. The consequences of such reductions in a finely balanced and volume dependent book printing industry will inevitably be reduced employment, higher unit prices and potentially a threat to long term viability." (MPG's Submission January, 2009)

Discussion Draft Extracts:

"The Australian printing industry was a particular beneficiary of the introduction of the 30 day rule in 1991" (page 5.3)

"the Commission is inclined to the view that Asia could, in time, become a major source of parallel imports for trade books were the PIRs to be repealed..." (page 4.16)

"printing activity in certain regional areas could be significantly affected"... "It is not the role of the PIRs to operate as a regional support mechanism" (page 7.5)

MPG Comment:

The Commission appears to believe that there may be only a limited volume decrease in books printed in Australia and does not accept that unit prices of print will, as a necessary consequence, increase. The magnitude of risks to MPG's employment levels in Maryborough and business viability does not seem to be a concern of the Commission.

- “There appears to be a complete absence of any plausible benefit from changing the current rules. The “cheaper books” argument lacks credibility on several fronts as the cost to print in Australia will actually increase if available domestic volumes drop. There is also considerable doubt as to whether current prices are in fact actually higher in Australia given a valid means of benchmarking.” (MPG's Submission January, 2009)

Discussion Draft Extract:

“Measuring the magnitude of any actual price effects caused by Australia's PIRs is problematic” (page xix Overview)

“Clearly, the significant price gap reported in relation to the US was driven in large measure by the high Australian dollar in that year. Sensitivity analysis under taken by the Commission shows that the reported price gaps would narrow, and potentially even reverse, in years when the Australian dollar is weak.” (page 4.13)

MPG Comment:

The Commission clearly argues that the data supporting relative retail pricing levels in Australia compared with overseas markets is problematic. Yet it then appears to base its recommendations for change on the unsubstantiated proposition that retail prices will decrease as a consequence.

Concerning the Draft Recommendations:

Applying PIRs for only 12 months from date of first publications throws the great majority of reprints into an unrestricted market. As reprints constitute 30% to 40% of MPG's trade book printing activity its available volumes would be significantly reduced by free parallel imports and decreased reprint demand from Australian publishers.

Allowing free parallel importation of a PIR-protected book "until local supply is re-established" during the initial 12 month period "should a PIR book become unavailable" is problematic in terms of definition and enforcement and could therefore be open to abuse.

Suggesting yet another review five years after implementation is counterproductive in that it creates further uncertainty in investment decisions which are necessarily long term in the printing industry.

Other Comments on Discussion Draft:

The Commission contends that "while the Australian printing industry would likely be smaller without the PIR's, the local advantages enjoyed by Australian firms would serve to limit this effect" (Page 5.16). The Discussion Draft then appears to quote MPG's original submission as support. This submission stated that a 20% long term reduction in volumes was likely if the 30 day rule was removed. Clearly, the Commission does not recognise the high fixed costs in the industry and the significant impact such a reduction would have on business viability and the upward pressure on pricing from lower volumes. The Commission's suggestion that competition from overseas printed books would constrain the ability for local printers to lift unit prices in response to lower volumes fails to recognise the necessity for printers to do so in order to survive.

To say that Griffin and McPherson's "dominate" the Australian book printing market is misleading. The Discussion Draft implied 40% combined market share for books printed in Australia is not considered "domination" and is probably overstated. The market share is obviously far lower when Australian published books printed overseas are recognised.

Conclusion

The Discussion Draft sums it up succinctly - **“What matters ultimately is the well being of the community”** (Page xviii Overview). Placing at risk a thriving local publishing market and potentially decimating large scale book printing employment in Australia in an attempt to achieve a theoretical, unproven and potentially unfavourable impact on retail book prices fails this test. The current system is not known to be broken while the draft recommendations appear high risk on the downside with little if any upside.