

Walker Books Australia
NEWTOWN NSW 2042

Productivity Commission
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MELBOURNE Vic 8003

Dear Sir / Madam

I am writing a second submission to the Australian Productivity Commission's inquiry into the parallel importation of books, as I was so outraged by the findings of the inquiry's interim report that I can only conclude that my own thorough and detailed initial submission (provided in January 2009), at least, had not been read or understood.

In particular, I am appalled that the Commission is putting forward the idea of limiting Parallel Import Restrictions to 12 months while demonstrating next to no understanding of the likely drastic impacts of this capricious reform on certain high-value areas of Australian literary activity.

As I said in my initial submission to the inquiry, I have worked in book publishing across four continents since 1984. I was first employed in foreign rights and export sales, on behalf of UK-based companies, to the European, North American and Asian markets, and have specialised in children's books since 1986.

I have worked in the Australian book publishing industry since 1989; founded Walker Books Australia (WBA) – of which I am the Managing Director – in 1993 as the local subsidiary of the group that also comprises Walker Books (UK) and Candlewick Press (USA); and set up Walker Books New Zealand in 1999. In 2007 WBA launched its local publishing list, of work for children by Australasian writers and artists, of which I am also Publisher.

On the basis of these 25 years of experience, and my accountability for a firm turning over \$11 million annually and employing 26 staff, I state or restate below a number of issues in response to interim report findings. Taken collectively these issues constitute my profound concern that, driven by dogma, the current inquiry is failing to take account of real-world evidence that highlights just how seriously the implementation of suggested reforms would damage business activity in various sectors of the diverse industry under review.

Noting the interim report's observation that the Commission's investigations have been hampered by a lack of quantified evidence, I am informing my comments on the relative proportion of backlist and frontlist sales with fresh data. This comes with my offer to the Commission to request access to the sales records and other management reports from

which I have taken this data. Some loss of confidentiality for my business dealings would be a small price to pay for providing the Commission with hard evidence that brings home with force the likely impact of the ill-informed policy changes mooted in the interim report.

1) *Risk of both short-term and permanent net loss in Australian jobs if Parallel Importation Restrictions are removed*

In my own preliminary submission alone I provided quantitative evidence of the correlation between the growth of WBA's local publishing output since we started our local list in 2006 and the increase of employment by WBA over that time. Both my company's local publishing ability and our staff numbers would be likely to be harmed by the removal of PIRs after 12 months.

As even the interim report itself acknowledges, this act would lead to a loss of jobs in the Australian printing industry. At a time of growing unemployment I am personally appalled by the apparently bland acceptance of this brutal reality, for which with any redress would not be in prospect for at least five years, if at all.

Through its statements the Commission appears willing to suggest that the Federal Government should implement dramatic changes to the status quo, with a far lower degree of certainty about changes' ability to deliver reduced prices to consumers than about the likelihood of consequential and significant job losses across Australia. In the case of the printing industry, I note that these job losses would be particularly marked in Adelaide and in regional Victoria.

2) *Overstated potential benefits of PIR removal for retail book prices in Australia*

The interim report repeatedly states the view that PIRs are likely to have the effect of raising retail prices in Australia. Yet the report's own evidence contradicts this assertion, when applied to the long run.

In comparing book pricing across the English language markets of the UK, USA and Australia, the interim report claims to show that Australian Recommended Retail Prices are comparable to overseas: *'... the estimated price gap (based on RRP's for 2007-08) of like editions between Australia and the UK and US, respectively, would have been eliminated at exchange rates of GBP 0.41 and USD 0.69.'*

What the interim report does not go on to clarify is that the past 10-year average exchange rate for the USD against the AUD has in fact been 0.69, thus eliminating the purported price gap.

Furthermore, when considering the issue of pricing one only has to look to the NZ market to see that in that country there has been no overall reduction in the price of books to consumers since the introduction of the open market. In contrast, NZ retail book prices have continued to rise.

Where the interim report does specifically highlight the prospect of reduced prices is in relation to a likely increase of remaindered books on the Australian market:

‘opportunities to import remainders from abroad could greatly increase price competition for parts of the trade back-list – remainders are often available for a minor fraction of a title’s normal price (although it is relevant to note that authors receive little or no royalty from them)’.

As a publisher whose business (and consequent ability to develop local talent) is a great deal more reliant on backlist sales than the interim report generally takes account of (see (3) below) I find this prospect grotesque. What the interim report is effectively proposing, in embracing the likelihood of more and cheaper remainders, is that the Australian population, including our young people, should enjoy ready access to the leftover stock of books which have failed to find a market in the rest of the English-speaking world.

If it were worded honestly, the interim report would therefore state its case clearly: that if a book doesn’t sell in the UK, USA or India, then it can always be dumped on Australia!

3) Risk of damage to Australian children’s book publishing from proposed 12-month limitation on PIRs

‘In the Commission’s view, limiting the period of PIR protection to one year would continue to provide local publishers with the certainty to invest in the development of new manuscripts knowing that this investment, and that entailed in marketing and promotion, would not be undermined by parallel imports during what is generally the peak sales period. In so doing, it would preserve incentives for the generation of culturally valuable local works. This period of protection would coincide with the time when price competition in the trade books market is at its highest and hence when the price-raising impacts of the PIRs are likely to be lowest.’

The above proposal of a 12-month limit on PIRs highlights the inquiry’s grossly deficient understanding of how the Australian book publishing industry currently functions, especially with relation to children’s and educational books. If the likely consequences of such a change were not so potentially dire for the authors and illustrators that my company publishes, or for my staff, this facile and arbitrary suggestion would be comic.

Including material repeated from my preliminary submission, let me list the reasons why, in my sector of the book industry, the interim report’s main recommendation is profoundly ill-informed:

- High-quality children’s books are the result of long-term investment. They are time-consuming and expensive to create and promote.
- Publishing the first work produced by an inexperienced author or illustrator will generally only be commercially justifiable in the context of a long-term relationship with their publisher which enables the latter to achieve a return on their investment by the time that a third or fourth book is produced.
- Retailers – especially the direct discount or chain stores – rely on a sales history that shows positive growth when making their purchasing decisions. To achieve this track record an author or illustrator may have to be supported through a relatively lean period before the investment in their profile and exposure pays off.

- The gradual sales growth achieved by new creative talent is matched by the gradual turnover in new readers that discover backlist titles by well-established authors and illustrators. It is estimated that the children's book market rotates on a five-yearly cycle - i.e., every five years there is a new generation of readers for a book.
- As a children's publisher I thus absolutely rely on making a positive assessment of the likely longevity of the sales of a book (or a series of books by an author or illustrator) when considering whether to invest in publication.
- **This investment, particularly in colour-printed picture books, is very, very seldom recouped in the 12 months following a book's publication!**
- In all instances the various children's book awards which could (and, for those titles with the good fortune to be shortlisted or awarded, invariably do) assist the sales of a new book occur in the calendar year *following* that of publication.
- Furthermore, most children's book awards – notably including the prizes awarded by the Children's Book Council of Australia – include production quality among the criteria by which entered titles are judged. Thus under the interim report's recommended scenario I could invest in the high-quality production of an Australian children's book, only to see a cheaper poor-quality edition rushed into my market from overseas in order to undercut my prize-winning edition.
- Another important way that a children's book can increase its earnings over a period much greater than 12 months is by being included in the curriculum or recommended reading list of a state's education department, in one or more subject areas.
- Curriculum amendment does not happen frequently; it is a time-consuming process, and usually a book is not recommended for inclusion until it is a well-recognised and established title within its genre. Commonly this takes at least four years from publication (and, in the case of children's picture books, requires the title to be available in paperback).
- Under a 12-month PIR scenario, curriculum lists would present a ready-made 'shopping list' for overseas wholesalers to cherrypick titles and print cheap editions.
- The originating Australian publisher would then lose the benefit of having worked hard with authors, illustrators, schools and curriculum professionals to elevate their books' educational value; so too would the authors and illustrators themselves, in the likely case of overseas editions having been pirated.

In this context, I strongly object to the inaccuracy of the interim report's finding regarding the proportion of total book sales that is constituted by backlist sales, and to the way that this erroneous information has been used to justify a slashing of the coverage for domestic publishers provided by PIRs to an arbitrarily arrived at duration of 12 months.

The interim report appears to be principally relying on evidence that only 20 per cent of Big W's book sales come from backlist titles. Here, as elsewhere, the interim report is inadequately informed by significant and relevant evidence. Big W does provide an important channel for selling books from a wide range of publishers. But Big W only owns a part of the Australian book market and in fact, along with its principal chain store competitors, deliberately focuses its business on bestsellers – i.e., frontlist titles.

In my earlier submission, I mentioned that the greatest loss to WBA as a business, if PIRs were removed, would be in foregone revenue from our *bestsellers* being imported from cheap overseas competitors.

At no point in this submission did I specify whether my company's bestsellers are backlist or new releases.

In most cases my company's bestsellers are – as is typical of children's books publishing – *established* titles that can take the form of:

- Either a one-off backlist 'treasure' (think along the lines, across a range of publishers, of titles such as Possum Magic, The Very Hungry Caterpillar, We're Going on a Bear Hunt, Where the Forest Meets the Sea),
- Or the latest new addition to an established body of work (e.g., Where's Wally, Anthony Horowitz, Zac Power, Spiderwick Chronicles, Harry Potter, Andy Griffith) that has built up a following over time – in which case the earlier titles in the series – the backlist – will be promoted alongside and have as strong sales as the latest volume.

In 2008 WBA's top 10 titles, by sales, were as shown in the table below; only asterisked titles were new releases. 2008 was a typical year in the ratio of new to backlist titles in WBA's top 10, top 50 and top 100 lists.

Title	Year of publication
Where's Wally? The Great Picture Hunt paperback	2007
Power of 5 Series # 4:Necropolis*	2008
Alex Rider Series #1: Stormbreaker	2000
The Tale of Despereaux paperback	2004
Samurai Kids Series # 1: The White Crane*	2008
We're Going on a Bear Hunt boardbook	1997
Where's Wally paperback	1989
Guess How Much I Love You paperback – new format*	2008 (1995 original)
Where's Wally travel edition*	2008
Alex Rider Series # 7: Snakehead	2007

Given this reliance on backlist sales, losing territorial copyright after 12 months would be devastating to my business. It would allow those who have not invested years of effort in building the domestic market for most of my 10 bestselling titles to pocket windfall gains.

WBA commit substantial resources to establishing our books in the Australian market. This includes supporting the various customers for our books – teachers, librarians or booksellers - with advertising, educational material and information for readers about our books.

Given the above snapshot of WBA's 2008 top 10, it should come as no surprise that our backlist sales, as a percentage of our *gross sales*, have been remarkably consistent over the 2005-2008 period, averaging 39.39 per cent of gross sales¹. Furthermore, it should be noted that this figure nets out at close to 50 per cent, as gross sales do not

¹ 2005 – 37.61 per cent; 2006 – 38.65 per cent; 2007 – 41.81 per cent; 2008 – 39.50 per cent

include returns. Returns – usually running at 15-20 per cent of gross sales – are far higher for new releases than for backlist (which, other than in the case of special promotions, are firm sale). Additionally, re-jacketed backlist titles (such as the newly formatted *Guess How Much I Love You* shown in the table above) appear in WBA sales figures as new release sales, further skewing the frontlist / backlist ratio in favour of frontlist.

Clearly, the 40-50 per cent of WBA net sales that is made up by backlist titles is at least double the 20 per cent backlist share cited in the interim report.

4) *Perverse trade-off of foregone export earnings for domestic copyright protection*

‘Further, while this change [to the term of PIRs] would ensure that foreign-authored works were not PIR-protected beyond 12 months, the Commission notes that publishers of Australian-authored works would have the option of extending the effective period of protection from parallel imports by holding back release in foreign markets.’

It is extraordinary that the Commission appears to be effectively recommending that Australian publishers desist from generating export sales by not selling overseas rights following a book’s domestic publication.

The ludicrous suggestion that I sabotage my export sales efforts reinforces evidence of the inquiry’s failure to understand the relationship between backlist and frontlist book sales in Australia. My table of 2008 bestsellers above shows a level of importance for older titles that is far from atypical for a children’s book publisher.

The Commission’s intimation that my industry would not lose money by choosing to delay selling the rights for potentially competing overseas editions until 12 months after publication shows that it simply does not understand the business model for the area of the domestic book industry in which I operate, or the nature of the demand for children’s books in Australia.

The Australian book publishing industry has a sterling overseas reputation for quality and innovation, in spite of its tiny home market and the tyranny of distance separating Australian authors, illustrators and publishers from international markets. Australian book publishers enjoy international respect for our persistence and influence in the export field. For a small country we more than make our mark. It is therefore distressing for those of us who work in this field to see our efforts so apparently misunderstood, unappreciated and potentially undermined by our own Federal Government.

5) *Explicit value of cultural and educational externalities as generated by Australian children’s book publishing*

One of the 26 titles that WBA published in 2008 was a verse novel, aimed at the upper primary school age group, that deals with the theme of racism towards Chinese migrants

in the Victorian goldfields: *Ratwhiskers and Me*, by Lorraine Marwood.

WBA also published the award-winning non-fiction picture book *Simpson and His Donkey*, by Mark Greenwood and Frané Lessac. This book wonderfully reflects both the tragedy of war and the heroism of a larrikin Digger, and has sold in the UK and the USA. However, in those countries the book is published as 'The Soldier and His Donkey: A True Story of Heroism in World War 1', as nobody there has heard of Simpson.

These are books that provide such an important voice for children to hear authentic Australian stories of Australia's past. They are the sort of books that could disappear if Australia lost its capacity to undertake local publishing due to increased competition from imported cheap editions: what sort of Australian education revolution wants to rely on imported editions of books about Simpson and his donkey that don't refer to this great Australian character in their titles as he is unknown overseas?

The interim report half-heartedly recognises the value of Australian publishing like this. Yet, beyond essaying some criticism of the efficiency of PIRs based on evidence drawn from unrelated industries, the report is unable to propose a better mechanism for the generation of desirable cultural externalities than the existing situation: a strong domestic book publishing industry which – in exchange for the guaranteed integrity of territorial copyright – invests in fresh local creative talent, responds flexibly to the explicit requirements of educational and many other niche markets, and ensures the continuing availability of a deep backlist to Australian customers.

All of this is achieved without reliance on taxpayer handouts – in implicit contrast to the 'government funding programs' that the interim report seems to present as one possibly more 'effective or efficient instrument for targeting cultural externalities' than existing PIRs. What a scary prospect – that my authors and illustrators should end up having to create books to the order, implicit or explicit, of some new bureaucracy charged with deciding what does and doesn't constitute a cultural externality-enhancing publication!

6) Comparative efficiency of Australian book publishing industry

'Generally, the actual or potential overseas competition consequent on the removal of the PIRs would increase the imperative for parts of the local industry to improve their efficiency.'

I can attest that salaries, marketing budgets, level of stock holding, cost of sales, etc, are all lower in WBA than in any other part of the Walker Books group – with the exception of New Zealand, in which distribution costs are higher than or as high as in the rest of the group. This would be the same throughout the Australian book industry, with evidence readily available from (for instance) salary surveys regularly conducted by the respective Australian and UK publishers associations.

I note that the interim report states: 'A number of study participants identified distribution, in particular, as having scope for productivity improvements'. Perhaps the Commission could clarify exactly what is meant by this – which 'study participants' see scope for distribution-based productivity improvements; publishers who currently bear the costs of

distribution, or retailers who do not? My interest is based on my strong and informed view that WBA's Australian operations could not be operated more efficiently or with a more skeletal cost structure.

7) Conclusion

'The Commission is not recommending full abolition at this stage in part because of uncertainty about the size of the impacts and the responses of market participants to such reforms. However, an ancillary benefit of the proposed changes is that the ensuing outcomes should shed light on the likely benefits and costs of further liberalisation of the market at a later date.'

Based on all that I can offer to the current inquiry, I find it extraordinary that the Commission should in the space of single paragraph acknowledge the riskiness of its proposed reforms and then still blithely give these the nod on the basis that, even if the removal of PIRs after 12 months does send some Australian publishing to the wall, then that will be a small price to pay for understanding whether PIRs should be ripped up altogether! In which case the Commission will presumably be able to advise the Federal Government that, yes, the operation was a complete success (and, by the way, the patient died).

Please give full and serious consideration to the comments contained in both my preliminary and this subsequent submission; take up my offer of access to detailed data that could improve the Commission's understanding of the importance of backlist sales to the Australian children's book publishing business model; and involve me in any further consultation (e.g., workshops) programmed to inform the Commission's final report.

Finally, thanks for the opportunity to comment on an inquiry that has so much at stake.

Yours sincerely

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