

COALITION FOR CHEAPER BOOKS

SUPPLEMENTARY SUBMISSION TO

**THE PRODUCTIVITY COMMISSION'S COMMISSIONED
STUDY ON**

**COPYRIGHT RESTRICTIONS ON THE PARALLEL
IMPORTATION OF BOOKS**

17 APRIL 2009

INTRODUCTION:

The Coalition for Cheaper Books thanks the Productivity Commissioners for the opportunity to comment on the Discussion Draft on the Report into Restrictions on the Parallel Importation on Books (the Draft Report). In this submission we also take opportunity to address some of the arguments put forward by the proponents of Parallel Importation Restrictions (PIR).

The Coalition would appreciate the Commission treating this as a supplementary submission to our earlier submission dated January 20, 2009 the contents of which we stand by entirely. In this submission we have focused on the Commission's draft report and the issues we consider are the most important to bring to the Commissioner's attention.

CONSUMER INTERESTS:

The draft report found that consumers pay for the protection afforded by PIR. The Coalition believes that apart from this acknowledgement, the interests of the consumer are not sufficiently addressed in the draft report which we feel does not give adequate consideration to the vital role consumers play in the Australian book market. Our submission seeks to present arguments to rectify this.

Dymocks, a member of the Coalition, recently wrote to its Booklover loyalty club members inviting them to support the Coalition campaign. This is the first broad based testing of consumer's views on the PIRs and their impact on the price of books.

To date over 18,000 Australian consumers have responded asking that their support for the removal of PIR be brought to the attention of the Commission. (The Petition list is Appendix 1 to this submission).

In the course of this submission we will illustrate many of our views with comments from the petition respondents. We hope that these comments will provide the Commission with a better understanding of the views of consumers regarding PIRs and their impact on the price of books in Australia.

PRICE ISSUES:

Some submissions questioned the connection between PIR and prices, a myth which the Australian Publishers Association continues to peddle through its dubious surveys. It and its supporters have also characterized the draft report as having endorsed a similar view despite the PC's finding that PIRs by restricting competition, place upwards pressure on book prices in parts of the market. We consider this is a conservative understatement of the impact of PIR on book prices though we acknowledge and appreciate the Commission's reasoning.

In the Coalition's view no credible argument has been put forward to support the proposition that books are not more expensive in Australia than in comparable language markets such as the US and UK. We note the PC's comments that the price comparisons submitted by several participants, including the Coalition, had common aspects that weakened the level of confidence that attaches to the results as a basis for understanding the price effects of PIRs. Nonetheless we respectfully stand by the veracity of the comparisons we provided between Australian, UK, US and Hong Kong book prices which placed Australian prices most unfavourably. These surveys were validated independently by Ernst and Young.

In respect of the comparison of prices for Dymocks' stores in Australia and Hong Kong; some recent figures reflect the ongoing unfavourable disparity highlighted in our earlier submission. A table of 32 current international best sellers in various titles is attached as appendix 3. The survey compares the best prices available from the same supplier for Australia and Hong Kong. The best local cost available in Australia for the basket of books was \$471.38 excluding GST (which isn't payable in Hong Kong). The landed cost in Hong Kong from the same supplier was \$331.28, almost 30% less.

Even were Dymocks to trans-ship the basket of books from Hong Kong to Sydney the additional cost of \$1.62 per book for a total of \$51.84 would still be 18.72% cheaper at \$383.12. The exchange rate at the time was \$5.347 HK to A\$. The freight cost from the UK and US is the same for Australia and Hong Kong. Every book in the basket was cheaper in Hong Kong than in Australia, some by more than double the price.

Dymocks advises that on occasion, they have purchased books for Australia through Hong Kong but in very small volumes. They have not purchased any product direct from international publishers as the closed market in Australia prevents them from doing so and thus offering comparable prices to their Hong Kong Stores.

We also note that the ACCC in its submission summarised many years of surveillance of book prices concluding that books, like cd's and computer software before them were inflated in price in Australia by PIR.

The Coalition can unequivocally state that the consumers who have responded to our request for support overwhelmingly believe that PIR adds to the price of books in Australia. They believe that books in Australia are more expensive than in the UK and US (and a number of other foreign English language markets including Ireland, Canada and India). Book consumers demonstrate an extensive knowledge of the price and availability of books around the world. They are savvy buyers and they are increasingly turning their backs on Australia to buy their books with a resultant loss of revenue to the Commonwealth through GST leakage. This is borne out repeatedly amongst the comments of our petitioners.

They do not need to rely on surveys or question survey techniques to arrive at these conclusions. They are purchasing a vast array of different books and book types in various price ranges. Their considered view- the only one that really matters given they are the ones who have to pay for PIR, is that it makes books more expensive and they don't like or support it.

OTHER IMPACTS:

One of the main supporting arguments for the retention of PIR provided by the Draft Report is the support PIR purports to provide "cultural externalities" associated with Australian publishing which the Commission describes as policy relevant but unlikely to be large! We will also contend in a later part of this submission that they are an unsubstantiated myth.

The Draft Report also says that to remove PIR has some merit but would not be prudent. Yet the report provides little indication of the basis for this apprehended imprudence. The Report makes this finding although it concedes that the New Zealand Book Industry and the Australian music cd and computer software markets have successfully survived and thrived without material adjustment requirements since PIRs were lifted on those media.

As discussed in part 4 of our initial submission, New Zealand has had an open market for books for ten years. The domestic industry is performing robustly and pricing, timing and service in local distribution improved following the removal of PIR without structural adjustment assistance. The Industry is profitable and consumers have more choice and whilst the level of parallel imports of books has not been all that high local suppliers faced with the real threat of more competition have performed better in price and service.

Employment:

The proponents of PIR claim that it generates employment in the Australian book industry. In the Coalition's original submission we referred to the impact the removal of PIR would have on the various members of the industry including, booksellers, publishers and distributors, authors and printers (see Part 8). We believe that all of these sectors will adapt and grow in an open market, just as they have done in New Zealand over the last ten years. It is the Coalition's view that there will be an increase in jobs in the Australian Book Industry from the removal of PIR due to the increased level of activity generated by an open market.

The Coalition would like to refer the Commission to the section of its original report on the Printing Industry. Our members understand the concerns that members of that industry have regarding business and job security however as we set out in our earlier submission the Australian printing industry is highly competitive and would remain so after the abolition of PIR.

THE CONSUMER'S PERSPECTIVE:

Our members are more than aware of the difficulties our customers have in paying inflated prices for books. We share the burden of inflated costs because all of the market power under the PIR regime rests with the publishers. Our customers are intelligent consumers who seek out value when purchasing books.

We hope that the views expressed by the respondents to the petition supporting the abolition PIR will assist the Commission to develop a more detailed assessment and understanding of consumers' attitudes to PIR and book prices.

The Coalition believes that the comments of these ordinary consumers bear out our claims that PIR inflates the cost of books. The comments provide the Commission with evidence of the deep level of consumer dissatisfaction with the inflated cost of books. As the Commission has noted that it is consumers who pay for these restrictions we believe their views should be given due consideration when determining whether the restrictions should be continued, particularly as the debate so far has been dominated by those benefiting from the increased costs.

There is certainly no indication from the 18,000 respondents to the Petition of a willingness to subsidise the alleged cultural benefits or externalities derived from PIR. On the contrary the overwhelming sentiment of the petitioners is that PIRs themselves cause cultural harm by restricting the affordability of books.

Over 3,000 signatories to the Petition also provided comments which we enclose as part of appendix 1 to this submission. Some of the comments provided by the respondents on a range of relevant issues are set out below.

Consumers support Australian authors and the removal of PIR

Some petitioners commented that they were not prepared to subsidise Australian authors and publishers by paying more for books in Australia. Others also commented that Australian authors should retain their copyright but this should happen along with the removal of PIR. Notwithstanding the at times hysterical claims made by the proponents of PIR, this is an entirely consistent proposition as any New Zealand author who enjoys copyright over his or her work in that open market can attest.

Examples

- I think it's ridiculous that we are unnecessarily being forced to buy books at inflated prices on the pretext of supporting Australian authors and the publishing industry. As a book lover and regular book buyer (including on Amazon), I fully support this initiative of the Coalition.
- I respect the need to protect the royalties of artists and the future of Australian talent but believe the same regime associated with other media forms i.e. music CD's, can also be applied to books without jeopardising royalties or artists futures in the print medium.
- I cannot understand why successive Australian Governments of various persuasions have continued any support at all for such anti-competitive agreements among foreign cartels.
- Books have long been overpriced and over inflated within Australia and it is about time we had a fairer system in place. I support this campaign as it not only looks out for the best interests of buyers, but it also protects the rights of authors and those who hold copyright. I tend to buy most of my books from overseas lately due to high domestic prices.
- I support the move as we should encourage people to read more , reduce costs of over inflated text books needed for tertiary education and make books in Australia cheaper but ensuring writers receive their rightful royalties

Internet sales are dominant

Furthermore, and most worryingly for the Australian book industry, and particularly the many thousands of Australian employed by booksellers, Australians are regularly and increasingly demonstrating their preference for buying online overseas to access cheaper books as opposed to paying inflated prices in Australia. As freight prices fall, this will only increase if competition is not provided within the Australian Market.

Some of those supporting the retention of PIR have argued that increasing internet sales are a useful safety valve that allows consumers to access cheap books but our respondents demonstrate a clear preference for purchasing books from Australian bookshops and many said they would do so were it not for the high cost of books in Australia due to P.I.R.

Examples:

- The Productivity Commission and the Australian Government should strongly consider the benefits to Australian book consumers and booksellers of the removal of restrictions on parallel importation, including for the first 12 months of release. Under current arrangements in Australia it is nearly always cheaper to buy books online from overseas providers such as Book Depository (free worldwide delivery), Amazon, eBay and other sellers. This means I buy a lot of my books from overseas, which does not help Australian bookstores who are hamstrung by an overly expensive product. Books in Britain and the USA are far cheaper than their Australian counterparts. This situation may not be hurting domestic sellers too much yet, but very soon it will begin to bite in a significant way.
- Bookshops are wonderful. Keep bookshops in Australia thriving. Keep our bookshops competitive by removing the import restrictions otherwise people will order books online from overseas outlets as they are cheaper even with the postage added.
- I often find it cheaper to import books I want than to buy them at the inflated prices forced on consumers in Australian bookstores. A bundled order, even with the exchange rate & postage/handling is generally much cheaper than buying the same books in Australia. Give the Australian bookstores the opportunity to be truly competitive in book sales.
- I would buy far more books were they affordable. Particularly for my children - if we are to foster reading at home then surely making books more affordable for parents is helpful? Libraries are great, but there's nothing better than having an old favourite lying about that they can always pick up and read. Online purchases are more affordable but that's hardly supportive of local (Australian) businesses and jobs. Can we not fix this soon???

The benefits of books:

Many of the petitioners very eloquently commented on the benefits of books to Australian society. Their comments included:

- We struggle to purchase good books for our three children (aged 12, 14 and 16 yrs). The cost is prohibitive. If we buy a book for one child then, fairly, we should buy one for all but this is so difficult that often we decide not to purchase any!! If the books were cheaper we would be purchasing them all the time as the children love to read and reading is a skill we should always encourage. It expands their minds and vocabularies. It promotes discussion and encourages imagination.
- Books are the frontline weapons in the battle against mind-numbing violence as shown in video games and television shows. We are deliberately stunting the growth of our children today by keeping the price of a good book higher than that of the average child's pocket money. And when they look to the libraries for borrowing them, they find that they have to wait longer for the latest book release due to the library's limited budget being stretched by an unfairly inflated cost and that other people have reserved the book before them. Most books stocked are from overseas anyway - why should the Australian distributors have all the bargaining chips? The Australian government claims that they want a more open market, more 'free trade' and suchlike - so here's a good place to start.
- I've recently immigrated from the UK and was shocked to see how much books cost out here - so much so that, when my mother recently visited, she purchased nine books for me via Amazon.co.uk at a cost of \$37 (roughly \$74) to bring with her. Had I purchased the same books in Australia, they would have cost me almost \$200 to buy here. It's patently unfair that booksellers in Australia are losing out on trade - my book purchasing has decreased drastically since I've moved here (I might buy a book a month whereas, in the UK, I would buy at least a book a week - often more with 3 for 2 deals). As a reader I feel deprived, cheated and less able to keep up-to-date with new fiction, and I also feel that booksellers are having to face a huge business hurdle.
- The saddest thing I heard was a child asking his mother for a book the other week (as it so happens, this was in Dymocks) and she had to refuse him. She said that he'd just had a birthday and she couldn't afford it.

- As a child growing up in the UK, I was never spoilt - however, the one thing I always had access to (and was never refused by my parents) was books. I believe that it's a fundamental right of any cultured society to have easy and reasonable access to literature. It's also the right of authors to know that, once they've had a book published, there won't be restrictions on people availing themselves of those works. As it stands, the current retail prices in Australia fly in the face of readers' and authors' rights.
- Dude, seriously, cheaper books is the first step in having a more educated society - and hopefully as a result a more informed and tolerant one. Such an important step in the evolution of attitudes in this country, so please step up!
- If we want to have the Education Revolution books should be as cheap as possible Lets encourage reading!

Consumers want cheaper books:

The following comments dismiss the contentions that Australians don't think books are too expensive and PIR doesn't make books dearer. They demonstrate how high prices for books affect consumers.

Examples:

- I love reading books and would really appreciate cheaper prices. Higher prices often prevent me from purchasing books.
- Books are far too expensive under the present system. It means, for instance, that to buy required texts for my university course I have had to buy online from overseas suppliers. One text listed costs \$140.00 from the local supplier. I bought the same text online for \$30 including postage.
- I am a poor elderly disabled pensioner and being able to afford a book on a pension is very hard. Anything that would make them more accessible would be a god-send.
- I think the price and range of availability of books in this country is disgusting. In my mind there should be no GST either.

- The current restrictions on importation for booksellers encourage consumers to buy directly from overseas.
- I cannot believe the price of books here in WA. So expensive. Please remove all restrictions on importing books and make it affordable for all Australians. I find it cheaper to have a book sent to me from a friend in the UK than to buy it here.
- What's wrong with the Government? In these "GFC" times, you'd think they'd be trying to keep prices down not artificially inflate them through archaic distribution/importation laws!!!
- I am fully in support of a more competitive book industry in Australia.
- Parallel importing is definitely required to keep the prices of books down. It is time that the publisher's price segmented the market. Books in India are much cheaper than in Australia for this reason. Secondly inflation re book prices has been much higher than for other goods. For computers, for example, prices have fallen. Much more transparency is required.
- I buy most of my books directly from overseas because of very long delivery times and high prices here in Australia. This 12 month constraint recommendation must be changed to allow me to purchase my books at a reasonable cost in Australia.

Books are more expensive in Australia because of PIR

The advocates for PIR state that books are the same price or cheaper in Australia when all externalities are taken into account. The overwhelming evidence of book consumers from the Petition debunks this myth. Some of their comments include:

- I totally agree books should be cheaper, as a teacher I try to encourage my children to read but parents tell me they can't afford to buy books for their children and going to a library is not always convenient. I was in London recently and was amazed at the price of new releases. Needless to say I brought books, packaged them up and posted them back home and this was still cheaper than buying them here. The price of books here is shameful.

- Book prices here are crazy. I have recently moved back from living in the UK for 5 years and was absolutely shocked at the high prices in comparison to what I could buy books for in London. I buy less books now simply because I can't afford them. Well done Dymocks for trying to do something about it.
- Having moved from the UK to Australia, I am appalled by the cost of books here in Australia. In many cases it has been cheaper for my English relatives to buy books for me there, and then bring them over to me as gifts, or post them to me. I would welcome any sanction that removes the restrictions causing inflated book prices in Australia.
- We are desperate to enable book sellers in Australia to bring lower cost books to this country. It's frustrating to see the books in New Zealand are cheaper than here. Lower cost books will also encourage people to read more and push Australia along to become an "Intelligent Country" as well as a "Lucky Country".
- I have always wondered why, when I lived in the UK, books were so much cheaper than in Australia (even after considering the unfavourable exchange rate). The benefits of books are significant, and I cannot see a reason why we should be paying more than absolutely necessary.
- The cost of books in the USA are considerably cheaper than in Australia.

CONSUMERS CREATE DEMAND FOR AUSTRALIAN BOOKS:

The Coalition believes the Commission may have underestimated the contribution of consumers as the generators of demand for Australian books which we referred to in our initial submission. The focus of many of the submissions supporting PIR is on the role of publishers and authors in creating the supply of Australian books under the protection of the closed Australian market. The role of consumers takes a back seat to suppliers under this formulation.

The role of other participants in the Book Industry such as booksellers through marketing and sponsorship and programs like the Dymocks Literacy Foundation; of Governments through the provision of Australian literary awards and writers grants and through the setting of educational curricula that proscribe a wealth of Australian studies and texts, which stimulate demand in Australians for Australian books should also be given greater weight.

As we stated in our initial submission we believe that demand for Australian books is not driven by supply. We believe that Australians will continue to read Australian books after the removal of PIR just as New Zealanders have done in that country and as Australians have continued to support Australian musicians and recording artists following the abolition of PIR on those media.

CULTURAL EXTERNALITIES

The Coalition believes the Commission should provide greater justification for its acceptance of the argument that PIR provide cultural externality benefits.

We are concerned that the Commission has accepted the unsubstantiated and self serving claims of publishers that they support Australian culture with the proceeds and market security PIR provide.

The draft report provides no evidence of the purported transfer of the financial benefit derived by publishers from the PIR protection to the development and marketing of Australian authors and books.

It is noteworthy that none of the submissions supporting the proposition of purported cultural externality benefits of PIR include concrete evidence or examples of the wide spread transfer of financial benefit to new and lesser known authors.

The Commissioners should be aware of just how vulnerable and beholden most Australian authors are to their publishers. An author's livelihood depends on the good will of the publisher and in such situations as the current debate; publishers use this imbalance of power very effectively to persuade authors to support the unsustainable.

Whilst individual authors claim to be the beneficiaries of some such support, which may or may not have originated from the benefits derived from PIR, there is no evidence provided by publishers of a systematic and accountable program of support and promotion directly stemming from the benefits of Australia's closed market. This support would need to amount to well over \$100 million to justify the inflated price of books made possible by PIR. Nor has such evidence ever been provided by the APA or its membership.

The Coalition contends that this is because such transfers do not occur, other than to an insignificant extent, as the multinational publishers who dominate the book market, retain the bulk of PIR benefits as profit.

The coalition is aware of the evidence provided in 1989 to the Prices Surveillance Authorities' review of the price of books by Mr Ken Wilder, the former Chairman and Managing Director of publisher William Collins Australia, Director of William Collins PLC UK and of Angus and Robinson, concerning the practices of the international publishing industry with regard to Australia's closed market for books. That evidence directly contested the claims of genuine assistance to authors from the proceeds of PIR in Australia.

For the assistance of the Commissioners we have appended Mr Wilder's evidence as appendix 2 to this submission.

Mr Wilder's evidence on this subject remains completely current and valid today because of the continuing operation of PIR over the ensuing period. Indeed his observations of the overriding profit motive of the Publishing Industry as a result of concentration of ownership are even more relevant today.

The Coalition's healthy skepticism regarding the veracity of the alleged cultural benefits of PIR is shared by one of the respondents to the Dymocks submission who commented;

"As an Australian author (out of print) I have grave concerns about the practices of the publishing industry that result in little or no payments to the authors without whose hard work their businesses would not exist. As a book-buyer, particularly of special-subject titles, I would like to be able to obtain the books I need without having to source them from overseas on the internet because local shops are unable to stock them as a result of these trade restrictions."

FRACTURING THE BOOK MARKET

The world book market is currently experiencing benefits deriving from the expansion of major wholesalers/consolidators such as the US companies Ingrams and Baker and Taylor, whose sheer scale and logistical efficiency is transforming the way books are delivered and sold around the globe. These companies offer many potential advantages to book consumers including broader availability of titles, lower prices and superior service.

The Commission's draft recommendation for 12 months protection of new titles [i.e the fast selling 60% of book sales] fractures the market. The slow selling backlist titles comprising the remaining 40% of the market will not provide the critical mass necessary for such efficient wholesalers to open in Australia.

Consolidated picking, delivery and invoicing to retailers cannot occur if there are no wholesalers to consolidate books for all publishers and distribute them in one delivery to the retailer.

This means the extraordinarily inefficient, expensive and labour intensive supply chain for Australian books will continue with a separate truck and invoice from each publishers' warehouse instead of one truck carrying one consolidated delivery and invoice from a wholesaler. The consequent reduction in Greenhouse gas emissions would also be significant.

The adoption of this draft report recommendation would provide no stimulus to Australian Publishers to provide the level of logistical support and service to booksellers and ultimately book consumers available in competitive open markets.

Given the anti-competitive behavior of publishers under the existing PIR protection and the absence of any incentive or stimulus to change in the future in respect of the front list, it is very likely books on the front list could become more expensive if the removal of PIR is not extended to all books.

We welcome the impact that the twelve month proposal will have on back titles such as *To Kill a Mocking Bird* but strongly lament that nothing is proposed for newly released books during their most popular sales period. For example the vast majority of sales of titles like the Harry Potter series occur within the first year after publication [and often a much shorter sales period]. Our concern is that popular new release titles could become even be more expensive under this proposal.

During the round table discussions following the release of the draft report there was some debate concerning the market share of various sectors of the book market in Australia arising from the draft recommendation regarding the removal of PIR on books twelve months after first publication. In particular claims were made about the breakdown of discount department stores sales on front and back list books. Woolworths, a member of the Coalition have confirmed the accuracy of the Commission's estimate of 80%/20%.

SUMMARY

In summary the Coalition thanks the Commission for the opportunity to place our views before it. We represent many thousands of Australian's with jobs in the book industry as well as big and small Australian businesses.

Our members are campaigning for the removal of restrictions on parallel importation of books because we believe that the book industry in Australia will prosper under an open market where consumers are not asked to pay inflated and uncompetitive prices for books. We conclude this submission by reiterating the following key points.

- Like the smaller but similar market in New Zealand, the Australian book market would withstand the removal of parallel importation restrictions without the need for structural adjustment assistance.
- The alleged cross subsidization by publishers, for the promotion and development of the Australian book market from the higher prices they charge as a result of PIR, is completely unsubstantiated.
- The partial removal of PIR for back list books only will not provide the necessary competition to improve pricing and efficiency in the Australian book market and may lead to the increase of book prices on the front list.
- The removal of PIR will result in cheaper books.
- Australians want cheaper books. Many are already accessing these offshore and online from larger and more competitive markets. All Australians should have access to cheaper books.
- 18,000 consumer responses to the Dymocks survey overwhelmingly support the removal of restrictions on parallel importation of books.
- Consumers demand for Australian books will continue to play an equally, if not more important role in an open Australian book market.