

Submission from University of Melbourne Book Industry Study

Introduction

As the authors of the soon-to-be-published University of Melbourne Book Industry Study, we feel the need to address an apparent misunderstanding by the Commission and to inform the public record for the purposes of this inquiry.

We conducted the University of Melbourne Book Industry Survey between October 2008 and January 2009. As stated in the Productivity Commission's Discussion Draft,¹ our conclusions are based on responses from more than 50 Australian publishers, including most of the largest firms. The respondents account for 70–80% of industry sales and activity in Australia.

Preliminary results from our study are referred to extensively in the Australian Publishers Association (APA) submission,² and are also quoted in the Commission's Discussion Draft.

We are making this submission to ensure that the Commission's decision is based on the most up-to-date information, and also to set the record straight on the interpretation of our data. Our specific concern is with the Discussion Draft's interpretation of data on the expected impacts of abolishing parallel importation restrictions (PIRs). Our second more general concern, as researchers into book publishing, is with the implications of the differential impact of the current proposal for abolishing PIRs after a title has been available for one year.

Expected publishing industry impacts of abolishing PIRs

We are concerned that chapter 5 of the Discussion Draft ('Key Market Impacts') does not adequately reflect the results of our study on the subject of the industry's future growth expectations. On page 5.5, discussing the possible impact of abolishing or weakening PIRs, the draft states:

While the degree of any [industry] contraction is *difficult to predict*, evidence provided by some major industry participants suggests that the abolition of the PIRs would be unlikely to lead to the elimination of the major share of the Australian publishing industry. [Our emphasis]

We do not agree that the size of contraction is difficult to predict. Our survey contained a series of questions requesting the CEOs and CFOs of the major industry participants to quantify their growth expectations and projections in different scenarios. We can therefore go a long way towards quantifying the expected industry impacts.

¹ Productivity Commission 2009, *Restrictions on the Parallel Importation of Books*, Discussion Draft, Canberra.

² Submission #244 to the Productivity Commission's Parallel Importation of Books study, received from the Australian Publishers Association, 20 January 2009

The Discussion Draft's use of material from the APA submission also appears to downplay the strength of the industry views we elicited on the size of the likely contraction. (It is possible that this misinterpretation was accidental, since it was based on the APA's report of our preliminary results):

Preliminary results of a University of Melbourne study... found that less than half of the 50 respondent publishers felt that they would reduce their Australian output, while less than one-fifth of those surveyed felt they would reduce output by more than 10%:

In this environment, publishers will change their strategy, with some 40% indicating they would need to reduce their annual output of new Australian titles, including 17.8% of respondents indicating a reduction of 10% or more (sub 44, p24).³

Background

Our study was designed to canvass publishing CEOs' business expectations over the coming three years, and the initial version of the survey was compiled several months before the Commission's inquiry was established. In light of the July 2008 COAG announcement of an impending review into the parallel importation provisions of the Copyright Act, we realised that the responses to our survey would be meaningless unless it was clear which of the possible alternative scenarios the respondents had in mind.

We decided the simplest way to achieve the required clarity was to ask our intended six original questions in relation to two scenarios:

- assuming the existing copyright legislation was left unchanged, and
- assuming the abolition of PIRs.

Our questions were designed and asked prior to the release of the Terms of Reference and the PC Issues Paper for this inquiry. Furthermore, most of the responses were received before the end of November 2009, that is, before the full extent of the global financial crisis was evident.

Results

Taken together, the responses to these questions indicate a strong view that the abolition of PIRs would have a significant industry impact. The following section presents our calculations and summary results.

In brief, most of the major industry participants shifted their three-year outlook from expectations of growth to expectations of contraction. This was the case across all the areas surveyed: overall book sales, numbers and sales of new Australian titles, the volume and value of exports, and sales of overseas rights to Australian books.

The measurable likely impact of total abolition of PIRs is thus a sharp shift in business expectations, from strong growth to moderate contraction. If the

³ Discussion Draft, p. 5.5.

responses are aggregated, the predicted industry losses are approximately \$200 million in reduced Australian sales, about 1000 fewer Australian titles, and up to \$20 million in lost exports and sales of overseas rights.

Calculations: estimate of impact on publishers of abolishing PIRs

Table 1 below gives our survey-based estimates of:

- 1) the current value of various industry outputs, and
- 2) the extent to which, in major publishers' collective (weighted average) opinion, these outputs would be affected if PIRs were abolished.

The appendices includes the raw 'Expectations' data tables. These give the survey questions and collate the responses of all the larger publishers (defined as those who published 50 or more titles in 2007). There were 21 such respondents for most of these questions.

For calculation purposes, we have used a figure of plus or minus 2.5% for responses in the survey range of "less than 5%", and a figure of 7.5% for responses in the range "5%–10%". For responses in the survey range of "less than 10%" and "more than 10%" (the minimum and maximum range included in each question), we have used a figure of plus or minus 12.5%. It is worth noting, however, that some survey respondents added comments to the effect that they expected considerably more than 10% sales declines; we have therefore presented alternative calculations based on shifts of plus or minus 15%. This sensitivity analysis accounts for the two ends of the ranges given in Table 1.

Table 1 *Estimated Publishing Industry Contractions if PIRs Abolished*

Industry Output Measure	Industry Total Estimate (2007)	Estimated Growth Impacts	Size of Contraction
Total publishers' book sales in Australia	Approx. \$2 billion	-10% to -11.4%	\$200 - \$228m
Total Exports and Rights Sales	\$220 million	-7.9% to -8.7% [export \$]	\$16-\$20m
		-7.3% to -8.0% [export units]	
		-8.6% to -10% [rights sales]	
New Australian Titles	80-85%* of ~14,500	-8.2% to -9.4%	~1000 fewer local titles

Australian sales of Australian titles	36%** of \$2B	-11% to -12.5%	\$80 - \$90m
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* 80-85% estimate from APA submission 244, p. 23.

** 36% estimate derived from responses to UOM Book Industry Survey

Two additional observations are in order here:

- The estimates in Table 1 probably err on the low side, since the industry totals reflect the size of the industry in 2007, the most recent year for which data is currently available. In our study, we found an annualised growth rate of around 6%-7% p.a. between 2003 and 2007, so the industry totals are likely to be higher now. A proportional shrinkage would therefore be greater in absolute terms.
- These figures deal only with book publishers' immediate strategic responses to a change in circumstances affecting their own operations. They do not quantify any of the possible secondary effects on industries up and down the supply chain, nor do they address any long-run consequences that might arise, for example, from changes in retailers' behaviour or in the market shares of chains, discount department stores and independent retailers.

Impact of current proposals

The Productivity Commission's draft recommendation – Draft Recommendation 7.1 – is to abolish PIRs for backlist titles only. This would make it necessary to adjust the impact figures by the 'average' proportion of total publisher income derived from backlist sales. The proportion of front- and backlist sales, however, varies from publisher to publisher; we have no independent survey data to supply. In 2003/04, the ABS estimated overall industry backlist sales at 48.6% of the total.⁴ More recent data from Text Publishing place that firm's proportion of backlist sales over the past two years at 40–50%.⁵

At first sight, these figures suggest that a suitable adjustment might be to halve the above estimated industry loss figures, but the impact would almost certainly be much stronger in some cases than in others.

The primary problem with the current proposal is that lifting restrictions for backlist titles would be highly uneven in its effects. *A priori*, competition from imports of cheaper editions and remaindered stock would be weak or non-existent for titles that were exclusively of Australian interest (because there would be no competing editions) and for titles of evanescent appeal (because most or all of their sales potential would be exhausted before parallel imports were legally available). The effects would be strongest in the case of titles that sold over long time-cycles and were directed to global

⁴ Table 12 in ABS Publication 1363.0, 'Book Publishers' 2003/4', released on 17 August 2005.

⁵ Michael Heyward, "Writing Off An Industry", *The Age*, 24 March 2009

markets. It would therefore be felt most severely in the higher-risk sectors of the industry, which unfortunately include many of the fields in which books contribute most obviously to social and cultural capital.

At the level of the firm, publishers who invested in titles and projects with long pay-off times would be more exposed to competition than those who focused on short-term sales of titles that required minimal investment. A similar situation would apply to authors. Simone Murray has remarked on the 'slow-build' phenomenon in which many writers earn little or nothing for themselves or their publishers until their later works receive critical acclaim, at which point their backlist sales also rise.⁶ Under the current proposals, the benefits from such long-term creation of cultural capital would be particularly vulnerable.

One of the structural problems for book publishing in Australia is that it is difficult to sustain activity across the full potential range because of the comparatively small size of the local market. The casualties are invariably books that appeal to specialised readerships and/or have long pay-off times. We fear that the differential impact of the current proposals would reinforce this tendency, narrowing the range of Australian publishing and leading to risk aversion on all sides.

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⁶ Simone Murray, 'Generating Content', in David Carter and Anne Galligan (eds), *Making Books: Contemporary Australian Publishing* (St Lucia: UQP, 2007), pp. 56–7.

Appendix 1: Raw Expectations Data

Q: How do you expect your **total sales of books in Australia** (including buy-ins and imports) to change over the next 3 years:

a) under the present copyright legislation?

b) if parallel importing is permitted?

Answer Options	Assumed point value	Response Count (a)	Response Count (b)	Change (b) - (a)
Decline by more than 10%	-12.5%	0	6	
Decline by 5-10%	-7.5%	0	3	
Decline by less than 5%	-2.5%	0	2	
Remain steady	0	2	2	
Grow by less than 5%	+2.5%	4	1	
Grow by 5-10%	+7.5%	6	3	
Grow by more than 10%	+12.5%	9	3	
Weighted Average		+8.0%	-2.0%	-10.0%

Comments:

"We are forecasting growth in jobs and overall business beyond 10% over the next 5 years under current legislation." (Large global publisher)

"Decline would be considerably more than 10%... if we didn't have a guaranteed territory; our acquisition of international buy-ins would stop." (Large global publisher).

Q: How do you expect your **sales in Australia of Australian titles** to change over the next 3 years:

a) under the present copyright legislation?

b) if parallel importing is permitted?

Answer Options	Assumed point value	Response Count (a)	Response Count (b)	Change (b) - (a)
Decline by more than 10%	-12.5%	0	4	
Decline by 5-10%	-7.5%	0	4	
Decline by less than 5%	-2.5%	0	2	
Remain steady	0	2	4	
Grow by less than 5%	+2.5%	2	2	
Grow by 5-10%	+7.5%	5	1	
Grow by more than 10%	+12.5%	12	3	
Weighted Average		+9.2%	-1.8%	-11.0%

Q: How do you expect the **volume of exported Australian titles** to change over the next 3 years:

a) under the present copyright legislation?

b) if parallel importing is permitted?

Answer Options	Assumed point value	Response Count (a)	Response Count (b)	Change (b) - (a)
Decline by more than 10%	-12.5%	0	5	
Decline by 5-10%	-7.5%	0	4	
Decline by less than 5%	-2.5%	0	1	
Remain steady	0	5	3	
Grow by less than 5%	+2.5%	4	1	
Grow by 5-10%	+7.5%	7	2	
Grow by more than 10%	+12.5%	5	4	
Weighted Average		+6.0%	-1.4%	-7.4%

Comments:

"We would focus on Australian content and lower our export intentions as exported books in English would be a threat to our home market."

"A large part of the export market will be destroyed if territorial copyright is not maintained."

"I would avoid deals that give overseas publishers an opportunity to sell our content back into our market at rates that do not reflect the development costs of the content."

Q: How do you expect your **export sales of Australian titles** to change over the next 3 years:

a) under the present copyright legislation?

b) if parallel importing is permitted?

Answer Options	Assumed point value	Response Count (a)	Response Count (b)	Change (b) - (a)
Decline by more than 10%	-12.5%	0	4	
Decline by 5-10%	-7.5%	0	4	
Decline by less than 5%	-2.5%	0	2	
Remain steady	0	3	2	
Grow by less than 5%	+2.5%	5	3	
Grow by 5-10%	+7.5%	6	1	
Grow by more than 10%	+12.5%	7	4	
Weighted Average		+6.9%	-1.0%	-7.9%

Q: How do you expect revenue from **overseas rights sales** for Australian titles to change over the next 3 years:

a) under the present copyright legislation?

b) if parallel importing is permitted?

Answer Options	Assumed point value	Response Count (a)	Response Count (b)	Change (b) - (a)
Decline by more than 10%	-12.5%	1	8	
Decline by 5-10%	-7.5%	0	2	
Decline by less than 5%	-2.5%	0	1	
Remain steady	0	8	4	
Grow by less than 5%	+2.5%	2	2	
Grow by 5-10%	+7.5%	3	0	
Grow by more than 10%	+12.5%	7	3	
Weighted Average		+4.9%	-3.8%	-8.7%

Q: How do you expect your annual output of **new Australian titles** (number of titles published) to change over the next 3 years:

a) under the present copyright legislation?

b) if parallel importing is permitted?

Answer Options	Assumed point value	Response Count (a)	Response Count (b)	Change (b) - (a)
Decline by more than 10%	-12.5%	0	5	
Decline by 5-10%	-7.5%	0	2	
Decline by less than 5%	-2.5%	1	4	
Remain steady	0	3	2	
Grow by less than 5%	+2.5%	4	1	
Grow by 5-10%	+7.5%	5	3	
Grow by more than 10%	+12.5%	8	3	
Weighted Average		+6.9%	-1.3%	-8.2%

Comments:

"Decline would be considerably more than 10%... we would reduce our investment in Australian publishing as we couldn't afford to take the many risks it involves without the underpinning of an exclusive territory." (Large global publisher)

"Parallel importing creates such a risk that we would plan for a progressive change in the nature of our business to reduce our overseas activity."

"I doubt these issues would have a real impact on the sorts of books we deal with... Affects Higher Ed, but little to no impact on Primary and Secondary school markets." (Ed. publisher)

Appendix 2: Alternative estimates from raw data, assuming point value of +/- 15% for “>10%”/ “<10%” given options.

Total sales of books in Australia (including buy-ins and imports)

Answer Options	Assumed point value	Response Count (a)	Response Count (b)	Change (b) - (a)
Decline by more than 10%	-15%	0	6	
Decline by 5-10%	-7.5%	0	3	
Decline by less than 5%	-2.5%	0	2	
Remain steady	0	2	2	
Grow by less than 5%	+2.5%	4	1	
Grow by 5-10%	+7.5%	6	3	
Grow by more than 10%	+15%	9	3	
Weighted Average		+9.0%	-2.4%	-11.4%

Sales in Australia of Australian titles

Answer Options	Assumed point value	Response Count (a)	Response Count (b)	Change (b) - (a)
Decline by more than 10%	-15%	0	4	
Decline by 5-10%	-7.5%	0	4	
Decline by less than 5%	-2.5%	0	2	
Remain steady	0	2	4	
Grow by less than 5%	+2.5%	2	2	
Grow by 5-10%	+7.5%	5	1	
Grow by more than 10%	+15%	12	3	
Weighted Average		+7.9%	-1.5%	-9.4%

Volume of exported Australian titles

Answer Options	Assumed point value	Response Count (a)	Response Count (b)	Change (b) - (a)
Decline by more than 10%	-15%	0	5	
Decline by 5-10%	-7.5%	0	4	
Decline by less than 5%	-2.5%	0	1	
Remain steady	0	5	3	
Grow by less than 5%	+2.5%	4	1	
Grow by 5-10%	+7.5%	7	2	
Grow by more than 10%	+15%	5	4	
Weighted Average		+6.5%	-1.5%	-8.0%

Export sales of Australian titles

Answer Options	Assumed point value	Response Count (a)	Response Count (b)	Change (b) - (a)
Decline by more than 10%	-15%	0	4	
Decline by 5-10%	-7.5%	0	4	
Decline by less than 5%	-2.5%	0	2	
Remain steady	0	3	2	
Grow by less than 5%	+2.5%	5	3	
Grow by 5-10%	+7.5%	6	1	
Grow by more than 10%	+15%	7	4	
Weighted Average		+7.7%	-1.0%	-8.7%

Overseas rights sales for Australian titles

Answer Options	Assumed point value	Response Count (a)	Response Count (b)	Change (b) - (a)
Decline by more than 10%	-15%	1	8	
Decline by 5-10%	-7.5%	0	2	
Decline by less than 5%	-2.5%	0	1	
Remain steady	0	8	4	
Grow by less than 5%	+2.5%	2	2	
Grow by 5-10%	+7.5%	3	0	
Grow by more than 10%	+15%	7	3	
Weighted Average		+5.6%	-4.4%	-10.0%

Output of new Australian titles

Answer Options	<i>Assumed point value</i>	Response Count (a)	Response Count (b)	Change (b) - (a)
Decline by more than 10%	-15%	0	5	
Decline by 5-10%	-7.5%	0	2	
Decline by less than 5%	-2.5%	1	4	
Remain steady	0	3	2	
Grow by less than 5%	+2.5%	4	1	
Grow by 5-10%	+7.5%	5	3	
Grow by more than 10%	+15%	8	3	
Weighted Average		+7.9%	-1.5%	-9.4%