



Restrictions on the Parallel Importation of Books

Supplementary submission to the Productivity Commission

About Pearson

Pearson is the largest educational publisher in Australia, with market-leading positions in school, vocational, higher education and English language markets. It is part of the Pearson global media company, which also includes Penguin and the Financial Times.

General comments

The Productivity Commission's understanding of the tertiary publishing industry upon which it has based its principal draft recommendation, i.e. that restrictions on parallel importation be removed after 12 months, is entirely inadequate. It has made erroneous assumptions about how pricing works and it has failed to grasp the complexity of the way textbooks and supplementary teaching packages need to be delivered to academics and students in an integrated fashion. It has also failed to understand tertiary publishing cycles and that an acceptable return on investment is not achieved in one year.

If the Productivity Commission's draft recommendations become law this will have serious implications for the Australian tertiary publishing industry. The influx of Asian editions, legitimate and pirated, and many of inferior quality, is not a myth. There is sufficient market opportunity to support such an enterprise, which may lead to cheaper books, but to the detriment of academics and students, not to mention publishers and booksellers. Australian tertiary publishers rely on revenue from imported titles to underwrite investment in developing Australian content for local titles. This is the 'risk portfolios' argument which the Productivity Commission itself acknowledges¹. Without that certainty investment would be scaled back, to the detriment of Australian academics and students. And without that certainty Australian tertiary publishers would also be far less likely to innovate in the development on new digital products.

¹ Productivity Commission *Restrictions on the Parallel Importation of Books: Discussion Draft*, 5.7

Price

The Productivity Commission fails to understand the setting of prices in the tertiary publishing environment and concludes, incorrectly, that 'textbooks are typically prescribed, which makes them more susceptible to monopolistic pricing practices by publishers'². The textbook 'prescription' process itself, which obviously takes place before the book is ordered by the bookshop, exerts significant downward pressure on price. Publishers compete vigorously to win large 'adoptions', a process which places the decision maker – the academic – in a position of bargaining power. The final selling price (i.e. to students) is central to these negotiations; the commodisation of textbooks, along with pressure from students ensures that prices are kept in check. As already stated, all of this takes place before the book (the academic's final choice) is ordered by the bookshop.

Data compiled by the University Co-op Bookshop (attachment 1) provides conclusive proof. Growth in the average selling price across its top suppliers since 2005 is 1.6% p.a.

CPI growth for the same period is 2.98%.

Finally, as reported in earlier submissions, and acknowledged by the Productivity Commission³, prices of US import textbooks are cheaper in Australia than they are in the US.

At what price cheaper books from Asia? At the expense of course quality, timeliness & certainty.

Australian tertiary publishers, working closely with booksellers, have achieved an impressive supply record, for the benefit of Australian academics and students. According to the University Co-op Bookshop, 99% of books ordered, across their significant network, were supplied prior to the start of semester. That means that when students need them for the start of class, 99% of books are available.

In an environment where publishers lose certainty over their import titles, they will become far more conservative in their own inventory practices and this near-perfect supply record will deteriorate.

Students will no doubt be attracted to the offer of cheaper books. But the Asian import they purchase may not be the right edition, or may not contain the right CD, or access to digital content. Publishers work closely with booksellers and academics to make sure the right books are available at the right time in the right quantities, to ensure a smooth start to semester.

The Productivity Commission underestimates the centrality of 'teaching aids'⁴ and suggests that they could be decoupled from the textbooks they support.

² *ibid*, p. xv

³ *ibid*, 4.19

⁴ *ibid*, 5.8/5.9

The delivery of the textbook, the integrated 'teaching aid' package, and product in-service to students are all part of the service provided to academics and students, by publishers and booksellers. They are by definition designed to be delivered and supported in an integrated fashion. The suggestion that they can be unbundled and sold separately does not understand how they work.

Investment

Between 2001 and 2007 Australian tertiary publishers invested \$100m in the development and production of textbooks for the Australian market. At the same time, revenue from Australian textbooks grew from 35 – 45% of the total industry revenue. This means that Australian academics and students have had access to an increasing range of content developed for local conditions, thus enhancing learning. Like any publishing venture, this investment is inherently risky, but the 'portfolio' provided by imported titles helps to mitigate that risk. If tertiary publishers' revenue on import titles is jeopardised, many, including Pearson, will be scaling back their investment in local publishing. Future impacts would include less innovation in the development of new digital products.

Conclusion

Australia's higher education publishing industry is a success story. Australian students have ready access to the highest quality product, from Australia and around the world. Competition in the industry is intense, which in turn exerts downward pressure on price. In addition, investment in local publishing has been significant and has led to healthy growth in the development of Australian content. Academics at Australian universities are well supported by the industry which provides an important service in delivering teaching aids in an integrated fashion, which is how they are designed to be used.

Removing restrictions on parallel importation after 12 months would be highly detrimental to the industry. Initially it would lead to confusion and poorer outcomes for students and academics. In the medium term the loss of certainty across the portfolio would lead to reduced investment in Australian tertiary publishing, with further implications for students and academics. As a nation Australia can surely not countenance anything that would threaten our third largest export – education.

David Barnett
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Attachment 1

<u>Uni Co-op average retail prices</u>										
Top 20 suppliers										
2004 - 2008										
	2004	% Var	2005	% Var	2006	% Var	2007	% Var	2008	2005 - 2008 Av.
Average retail price	\$84.30		\$86.44	2.54%	\$87.48	1.20%	\$89.88	2.74%	\$89.78	1.6%
CPI			2.4		3.2		2.9		3.4	2.98

Sources

- 1. University Co-op Bookshop Supplier Statistics 2008
- 2. ABS Consumer Price Index 2008