



## **Peer Review of IPA Submission**

**25 June 2009**

### **1 Introduction**

The Institute of Public Affairs (IPA) put in a late submission to the Productivity Commission's review of territorial copyright. The submission argues that the New Zealand evidence supports the view that the abolition of territorial copyright has been generally positive (or at least not negative). The submission purports to present evidence which contradicts the analysis in the Castalia report.

You have asked us to review the IPA submission.

### **2 IPA Evidence**

The IPA report relies on the following data for its arguments:

- The total number of New Zealand titles published in 2007 and 2008. The IPA argue that the increase in the total number from one year to the next indicates the health of the industry
- Statistics about the number of new publishing houses established in New Zealand since 1996. The fact that 34 percent of all currently operating publishing houses were established since 1996 is presented as showing the beneficial effects of the removal of territorial copyright on the book publishing industry
- Statistics about investment in the printing, publishing and recording sector in New Zealand. The Statistics New Zealand time series from 2000 shows an increase in trend gross investment.

We consider this evidence in turn.

#### **2.1 Number of New Zealand titles**

The obvious weakness of the evidence presented by IPA is that data from two consecutive years could hardly be interpreted as describing a trend. However, even if we imagine that conclusions about the trend could be derived from two years' worth of data, the numbers presented by the IPA do not support their contention.

The key issue is that the production of New Zealand titles is driven by a mix of market and non-market factors. Non-market factors include the number of educational and technical titles commissioned by the government and other public bodies. These include reading books, textbooks, standards manuals and so on. Clearly, changes in territorial

copyright are not likely to have any effect on the publicly subsidised or commissioned titles.

At the same time, as IPA points out, New Zealand has seen a substantial growth in specialised book exports. This has largely been driven by the success of a small number of New Zealand firms in promoting reading and English as a second language programmes abroad. Again, the titles which are produced by this market are largely unaffected by the territorial copyright issues. If anything, export-oriented small New Zealand publishers benefit from the territorial copyright in force in their target markets.

For the above two reasons, in order to understand the effects of territorial copyright on book publishing, it is essential to focus on the part of the sector where it matters. For this reason, in our earlier report, we argued that export and publicly-commissioned publications should be excluded from the analysis of publishing trends relevant to understanding the effects of removing territorial copyright.

The data in the IPA report is repeated below:

**Table 2.1: IPA Report Table 3**

Type	2007	2008
Professional / technical	498	603
Educational	467	453
Poetry & drama	92	77
General non-fiction	96	76
Lifestyle	21	38
Fiction	21	36
Children's	22	19
Sports	18	19
NZ Pictorial	12	17
History	14	15
Biography	20	12
Reference	5	4
Total	1,286	1,369

Source: Colmar Brunton, September 2008, "Survey of book publishing in New Zealand 2008, Report prepared for Book Publishers Association of New Zealand, p23

We can not determine directly from this table what proportion of various publication categories is either export oriented or publicly commissioned. However, we could test the robustness of the data by making some assumptions. For example, if we assume that the professional/technical/educational categories largely fall into that group, the remainder of the market based titles would show the following "trend": 321 titles in 2007 and 313 titles in 2008. In other words, the same data can show a declining trend.

Incidentally, around 300 titles a year is about the number of titles published by the 5 main internationally owned publishing houses, which account for most market-driven titles in New Zealand. Publically commissioned and export titles tend to be produced by small specialist publishing houses.

## 2.2 Growth in the number of publishing houses

New Zealand has indeed enjoyed vibrant growth among very small, specialist publishing houses. As the IPA show in the report (Table 2), only 7 percent of publishers employ more than 10 people, but this category accounts for 73 percent of total employment in the sector.

The IPA report implies that the growth in small publishers, and their vibrant export orientation, is somehow a product of the removal of territorial copyright. The report does not explain how the two would be connected.

To test the proposition, it is worth doing a thought experiment: can we imagine what would have happened if the territorial copyright was not removed. Would these small publishers have been deterred from starting their businesses? We can not think of any reasons why that would be the case. The businesses are not in any way reliant on parallel importing. Most small start up businesses either specialise in very narrow, domestic market niches or focus on exports. Neither niche is affected by parallel importing.

### **2.3 Investment in printing, publishing and media recording**

The IPA report presents a graph of fixed asset investment in the printing, publishing and recorded media manufacturing sector of the New Zealand economy (ANZSIC C24). This shows an upward trend in fixed asset additions since 2000. The IPA report argues that this upward trend demonstrates the health of the sector, and negates the analysis in the Castalia report. Our earlier report indicated a small contraction in publishing activity, which could plausibly be explained by the removal of territorial copyright.

Again, we do not think that the data presented by the IPA support their conclusions, or negate our previous view. The IPA's use of the investment data appears to be based on a misunderstanding of the statistical series it cites:

- The data on addition of fixed assets show gross investment in the sector. This does not say anything about the total level of assets in the sector. Gross investment is necessary to replace depreciating assets. If gross investment is less than depreciation, the total capital employed in the sector could be declining even if gross investment is rising
- The data are nominal. The producer price index (inputs) increased by 40 percent between 2000 and 2009. This is in line with the rise in trend investment shown in the chart in the IPA report. In other words, much of the increase is explained by cost inflation
- The choice of the base year is critically important. The first term of the Labour Government (elected in 1999) was characterised by a considerable increase in public spending on arts, culture and music in New Zealand. The publishing and recording manufacturing sector was a direct beneficiary of that, and saw an increase in investment. The public sector boost for the sector flattened in the second term of the Labour Government. If we look at the data on gross investment in the sector from 2004 to 2009, after the public sector boost, the trend is slightly negative
- It is dangerous to draw conclusions about the publishing business from a data series which incorporates a number of activities (for example, including newspaper and magazine publishing), which have a wide range of drivers.

## **3 Conclusion**

Overall, the New Zealand data presented by the IPA do not support the IPA's conclusions. The data also do not contradict the analysis in the earlier Castalia report.