

INDUSTRY
COMMISSION

BOOK PRODUCTION

REPORT NO. 27

15 OCTOBER 1992

Australian Government Publishing Service

Canberra

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**INDUSTRY
COMMISSION**

15 October 1992

The Honourable J S Dawkins, MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

In accordance with Section 7 of the Industry Commission Act 1989, we submit to you the report on Book Production.

Yours sincerely

Tor Hundloe
Presiding Commissioner

Hylde A Rolfe
Associate Commissioner

TERMS OF REFERENCE

I, JOHN SYDNEY DAWKINS, Treasurer, in pursuance of Section 7 of the Industry Commission Act 1989, hereby:

1. refer to the Industry Commission for inquiry and report within 6 months of the date of receipt of this reference whether, after 31 December 1993, assistance should be accorded the production of books in Australia and, if so, the nature, extent and duration of such assistance;
2. request the Commission to:
 - (a) identify and report on significant factors relating to the efficiency and competitiveness of the industry and identify and evaluate options available to the Government; and
 - (b) identify any improvements that could be made to the administration of any assistance arrangements, particularly in relation to providing clear unambiguous definitions of eligible books and eligible recipients;
3. specify that, in conducting its inquiry and presenting its report, the Commission should have regard to:
 - (a) the administrative implications of the options identified;
 - (b) the implications for access to assistance by large and small business of improvements to assistance arrangements; and
 - (c) the desire of the Government not to impede by tariffs or quota restriction the importation into Australia of those goods covered by the United Nations Educational, Scientific and Cultural Organisation (UNESCO) Agreement on the Importation of Educational, Scientific and Cultural Materials and the Nairobi Protocol to the Agreement.

John Dawkins
24 March 1992

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ABBREVIATIONS

AAT	Administrative Appeals Tribunal
ABP	Australian Book Publishers Association
ABS	Australian Bureau of Statistics
ACS	Australian Customs Service
AMC	Australian Manufacturing Council
ANZCERTA	Australia - New Zealand Closer Economic Relations Trade Agreement
ANM	Australian Newsprint Mills
APM	Australian Paper Manufacturers
APPM	Associated Pulp and Paper Mills, Paper Division
ASIC	Australian Standard Industry Classification
CCH	Commerce Clearing House Inc (USA)
CPI	Consumer Price Index
CD-ROM	Compact disk, read-only-memory
CTCO	Commercial Tariff Concession Order
DC	Developing Countries
DFAT	Department of Foreign Affairs and Trade
DITAC	Department of Industry, Technology and Commerce
DPMC	Department of the Prime Minister and Cabinet
EFIC	Export Finance and Insurance Corporation
EMAP	Export Marketing Assistance Program
EMDG	Export Market Development Grants
fob	Free on board
FRMAP	Foreign Rights Marketing Assistance Program
GATT	General Agreement on Tariffs and Trade
GIRD	Grants for Industry Research and Development
IAC	Industries Assistance Commission
IC	Industry Commission
ITES	International Trade Enhancement Scheme
ldf	Landed duty-free
News Ltd	News Corporation Ltd
OECD	Organisation for Economic Cooperation and Development
Pac-Rim	Pac-Rim Printing Pty Ltd
Pacific Magazines	Pacific Magazines and Printing Ltd
PATEFA	Printing and Allied Trades Employers Federation of Australia
PKIU	Printing and Kindred Industries Union
PSA	Prices Surveillance Authority
R & D	Research and Development
RAC	Resource Assessment Commission
TPC	Trade Practices Commission
UNESCO	United Nations Educational, Scientific and Cultural Organisation

OVERVIEW AND RECOMMENDATIONS

This inquiry concerns the book production industry in Australia. It is not directly concerned with the reading and writing of books, nor with book publishing.

The terms of reference require the Commission to report on whether Government assistance should be provided to the industry after the current bounty arrangements end on 31 December 1993 and, if so, how; on the efficiency and competitiveness of the industry; and on the administration of assistance.

The Commission has contacted a representative range of printing, book producing and publishing establishments and industry bodies, and received submissions from a wide range of participants. It has also obtained information from published studies, from questions put to inquiry participants, and from competing book producers in Hong Kong and Singapore.

Australia's observance of the Florence Agreement has precluded the imposition of duties on imports of books of an educational, scientific or cultural nature, so industry assistance for those kinds of books has been mainly in the form of a bounty (production subsidy). The current rate of bounty is 13.5 per cent of eligible production cost incurred in Australia.

Tariffs assist local production of some types of books which are not of scientific, cultural or educational value. They are to be reduced, as part of the Government program of general reductions of tariffs on imports, to a rate of 5 per cent by 1996.

The remaining book categories receive no specific assistance.

The existing bounty and other assistance arrangements for book production have been examined by the Commission in the light of reductions in the general level of protection in the economy as a whole.

Book production in Australia

Book production includes a number of processes, some of which may be undertaken by separate contractors. For bounty purposes it begins with typesetting, layout, colour separation, reproduction and plate making (all coming under the general category of pre-press work), followed by the printing stage which can include printing, folding, collating, sewing, casemaking, binding and packaging for delivery.

The book production industry in Australia consists of general printing establishments which also undertake book production work, and specialist book producers some of which operate on a large scale, and which undertake some general printing work from time to time.

Specialist book producing companies belonging to two major corporate groups account for over one third of the value of bountiable book production. Production facilities are located mainly in capital cities, especially in Melbourne, Sydney, Adelaide and Brisbane, and at Maryborough in Victoria. The Printing and Allied Trades Employers Federation of Australia (PATEFA) has estimated that total employment in bountiable book production is around 2200; another 1300 persons were said to be employed in the production of books not eligible for bounty. Together they produced in 1990 books having a retail sales value of almost \$300 million, about half of the books marketed by Australian publishers in that year. Another 500 persons were estimated to be employed in the production of exercise books, albums, diaries, account books and similar items; but the Commission has not been able to ascertain the value of book production attributable to them.

Competitiveness of Australian book producers

Australia has no particular cost advantage in any of the principal inputs to book production: labour, capital or materials.

Books marketed in Australia by overseas publishers are typically part of large print runs undertaken elsewhere. About half of the work commissioned by Australian publishers is printed abroad, principally in Hong Kong, Singapore and other Asian locations.

Book producers in Australia face higher labour and paper costs than their main competitors in Asia. Although labour costs have been rising in Hong Kong and Singapore, the transfer of operations from there to China and Malaysia respectively (and to other low labour cost countries) has allowed book producers in the former countries to maintain their cost advantage. Offshore producers are highly competitive on a cost basis for work involving colour separation.

Exchange rates play an important role in determining Australia's international competitiveness; they have fluctuated considerably during the past decade.

Australia's distance from major paper suppliers (around half the paper used is imported) and from the major world book market (the English-language markets of North America, Europe, Africa and elsewhere) reduces its competitiveness.

Some of the cost disadvantages confronting the Australian book production industry are declining. For example, costs imposed by tariffs on some grades of paper and on other inputs are falling as the general program of tariff reductions proceeds.

The Australian industry has kept pace with technological developments and is currently equipped to world standards. Developments in computer-based colour separation may increase the extent to which that process is undertaken in Australia. 'Just-in-time' production methods, developments in desk-top publishing facilities, and specialised photocopiers for on-the-spot book production will also improve the industry's efficiency and enhance its ability to deliver books quickly.

Much of the competitiveness of the Australian book production industry is derived from supplying specialised (mainly domestic) markets, from the exploitation of natural advantages such as short delivery times, and from use of computer-based technology in pre-press work.

Export prospects presently are limited because Australian printers are not sufficiently cost competitive in producing some book types, and because many books printed in Australia are specifically intended for the local market and are not suitable for overseas markets. They deal with themes that are peculiarly Australian and/or use the Australian idiom.

Trends in assistance for book production

Tariff assistance, for that small part of Australian book production not covered by the Florence Agreement, has been lowered gradually as part of the Government's general tariff reduction program. The general tariff rate was 25 per cent in 1985-86, 15 per cent in 1992-93, and is scheduled to reach 5 per cent on 1 July 1996.

The tariff on some imported papers imposes significant costs on the Australian book production industry. It also is being reduced as part of the general program of tariff reductions, together with tariffs on other inputs.

Since 1969, a bounty has provided assistance to the major portion of the Australian book production industry. The rate of bounty also has been lowered gradually; it was 25 per cent by 1985-86 and in 1992-93 stands at 13.5 per cent. The total bounty paid in 1991-92 was \$21.5 million. In each of the previous three years it was around \$24 million. The reduction in 1991-92 coincides with generally subdued demand in the economy.

In 1991, the Government announced that most bounties are to be reduced or reviewed. Unless the rate at which the book bounty is paid falls in line with tariffs, then the level of assistance to Australian book producers will rise relative to that of most other goods produced in Australia. This would be contrary to the trend in assistance for the rest of the economy.

Some sectors of book production in Australia have no specific assistance at all. But other sectors are more heavily assisted than most other manufacturing industries. The effective rate of protection for bountiable books ranges from 20 to 50 per cent, compared with an average rate of effective protection of 15 per cent for the manufacturing sector. The range of effective protection is quite wide because of large variations in the use of dutiable paper, binding materials, folders and other inputs.

Productivity improvements in book production in recent years appear to have more than offset the effects of the gradual reduction of assistance. The continued adoption of new technology, including use of desk-top publishing software, provides scope for further productivity gains, which may influence the nature and scope of the book manufacturing and general printing industries, possibly to a greater extent than any affordable bounty or other assistance scheme could do.

Further reductions in assistance

The Commission supports the continuation of the orderly reduction of tariff duties applicable to imports of books, within the general program of tariff reductions announced by the Government in March 1991.

The reduction has been expected by the industry. It should provide some benefit to consumers if the distribution system is competitive enough to allow it to be passed on to them.

It is generally accepted throughout the book production industry that the bounty rate should continue to decline as the tariff rate is reduced.

In its draft report the Commission proposed that the next bounty rate reduction to 10.8 per cent take effect on 1 January 1994 followed (in concert with tariff reductions) by the second on 1 July 1994, and the next two reductions in July of 1995 and 1996. Inquiry participants said that an interval of only six months between the first and second rate reductions would result in a disruptive bunching of orders. The Commission has modified its proposal accordingly.

The Commission considers that the bounty rate should continue to reduce as in the following table.

<i>Date</i>	<i>Tariff rates</i> %	<i>Bounty rates</i> ^a %
Up to		
30 June 1993	15	
31 Dec 1993		13.5
From		
1 July 1993	12	
1 January 1994		10.8
1 July 1994	10	
1 January 1995		9.0
1 July 1995	8	
1 January 1996		7.2
1 July 1996	5	
1 January 1997		4.5

a See Box 2.2 in Chapter 2 for an explanation of the relationship between bounty and equivalent tariff rates.

As tariffs are reduced according to the schedule already determined by the Government, book bounty recipients will have a relative advantage for six months following each successive tariff rate reduction.

The Commission also accepted the industry's arguments that retention of the \$500 minimum claim threshold as the bounty rate is reduced further, as proposed in the draft report, would quickly lead to the exclusion from bounty assistance of a substantial part of currently eligible books. This would be so because that minimum claim threshold limits the payment of bounty to production runs of \$3700 or more, so long as the bounty rate is 13.5 per cent. As the bounty rate falls the minimum value of production for eligibility rises, and there is a concentration of production runs valued not significantly above \$3700 which would become ineligible. In addition, retention of the \$500 minimum claim threshold could discourage initiatives towards 'just-in-time' production.

The interaction of eligibility conditions is complex. The Commission considers that the impact of continued reduction of the bounty should generally be consistent with the phasing down of assistance for other industries. The Commission therefore proposes a switch from the present \$500 minimum bounty claim to a requirement for a minimum publisher's production cost per title per production run of \$3700, to take effect from 1 January 1994, when the next reduction in the bounty rate is proposed.

The minimum value of \$3700 should be adjusted annually, commencing on 1 January 1995, by reference to changes in the Consumer Price Index. Such an adjustment will contain the scope of the scheme as prices change.

In the draft report, the Commission sought views on the capitalisation of expected bounty payments. On the basis of industry's response, the Commission has concluded that such a scheme does not present a feasible alternative to continuing the book bounty at a reducing rate of benefit.

Likely effects

The strong concentration of current bounty benefits in just a few firms is important in assessing the likely effects of continuing bounty rate reductions. The corporate entities concerned have been well aware of trends in assistance policy in general, and in the book industry in particular. In the public hearings they confirmed that they have strategies in place to respond to further reductions in assistance. Because they are large businesses, they are likely to be receiving sizeable -- if diffuse

and occasionally indirect -- benefits from the general program of tariff reductions. With appropriate planning, their adjustment to continuation of book bounty reductions should be relatively smooth. Other smaller firms receive small benefits in absolute terms from the bounty, although in relative terms it may still be important to them. They have experienced the effects of the gradual reductions in assistance and it could be expected that they also have been aware of the general trends in assistance.

The book bounty is only one of many factors taken into account in the decisions by publishers to produce books in Australia or offshore. When the advantages of production in Australia weigh heavily in those decisions, further bounty reduction is unlikely to have much effect.

Some additional book production work may be directed abroad. Over its lifetime of 22 years, the eligibility conditions of the bounty scheme have been progressively and specifically directed towards those types of books perceived to be most likely to be printed and produced abroad if cost considerations are paramount. Some books of the types and production run sizes eligible for bounty are printed abroad now, even though their production cost, after allowing for bounty, may be no greater in Australia. This emphasises the proposition that cost considerations are not always paramount, and relative costs can change markedly over time, for example due to real exchange rate changes. It also indicates that, with the shift of printing activity to lower wage countries such as mainland China, Malaysia and similar low cost locations, producers of books in Australia cannot expect to compete effectively only on a cost basis.

Continued bounty rate reduction will lower the burden on taxpayers who presently are subsidising Australian book production by more than \$20 million each year. The prices of some types of domestically produced books, however, could increase as a result of the reduction. The prices of books of a kind assisted by tariffs could decrease as tariffs are lowered.

The likely effects of the Commission's recommendations need to be considered against the ongoing productivity gains and innovations evident in book production in Australia. Continued reduction of the bounty rate and other assistance is likely to maintain pressure to improve efficiency and productivity in the industry.

Administrative arrangements

In accordance with Section 2(b) of the terms of reference, the Commission examined the administration of the current tariff provisions applying to books and the current book bounty scheme.

The Commission found no significant problems with the administration of the tariff provisions applying to books, but participants raised a number of problems with the application of certain eligibility criteria in the current book bounty scheme. Generally, the problems raised were not concerned with the way in which the scheme is administered, but with its boundaries.

After examining the areas where problems have arisen, the Commission concluded that modifying the current criteria would not necessarily resolve these problems. In some cases, the disputes have already been dealt with by the Administrative Appeals Tribunal. In others, changing the current criteria may resolve one set of problems only to create another. In particular, it is not considered desirable to enlarge the scope of the scheme to include new categories of production when the assistance is being phased down.

With the exception of the change from the existing minimum bounty claim threshold to a minimum production value requirement described above, the Commission considers that the existing bounty eligibility arrangements should remain unaltered.

Under the current bounty scheme, either the publisher or printer of a bountiable book may lodge a claim for bounty. The Australian Customs Service said it would prefer claims to be restricted to printers only. The Commission can see no significant administrative savings in so doing, and notes that such change would require publishers to provide commercially sensitive information to printers so that they could lodge claims.

The Commission is of the view that there should be no change to the current arrangements whereby either the publisher or the printer of a book may lodge a claim for bounty.

Recommendations

The Commission recommends that:

- 1. tariff rates on imported books remain within the phased reduction program announced by the Government in March 1991 so that the rate on dutiable imports will reach 5 per cent by 1 July 1996;**
- 2. the book bounty rate be reduced from 13.5 per cent to:**
 - 10.8 per cent from 1 January 1994**
 - 9.0 per cent from 1 January 1995**
 - 7.2 per cent from 1 January 1996**
 - 4.5 per cent from 1 January 1997**

and thereafter continue to be aligned with the tariff rate on imported books;

3. the present \$500 minimum claim per title be replaced by a requirement for a minimum publisher's production cost per title per production run of \$3700 with effect from 1 January 1994, with the value to be adjusted annually thereafter by reference to changes in the Consumer Price Index; and

4. the present arrangements, whereby either a publisher or a printer may claim bounty, remain unchanged.

The Commission draws attention to its comments on:

- the relationship between the level of capital utilisation and penalty rates and other conditions of employment incorporated in industry awards (Chapter 3);
- the need for more flexibility in management and work practices if the industry is to develop further (Chapter 3);
- the assessment that capitalisation of expected bounty payments is not a feasible alternative to continuing the book bounty at a reducing rate (Chapter 5); and

-
- the judgement that a fundamental change to present administrative arrangements, including any further revisions to eligibility criteria apart from that recommended above, is unlikely to yield substantial net benefits to the community and is not warranted (Chapter 6).

1 INTRODUCTION

1.1 Background to the inquiry

This inquiry is part of the Commonwealth Government's microeconomic reform program aimed at increasing economic efficiency and enhancing the living standards of the Australian community. The Government's program includes a review of assistance regimes affecting industries and factors of production.

The book bounty, tariffs and tariff concessions currently provide industry specific assistance for book production. The book bounty accrues mainly to a few large firms while the tariff assists a range of book production activities. Reductions in these assistance measures are encompassed in the general program of assistance reductions. Some sectors of the book production industry are not specifically assisted.

Current book bounty arrangements, under which a bounty of 13.5 per cent is paid on eligible books, end on 31 December 1993. In response to requests from the book production industry the Government undertook to review book bounty assistance by December 1992, at least one full year before the current bounty arrangements end.

Accordingly, the Commission was given (on 24 March 1992) terms of reference requiring it to report within six months on whether assistance should be accorded the production of books, on significant factors relating to the efficiency and competitiveness of the industry, and on any improvements that could be made to the administration of any assistance arrangements.

Previous inquiries into those issues were undertaken by the Industries Assistance Commission (IAC) when it reviewed book production in a 1985 inquiry into Book Production (IAC 1985) and in its 1987 inquiry into Pulp, Paper, Paper Products and Printing Industries (IAC 1987). In the course of the 1985 inquiry, the IAC found that producers of bountiable books benefited from an effective rate of assistance higher than that generally available to manufacturing industry.

In August 1986 the Government announced its decision that most of the recommendations of the IAC's 1985 report would be adopted, and that the general reduction in bounties announced in the 1986-87 Budget would also apply to books. The bounty rate on books was reduced from 25 to 20 per cent from 1 January 1987.

The 1987 IAC report recommended that the bounty be reduced from 20 to 18 and then to 13.5 per cent over two years. The Government accepted the thrust of the IAC recommendations, but adopted a slower rate of reduction over four years from 20 per cent to reach 13.5 per cent by 1 January 1992.

1.2 Book production

This inquiry is about book production. It is not an inquiry into assistance to authors, publishers or book purchasers/readers. Book production includes typesetting, plate making, printing, folding, binding and packaging of books. Some pre-press work is done by firms which are not printers, and publishers -- whose critical function for this inquiry resides in their role of engaging the printer of a book -- often play a major role in co-ordinating book production activities. There are few specialist book production firms in Australia; the two largest corporate groups account for about 40 per cent of the value of bountiable book production. There are many other printing firms in which book production forms only part of output, and for some it is only a small part.

Based on bounty payments, the value of bountiable production increased by 125 per cent between 1984-85 and 1991-92. On the available evidence of changes in prices, growth in real terms may have been in the range 25 to 50 per cent. During that period employment in bountiable book production increased by some 22 per cent. Employment in total book production (all books under reference) fell by 11 per cent.

On occasions when proximity to customers and timeliness are not paramount, book production is more exposed to competition from foreign suppliers than are other forms of printing. The UK, US, Hong Kong and Singapore, and increasingly China and Malaysia, provide very strong competition for Australian book producers.

Further description of the Australian book production industry is in Appendix B.

1.3 Inquiry procedures

The Commission held preliminary discussions during February and March 1992 with many of those interested in the book production industry in Adelaide, Melbourne, Brisbane and Sydney. An issues paper, intended to assist participants in the preparation of submissions to the inquiry, was released in April 1992. In June 1992 the Commission visited book production firms in Maryborough, Victoria.

The Commission despatched a questionnaire to those printers who received more than \$50,000 in bounty payments in 1990-91, or who were associated with organisations which made submissions to the inquiry. However, because of an inadequate response, the Commission does not consider that the results obtained are representative of the industry, and for this reason has not included them in this report.

In late July/early August the Commission visited book producers in Hong Kong and Singapore. A draft report was released on 21 July 1992, and the Commission sought comment from all interested parties. Public hearings were held in mid-August in Sydney and Melbourne to allow participants to respond to that draft report.

This final report is based on participants' submissions, material presented to the public hearings on the draft report, discussions with interested parties, and published reviews and research papers.

The general thrust of the Commission's draft report, in which it was proposed to recommend a continued gradual reduction of tariff and bounty assistance, was accepted by the industry. However, the industry was concerned that retaining a fixed minimum claim threshold while reducing the bounty rate, as then proposed, would quickly exclude from eligibility a substantial share of book production. The industry also drew attention to difficulties which would result from the timing of bounty rate reductions proposed in the draft report. On both these matters the Commission has since modified its recommendations.

2 ASSISTANCE FOR BOOK PRODUCTION

Assistance for book production is influenced by Australia's voluntary compliance with, and recent formal accession to, the Florence Agreement. The book bounty, tariffs and tariff concessions are the main industry specific assistance measures. The book bounty accrues mainly to a few large firms. The tariff assists a range of book production activities. Some book production is not assisted by tariffs or the book bounty. Some paper and paper products and other inputs used in book production are protected by the tariff. Assistance for book production is relatively high (compared with the average for manufacturing industry) for more than half of the bounty or tariff assisted books. This category includes those books which use significant amounts of duty free paper. Other assisted books which use dutiable paper and other inputs have assistance comparable to that of the manufacturing sector.

The nature of assistance accorded to the Australian book production industry is influenced by Australia's voluntary compliance with, and recent formal accession to, the Florence Agreement. The United Nations Educational, Scientific and Cultural Organisation (UNESCO) Agreement on the Importation of Educational, Scientific and Cultural Materials obliges Australia to refrain from imposing duties or other charges on imports of certain educational, scientific and cultural books. The amendments to the Customs Tariff Act 1987 to give effect to the Florence Agreement and its Nairobi Protocol took effect from 1 July 1991 (see Appendix D, Section D.4 for details) ¹.

In observing the Agreement, Australia has removed import duties on a wide range of goods including certain books, catalogues, films, visual and sound recordings and computer diskettes.

The main forms of assistance for book production in Australia are payments to producers of books of an educational, scientific or cultural nature (the book bounty) and tariffs on imports of most other kinds of books. Duty free access for some paper, other materials inputs and printing machinery gives book producers access to these inputs at world prices.

¹ The amendments preceded Australia's formal accession to the Agreement and its Nairobi Protocol on 25 March 1992.

2.1 Book bounty

2.1.1 Background

The Government introduced a book bounty in June 1969 as an interim measure to support local printers' production of certain books against vigorous competition from foreign printers. With significant changes to the level of assistance, it has continued since then. The current arrangements for the book bounty are contained in the Bounty (Books) Act 1986. The Act commenced on 1 January 1987 and covers the period to 31 December 1993.

Many categories of books are eligible for bounty; the principal exceptions are periodicals, advertising matter, Australian telephone directories and Australian timetables, and books subject to tariff assistance (see Appendix D for a list of the current eligibility criteria for bounty).

2.1.2 History of the bounty

The Government initially set the rate of bounty in 1969 at 25 per cent of the price (net of bounty) charged to publishers by book producers. It increased the rate to 33 1/3 per cent in 1975. The Government has progressively reduced the bounty rate since 1 January 1983 (see Box 2.1).

The Industries Assistance Commission (IAC), in its 1985 Book Production report, recommended reducing the book bounty rate from 25 per cent to 20 per cent, and anticipated that this would have only a small impact on book production and employment in Australia. It noted that, despite substantial reductions in the bounty rate over the previous 2 to 3 years, production had continued to grow at a rate similar to that of the economy as a whole. The bounty has subsequently been phased down to its current rate of 13.5 per cent.

Most bounties in Australia are due to be phased out or reviewed by 1995. In March 1991, the Government announced (DPMC 1991) a program of general tariff reductions from the prevailing rates of 10 per cent and 15 per cent in 1992 to a general rate of 5 per cent by 1996². At the same time the Government announced that where bounties were renewed their rates would be set to reduce in line with the reductions in tariffs.

² There are two industries excluded from these general reductions. Tariffs on passenger motor vehicles are to fall from 35 per cent in 1992 in annual steps of 2.5 per cent to 15 per cent in 2000; and textiles, clothing and footwear are to have a maximum tariff of 25 per cent by the year 2000 and the termination of quotas will be brought forward two years to 1 March 1993 (DPMC 1991, p.1.6).

2.1.3 Eligibility for bounty

The production of eligible books of an educational, scientific or cultural nature is at present assisted by a bounty of 13.5 per cent of production cost³. Bounty can be claimed by either the printer or publisher of the book.

To be eligible for book bounty a printer or publisher must fulfil certain conditions. There must be a minimum of 1000 copies of the book printed in each production run, and the minimum claim is \$500 per title per production run. In general, the book must have at least 49 printed pages, except casebound books (no minimum number of pages), educational text books and children's books (both 16 or more printed pages, with or without pictures). The book bounty is payable to Commonwealth, State or Territory governments, departments or their authorities only in limited circumstances (see Appendix D for further details).

As a general rule, books that are eligible for bounty if sold in Australia are also eligible for bounty if exported. The sole exception is books which are exported to New Zealand. Exports to New Zealand are ineligible because bounty assisted books would put New Zealand producers at a disadvantage and that would be contrary to the Australia-New Zealand Closer Economic Relations Trade Agreement.

Books that benefit from tariff protection are not eligible for the bounty.

The Bounty (Books) Act 1986 established a minimum book bounty threshold claim of \$200. On 11 March 1988 the threshold claim size was increased to \$500 by Section 4 of the Bounty and Subsidy Legislation Amendment Act 1988 (No. 28 of 1988). Since the book bounty scheme was introduced the eligibility criteria have been modified on 1 July 1970, 31 May 1971, 1 January 1987 and 11 May 1988 with the result that in some cases the range of bountiable items included was widened while in others it was narrowed. The Commission estimates that well over half of local book production by value is now assisted by the book bounty.

As eligibility has changed, and the rate of bounty has been reduced, there has been strong growth in real terms in the value of bountiable book production -- it is estimated to have increased in the range of 25 to 50 per cent between 1984-85 and 1991-92 (see Appendix B). Production did fall in the most recent year as evident in the total bounty payments of \$21.5 million compared with \$24.2 million in 1990-91. That seems attributable mainly to depressed economic conditions generally; Budget estimates for 1992-93 are for total book bounty payments of \$26.3 million.

³ Bounty is paid on the 'publisher's production cost' of the book. The publisher's production cost consists of the cost of eligible work done by the publisher and the money paid by the publisher to outside firms (for example, printers or binders) for work done on the book, less the value of work done outside Australia.

Box 2.1: **History of the book bounty**

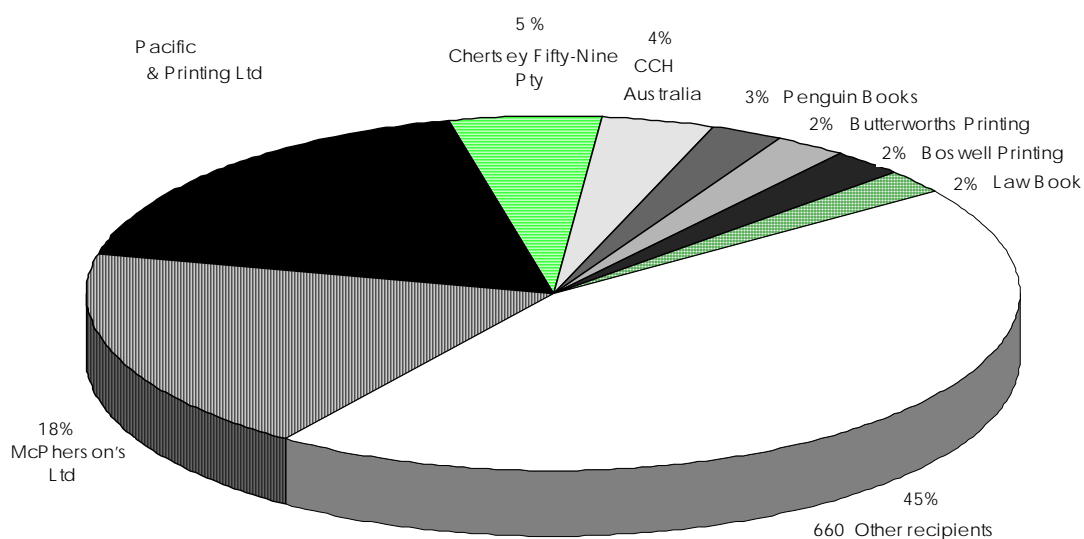
1 June 1969	Book bounty introduced as an interim measure at a rate of 25 per cent of the price (net of bounty) charged to the publishers by book producers.
21 Sept 1973	Tariff Board Products of the Printing Industry report recommended bounty be paid at 33 1/3 per cent of ex-factory price to publishers, or 33 1/3 per cent of the cost of production if the manufacturer is also the publisher.
7 Mar 1975	Bounty rate increased to 33 1/3 per cent to 31 December 1978, in accordance with 1973 Tariff Board report.
31 July 1978	IAC Products of the Printing Industry report recommended that bounty be continued at a rate of 33 1/3 per cent for three years, and then be reduced to 25 per cent for five years. The Government decided on a rate of 33 1/3 per cent to 31 December 1982.
1 Jan 1983	Bounty rate reduced to 30 per cent.
1 Jan 1984	Bounty rate reduced to 25 per cent.
20 Dec 1985 January 1987.	IAC Book Production report recommended a bounty rate of 20 per cent from 1
1 Jan 1987	Bounty rate reduced to 20 per cent. The Bounty (Books) Act 1986 established a minimum claim of \$200.
25 Feb 1987	The bounty issue was discussed again by the IAC in its report Pulp, Paper, Paper Products and Printing Industries.
11 May 1988	Minimum claim raised to \$500.
1 Jan 1989	Bounty rate reduced to 18 per cent.
1 Jan 1990	Bounty rate reduced to 16 per cent.
1 Jan 1991	Bounty rate reduced to 14 per cent.
12 Mar 1991	The Government announced that most bounties are due to be phased out or reviewed by 1995.
1 Jan 1992	Bounty rate reduced to 13.5 per cent. No rate set beyond 31 December 1993.

2.1.4 Distribution of book bounty payments

Distribution of amount paid

Book bounty payments are concentrated in a small number of relatively large companies. Eight organisations received about 55 per cent of the total bounty paid out in 1990-91 (see Figure 2.1). The remaining 660 firms together received 45 per cent of the bounty. This latter group includes 238 firms which received less than \$2000 each and together accounted for only 1 per cent of all bounty payments.

Figure 2.1: Distribution of book bounty to major recipients and others, 1990-91



Source: Return for Parliament, *Bounty (Books) Act 1986*.

Two organisations received over 37 per cent of the book bounty. They were Pacific Magazines and Printing Ltd and McPherson's Ltd (see Figures 2.2 and 2.3).

Figure 2.2: **Pacific Magazines and Printing Ltd**

Source: Pacific Magazines and Printing Ltd.

Griffin Press Pty Ltd and Wilke and Company Pty Ltd, together, received about 19 per cent of all bounty payments in 1990-91. Their parent company, Pacific Magazines and Printing Ltd, is 45 per cent owned by News Corporation Ltd. McPherson's Ltd (which amalgamated the ownership of The Book Printer, Owen King Printers Australia Pty Ltd, Globe Press Pty Ltd and Macarthur Press (Sales) Pty Ltd under McPherson's Printing Pty Ltd on 1 July 1992) received about 18 per cent of the book bounty.

Figure 2.3: **McPherson's Ltd**

Note: Organisation effective 1 July 1992

Source: McPherson's Printing Pty Ltd.

Book producers located in Victoria received the largest portion (43 per cent) of the total 1990-91 bounty payments of \$24.2 million, followed by those in New South Wales. South Australian producers received the third largest portion, due largely to the location of Griffin Press in that State. This company received about \$3.6 million. The other four firms that received more than \$1 million in book bounty payments were all located in Victoria.

Distribution of assistance between suppliers and purchasers

The final distribution of the bounty benefit between book producers (mostly printers) and the purchasers of book production services (mostly publishers or the final buyers of books) does not depend on whether the book bounty is initially paid to the printer or publisher. It depends on the demand and supply factors in the market for book production services. Appendix F provides an economic analysis of bounty effects.

2.1.5 Bounty/tariff equivalence

At the draft report public hearings some participants were uncertain as to the bounty equivalent of the tariff rate. Box 2.2 examines this equivalence.

Box 2.2: **Bounty equivalent of tariff**

A bounty rate of 13.5 per cent on ex factory selling price⁴ is approximately equal to a 15 per cent tariff. This is because Customs duty on imports is levied on the (free-on-board) value of the good in its country of origin, but not on the costs of freight and insurance in transporting the good. In the case of books, the free-on-board value is about 90 per cent of their value as landed in Australia. Thus the tariff does not raise the landed price of the good by the full 15 per cent but by a lesser amount of 13.5 per cent ($15\% \times 90\% = 13.5\%$). The following calculation illustrates this point.

Suppose a book can be produced for \$90 and shipped to Australia for \$10. The value for duty is \$90. The tariff of 15 per cent costs the importer \$13.50 ($\$90 \times .15$). Thus the total landed duty paid cost of an imported book under a 15 per cent tariff would be \$113.50. In order to be competitive with it, the equivalent ex-factory selling price of locally produced books could not be more than \$113.50 (with the tariff of 15 per cent), and they could not sell competitively for more than \$100 in the absence of tariff protection. A bounty of 13.5 per cent of selling price (\$100) would provide assistance of \$13.50 to local producers enabling them to sell at \$100 ($\$113.50 - \13.50) and is thus equivalent in its protective effect to a tariff of 15 per cent.

2.2 Tariffs

2.2.1 Tariff on imports of books

Production in Australia of some types of books is assisted by a general tariff of 15 per cent levied on imports, and so those books are not eligible for bounty. They are books which are not of an educational, scientific or cultural nature. They include registers, account books, note books, order books, diaries, certain exercise books, Australian telephone directories, Australian timetables, and calendars (see Appendix D for details). These types of books comprised about 10 per cent by value of all book imports in 1990-91.

⁴ It is assumed that the ex factory selling price approximates the publisher's production cost (including normal profits).

In 1990-91 total imports of registers, account books, diaries and other stationery were valued at \$54 million. Eighty per cent by value of those imports were subject to an average duty of 10 per cent, the preferential rate for imports from less developed countries, while the balance paid duty of 15 per cent. The preferential rate of 10 per cent for less developed countries is being phased down after 1 July 1993. For imports from Hong Kong, Republic of Korea, Singapore and Taiwan the preferential rate of duty will be terminated from 1 July 1994 (see Appendix D).

According to the schedule in the March 1991 Statement (DPMC 1991), the general ad valorem tariff applying to relevant book imports, which was 15 per cent at 1 July 1992, is to be progressively reduced to 12 per cent on 1 July 1993, 10 per cent on 1 July 1994, 8 per cent on 1 July 1995, and to 5 per cent on 1 July 1996.

2.2.2 Tariffs on imports of material inputs

Materials are an important input into book production, comprising between 30 to 65 per cent of the cost of production of a book.

Paper

Paper is a particularly important input in book production. It represents between 30 and 60 per cent of the cost of production of most books, but can reach 80 per cent in some cases, such as large reprints of some paperback books. Its share of costs tends to be at the low end of the range for the first print of a book, when most initial set-up costs have to be covered. Paper costs also depend on the type of book. Associated Pulp and Paper Mills, Paper Division (APPM) stated that the cost of paper in monocolour and/or paperback books can represent up to 80 per cent of the total cost of production of a book while the cost of paper in higher quality hardback and/or colour printed books was said to be in the vicinity of 40 per cent (Submission No. 21, p. ix).

The main types of paper used in book production are coated woodfree, coated mechanical, uncoated woodfree and uncoated mechanical paper. APPM estimated that 40000 tonnes of paper, with a value of around \$60 million were used to produce bountiable books in Australia in 1990-91. Uncoated papers accounted for approximately two-thirds, and coated papers for one-third, of this total (Submission No. 21, pp. 10, 13).

Paper may be imported or purchased from any of three local suppliers. Most locally produced uncoated paper used in book production is supplied by APPM. Australian Newsprint Mills (ANM) produces newsprint, some of which is used for books. Australian Paper Manufacturers (APM) produces some uncoated papers which are used in book production. According to APPM, most uncoated paper is imported from Brazil and Indonesia. APPM also produces coated paper for use in books, but most supplies are imported from paper mills in Japan and Europe.

Most papers produced by APPM are protected by general tariffs of 15 per cent, although some coated and uncoated papers may be imported duty-free under concessional entry arrangements. Tariffs are not imposed on imported newsprint, some uncoated mechanical papers (weighing between 40 and 62 g/ m²) and certain cast-coated paper and paperboard.

Other material inputs

The general tariff on imports of printing inks, binders (for example ring binders into which loose leaf pages are inserted) and some binding materials is currently 15 per cent⁵.

Some concessional rates apply on papers and other material inputs imported from Canada, developing countries and South Pacific Forum Island Countries (mostly 5 percentage points less than the general rate of duty).

Pac-Rim stated that:

Ink, which is currently assisted by a 15 per cent tariff, represents around 2.5 per cent of the production cost of a colour book. It is available to overseas printers much cheaper than in Australia. For example we can land German ink cheaper than we can buy the same product here, even after paying the 15 per cent tariff. (Submission No. 24, pp. 8 & 14)

Other materials used in book production such as glue and cover bindings have duty levied upon them if imported. Pac-Rim (Submission No. 24, p. 13) stated that, 'The 15 per cent tariff on certain paper, ink and other materials adds up to 8 per cent to production costs of some books.'

When these inputs are imported duty-paid for use in the production of books eligible for bounty, the book producer may recover part of the duty because the bounty payable is based on all eligible costs including any duty paid. When bountiable books are exported, producers may also claim duty drawback for duties paid on imported materials; this may be viewed as 'double-dipping'. However, it has only a very small effect in raising the level of assistance in total.

In line with the scheduled reduction of general tariff rates mentioned earlier, tariff duties on inputs will be reduced to 5 per cent by 1 July 1996.

Imported computers are free of duty. A bounty of 12 per cent is paid on the ex factory costs incurred in Australian production of computer hardware⁶. The computer bounty rate is being phased down in line with other general reductions in protection; the effect on the costs of book production is likely to be small.

⁵ Inks, binders and binding materials imported from developing countries are dutiable at a rate of 10 per cent. Australia Post said that it currently pays duties of 5 per cent on imported glue and boards used in book binding (Submission No. 18, p.9).

⁶ Items included are microcircuits (including microprocessors in duty free equipment), certain modems and multiplexers and printed circuit boards as well as any embedded operating systems software.

Reductions in the tariff on binding materials, binders and ink are likely to improve the competitiveness of book producers in Australia.

2.3 No assistance for some books

Some books such as magazines, periodicals, annual reports, advertising books, certain books of less than 49 pages and others that are excluded from the bounty because of other eligibility criteria (see Appendix D) are not assisted by either a duty on imports or a bounty.

2.4 Duty free, concessional and by-law import of inputs

Duty free import of a range of materials, especially some types of paper, allows their costs to reflect world prices.

2.4.1 Duty free imports

Paper

Papers used in book production which can be imported duty free include newsprint, hand-made paper and paperboard, some uncoated mechanical papers (weighing between 40 and 62 g/m² inclusive) and cast-coated papers (see Appendix D). When produced locally, these papers are generally priced at or about import parity levels, and so may reflect some part of a notional cost of shipping to Australia.

Machinery

Book producers in Australia have access to duty free imports of printing machinery, paper folding machinery, book binding machinery and parts (see Chapter 84 of Customs Tariff, reference numbers 8440, 8441 and 8443). As discussed earlier, the production of computers in Australia is currently assisted by a bounty of 12 per cent (from 1 July 1992) and imported computers enter duty free.

2.4.2 Commercial Tariff Concession Orders and by-law imports

Some inputs used in the manufacture of books are imported duty free under Commercial Tariff Concession Orders (CTCOs). CTCOs provide for duty free entry of imports for which there are no domestic goods 'serving similar functions'.

Current CTCOs relevant for book production include certain types of paper; 'outer sleeve material'; 'book cloth'; 'cloth lined paper and paperboard'; certain 'endsheets' (if made from acid free paper

and cut to size, folded, glued and reinforced), and some embossing papers (see Appendix D, Section D.3).

In addition, duty free entry of imports of certain inputs is allowed through the by-law system, which provides for concessional entry⁷ in a range of situations where there may be competing local production. Two by-law instruments which are relevant to book production allow exposed film and nitrocellulose- or pyroxylin-coated cotton fabric to be imported duty free if used in book production and in book binding, respectively (see Appendix D, Section D.4). The Government introduced the second by-law on 1 October 1991 to allow the duty free import of this specific bookbinding fabric, following representations by the Printing and Allied Trades Employers Federation of Australia (See PATEFA 1991).

The Government has also decided, with effect from 1 March 1992, to allow the duty free import of an increased range of raw materials and intermediate goods for certain end-uses. If an imported paper offers a substantial and demonstrable performance advantage over the paper made in Australia for a certain use, duty free import of the paper may be approved (see Appendix D, Section D.4, Customs Tariff Schedule 4, By-law item 57).

Pac-Rim Printing Pty Ltd stated that imports of coated papers over 67 g/m², which enter duty free for magazines under policy by-law, are dutiable at 15 per cent if they are used for book manufacture. Pac-Rim requested that this policy by-law be extended to cover coated papers used in book production (Submission No. 24, p. 16). It stated that the dutiable paper used for paperback covers and coated illustration pages (over 67 g/m²) is a significant proportion of costs.

Pac-Rim said that:

All cover paper used in paperbacks is imported because there is no suitable two-sided cover board made in Australia. Total value of cover board imported by Griffin Paperbacks last year exceeded \$100,000 or around 5.5 per cent of production costs. Since there are none made here [in Australia], it seems anomalous to impose a 15 per cent tariff assistance on cover boards. (Submission No. 24, p. 8)

APPM stated that there should be no extension of current by-law arrangements, particularly those for the duty free concessional entry of uncoated mechanical printing papers. In its response to the draft report, APPM said:

The extension of this by-law (B/L 8736001) to include book papers would ... almost certainly lead to the shut-down of its total coated paper production with implications for future regional investment and employment.

The extension of the by-law to book papers is not justified as we firmly believe book producers have access to reasonably priced papers. (Submission No. 41, pp. 10-11)

⁷ See IC 1991c for the rationale for these concessions.

In response to Pac-Rim's comments on coverboards, APPM said:

The impression conveyed by Pac-Rim is incorrect. APPM produces a wide range of uncoated plain, embossed and recycled coverboards (as well as some lower-grammage coated boards) which are widely used as coverstock for books of various types. If Pac-Rim is suggesting that there are no 'suitable' heavier-weight coated coverboards made in Australia then it may have a case for concessional entry under the new by-law for certain chemicals, plastics and papers. APPM would be amenable to discussing the situation with Pac-Rim. (Submission No. 41, p. 11)

The Publishers Group has argued that where no assistance is provided to outputs as a consequence of Australia's accession to the Florence Agreement, inputs and capital equipment should be admitted duty free:

For the industry to remain viable and internationally competitive, where no assistance is being provided to its output, it is essential that the industry is able to access all its inputs and capital requirements at world prices, untaxed or subjected to tariffs. We therefore believe that it is incumbent on the Government, as a consequence of signing the Florence Agreement and the Nairobi Protocol, that it either agree to be bound by Annex H of the Protocol or provide a commitment to the industry that tariffs will not be imposed on its inputs or the plant and machinery necessary to produce publications in Australia⁸. (Submission No. 40, p. 2)

Some parts of the book production industry receive no assistance on output now, and the Commission has some sympathy with the view put by the Publishers Group. In the assisted sectors of the book industry, the Publishers Group indicated that it would prefer duty free status for inputs to continuation of the bounty. This view emphasises the importance of the cost effects of the existing structure of tariff and other assistance, and the benefits to be gained from the reduction of assistance which is currently under way.

2.5 The impact of tariff reductions on inputs to book production

As announced in the Government's March 1991 Statement, the tariffs on imports of some papers, binders, inks and other materials used in book production in Australia, like tariffs in most other sectors of the economy, are to be reduced over time from general rates of 10 and 15 per cent to 5 per cent by 1 July 1996 (see Table 2.1 for the schedule of application of this decision).

As tariff rates on materials fall, the prices of these materials are also likely to fall, reducing the cost of printing books in Australia. Unless the book bounty rate falls at a similar pace, the effective rate of assistance to those Australian book producers to whom bounty applies will rise (the effective rate of assistance is discussed in Section 2.6.2). This would be contrary to the trend in assistance for the rest of the economy.

⁸ Annex H includes reference to materials and machines used for processing paper pulp used in the production of books and other publications (see Appendix D).

Table 2.1: **Proposed phasing of tariff rates**

	<i>Tariff rate (%)</i>	
<i>Tariff rate on 1 July 1992</i>	<i>10</i>	<i>15</i>
1 July 1993	9	12
1 July 1994	8	10
1 July 1995	7	8
1 July 1996	5	5

Source: DPMC 1991.

The precise impact of the tariff reductions on prices of locally produced and imported inputs for book production will depend on the extent to which local suppliers are taking advantage of the current tariffs to raise prices, and on the preferences of book producers for imported and/or local materials.

If imported materials are close substitutes for locally produced materials, and if local manufacturers are making full use of the current tariffs, the reductions are likely to be reflected in production costs directly, and so will enhance the competitiveness of book production in Australia.

2.6 Estimates of assistance for books and book production processes

Book production in Australia is specifically assisted through the tariff and the book bounty.

2.6.1 Nominal rate of assistance⁹ for books

The form and level of assistance afforded book production differ markedly between various categories of books. Bounty at the rate of 13.5 per cent of production cost is paid on some types of books. Tariffs of 15 per cent are levied on other categories of books if imported (see Appendix D); this may enable domestic producers to price up to import parity levels that have been raised by the duty. Some book categories receive no direct assistance at all.

The nominal rate of assistance for Australian produced books receiving a bounty of 13.5 per cent or protected by a tariff of 15 per cent is about 13.5 per cent in each case (as discussed in Section 2.1.5). In making this calculation, the tariff rate has been discounted by 10 per cent to allow for

⁹ The nominal rate of assistance measures the extent to which the gross returns per unit produced are increase by protection.

freight, insurance and handling costs of imports, which may be viewed as representing a natural advantage or protection available to domestic book producers.

2.6.2 Effective rates of assistance¹⁰

The effective rate of assistance measures the net assistance to an activity by taking into account not only output assistance, but also the penalties and benefits of government intervention on inputs. To the extent that inputs to book production are dutiable, any consequent price raising effect on inputs reduces the net assistance available to book production processes.

PATEFA stated:

a substantial sector of the paperback market is quality paperback books using art and coated stocks, high quality woodfree papers, quality cover papers and boards, all of which are dutiable or reflect a duty paid price when local stocks are used. (Submission No. 38, p. 11)

Bounty or tariff assisted books which use papers and other inputs that are all protected by the duty rates of 15 per cent will have effective rates of protection of about 14 per cent, which is about equal to the average effective rate of assistance for the manufacturing sector of 15 per cent (IC 1991a). This is a relatively small segment of the industry and includes some paperbacks, children's colour books, casebound colour books, Australian timetables, calendars, registers and account books and diaries.

In practice:

- a large portion of books use paper and/or other inputs that are not dutiable at all (for example, newsprint);
- others use paper and/or other imported inputs that pay duty at less than the full tariff of 15 per cent, because they are from Canada, Forum Island Countries or developing country sources, and some use paper and/or other inputs that are exempt from duty, being imported under tariff concessions.

According to APPM:

a great proportion (1/3) of book papers do not attract a protective tariff, and the 'protective' tariff of the majority of the remaining papers is substantially undermined by low rates (5%) and/or low/dumped priced imports (particularly in the uncoated and coated woodfree areas). (Submission No. 41, p. 9)

Assisted books which use a mixture of dutiable inputs (including paper) as well as duty free inputs (or pay duty at less than 15 per cent duty on some inputs) generally have effective rates of protection which are higher than the manufacturing sector average. The Commission estimates that

¹⁰ The effective rate of assistance measures the net assistance to an industry's value adding activity afforded by the assistance structure. It takes into account not only the change in gross returns per unit of output due to assistance to the output of that industry, but also the (usually adverse) effect of assistance on input prices.

over half of tariff/bounty assisted book production has relatively high rates of effective assistance which range from 20 to 50 per cent, much higher than the average for the manufacturing sector as a whole. Among other books this includes much of the monocolour and paperback books sector in which the materials used (such as paper) are duty free and form a large portion of the cost of production and the bounty is the operative form of assistance.

Books that do not receive the book bounty or tariff protection and use duty free paper have an effective rate of protection of close to zero; those using duty assisted paper have negative effective rates of assistance of about -5 to -20 per cent. These categories include books of an educational, scientific or cultural nature theoretically eligible for bounty, but excluded in practice by one or other of the detailed eligibility conditions such as print runs, page number minima, and other criteria (see Appendix D for details). Book production processes in these two categories form a small part of the industry.

2.7 Implications of the current assistance structure

2.7.1 Book production and consumer purchases

Bounty and tariff assistance both generally increase the net returns which domestic producers receive for books, but their effects on consumer prices differ.

The tariff results in higher prices for imported books, and enables local book producers to charge higher prices (up to duty paid import parity) for competing books made in Australia or increase their market share, or some combination of the two. Imports will tend to be lower and both domestic prices and production higher.

The effect of the bounty on consumer prices depends on the degree of competition in the book market (see Appendix B). Where there is strong competition then the production subsidy is likely to be passed on to consumers in the form of lower prices. Where competition is weak the subsidy is likely to stay with the producer rather than lead to lower prices.

Economic activity in other areas of the economy is affected by assistance to book production, and will be affected by changes to it, whether in the form of tariffs or a bounty. Where assistance is provided only for some books, as is the case now, those which are unassisted are likely to have lower levels of production. Books compete with other consumer purchases; for example, books as a gift compete with other gifts. Changes in assistance as they feed through into consumer prices will change purchasing patterns both for books and for these competing goods.

Where the tariff protection matches the level of assistance provided by the book bounty, producers then have no incentive to favour the production of books falling in one assistance category rather than the other.

2.7.2 Other effects

Book production uses some resources which can be used in other printing industry work. The nominal rate of assistance to output of the printing and bookbinding industry (ASIC Code 2644) -- of which book production is only one element -- was 7 per cent in 1990-91, and the phased assistance reductions will take it 2 per cent. The effective rate of assistance was 8 per cent in 1990-91, and will reduce to 2 per cent following phased tariff and other assistance reductions (IC 1991a and 1991b). The much higher levels of assistance applying to major segments of the book production industry through bounty and tariff arrangements (see Section 2.6) enable the production of a greater quantity of books in Australia than would otherwise be the case, by the diversion of resources from the production of other goods and services (including those segments of the book production industry which are not assisted).

On a broad basis, the book production industry competes with other industries and sectors of the economy for labour and capital. It competes closely for inputs with industries which use similar types of labour, industrial and office premises, and machinery and other equipment. When assistance to book production is significantly higher than in industries competing for the same inputs, resources may be drawn from these other industries into book production. This would reduce the well-being of the Australian community.

The general exclusion from bounty of books produced by Commonwealth or State government departments may potentially introduce a distortion between these books and books produced by commercial publishers. That is so because the cost of government books to consumers may be raised relative to the cost of commercially produced books. The arrangements for Ministerial waiver¹¹ of the exclusion are intended to minimise this distortion.

2.8 Copyright and other assistance for writers and publishers

Book production in Australia may benefit from copyright arrangements which protect intellectual property.

¹¹ The Minister has exempted under Subsection 5 (8A) of the Bounty (Books) Act 1989 fifteen government organisations (including Australia Post, ABC Marketing and Australian National Gallery) from the general exclusion, making them eligible to receive the bounty on any bountiable books they publish. These organisations were assessed by the Minister as producing books which compete directly with those printed by commercial firms.

The Copyright Amendment Act (December 1991) removed some restrictions on the supply of books in Australia. As a consequence of these changes, overseas publishers do not have a copyright in Australia except for works published firstly in Australia or within thirty days (ninety days for paperbacks) of their publication overseas.

According to Pac-Rim these changes in copyright legislation have resulted in increased book production in Australia.

Some United Kingdom publishers such as Harper Collins, Random Century and Octopus Books who publish hard-case and paperback first edition popular fiction works have placed orders with Griffin Paperbacks for simultaneous production in Australia to ensure the conditions of the copyright are met. (Submission No. 24, p. 9)

There has only been a short time for these changes to have an effect. Griffin Paperbacks estimated that due to the changes in copyright legislation, the volume of monocolour paperbacks and monocolour cased-in novels produced in Australia on behalf of UK publishers for the Australian mass market has increased total sales by about 9 per cent.

Australia Council subsidies can also be relevant to book production in Australia, although this is not their prime objective. The aim of Australia Council subsidies to Australian literature is to help 'foster a strong artistic life throughout the nation by promoting excellence in and development of the arts' (Australia Council 1991), apparently regardless of where the literature is printed. The subsidies include fellowships to writers, writers' project and income support grants, international publishing grants for translation, publishing subsidies, magazine publishing payments to writers, grants to publishers and trade promotions grants. In 1990-91 the Australia Council spent about \$4.5 million on literature, supporting 174 individuals and about 292 groups.

Book readership and use are also encouraged by governments' capital and operating grants for libraries.

These kinds of measures can help to enlarge readership and demand for books produced in Australia, and elsewhere, but the Commission considers that the issue of any special assistance to Australian authors and readers falls outside the terms of reference of this inquiry. Assistance that should be accorded to the production of books in Australia, irrespective of authorship, is the focus of this inquiry.

2.9 General measures of assistance

Measures of assistance that are generally available to all industries may be used by book producers. They include Commonwealth Government assistance with Research and Development (R & D) and various export assistance programs.

2.9.1 Research and development assistance

The Commonwealth gave direct support of around \$2.4 billion in 1990-91 to a wide range of research organisations and industries for R & D.

In presenting the 1992-93 Budget, the Government announced that domestic R & D will continue to be promoted through a 150 per cent tax deduction on eligible expenditure carried out in Australia, instead of reducing it to 125 per cent from the 1993-94 income year as previously announced. The cost in forgone revenue is expected to be around \$250 million in 1991-92.

Grants for Industry Research and Development (GIRD) are in two forms: discretionary grants for firms unable to take advantage of the R & D tax concession and generic technology grants. GIRD is administered by the Industry Research and Development Board and the grants are expected to total \$32 million in 1991-92. The same sum has been allocated by Government for the scheme in 1992-93. The Commission has no information on the use of these grants by book producers.

2.9.2 Export assistance

The Commonwealth and State governments provide export assistance through export marketing, product development, export finance and insurance and selective export assistance through many industry plans and programs. The Commonwealth provided around \$700 million in direct budgetary assistance and the State governments about \$44 million in 1990-91.

Export Market Development Grants scheme

The Export Market Development Grants (EMDG) scheme, the Government's principal export market development scheme administered by the Australian Trade Commission (AUSTRADE) aims to encourage Australian exporters to establish and develop overseas markets for goods, specified services, intellectual property rights and know-how which are substantially of Australian origin. It provides taxable cash grants towards the cost of export promotion and development.

Under the EMDG scheme, grants are paid in respect of the previous year's expenditure on export market development. Payments of \$134 million were made in 1991-92 and are expected to be \$148 million in 1992-93.

To be eligible, firms must spend at least \$30 000 on export market development, of which the first \$15 000 is ineligible for grant. Grants are paid at the rate of 50 per cent of the firm's eligible expenditure. In the 1992-93 Budget the Government announced a decision to extend the EMDG eligibility so that firms which had already received support up to the previous limit of eight years will be entitled to assistance for a further three years where they are seeking to enter new export markets. This new eligibility is expected to cost \$20 million in 1993-94, \$25 million in 1994-95

and \$30 million in 1995-96. The effectiveness of the new scheme will be reviewed by Government before the 1996-97 Budget.

It appears many book producers and exporters use the EMDG scheme, mainly through the Australian Book Publishers Association (ABPA). In 1989 over 1000 of the 3247 new titles produced in Australia were exhibited at the three major book fairs (the Frankfurt International Book Fair, the American Booksellers Association Fair and the Bologna Children's Book Fair) and were subsidised by the EMDG. Australian book producers exhibit their books overseas at these fairs mainly through ABPA organised stands. This enables smaller firms to have access to the international market as reimbursement of eligible expenditure from the EMDG scheme allows the ABPA to keep costs down for participants. The ABPA stated that the Export Market Development Scheme may be seen as encouraging further printing in Australia (ABPA 1991b).

International Trade Enhancement Scheme

The International Trade Enhancement Scheme (ITES) commenced on 1 July 1990. Under this scheme, which is expected to cost \$23 million in 1992-93, firms must spend at least \$100 000 on overseas marketing of a new business activity. The ITES will then fund up to half of this expense, up to a maximum of \$2.25 million, with provisions for recoupment in certain circumstances. The ABPA expressed concern to the IC 1991 Inquiry into Overseas Export Enhancement Measures that the ITES program is inaccessible for small to medium sized book export firms because of the high threshold expenditure required (ABPA 1991b). The IC did not make any recommendations on this, it being outside the inquiry's terms of reference, and the matter was not raised again in the current inquiry.

2.10 Assistance from State and local governments

State governments have provided establishment assistance to firms, including capital grants, low interest loans or loan guarantees, power and fuel subsidies, freight subsidies, and payroll and land tax rebates. Book producers have received these kinds of assistance on occasion.

In addition State/local governments have assisted manufacturers with removal and location subsidies, free or subsidised industrial land and services. Some book producers have received such assistance.

3 FACTORS AFFECTING COMPETITIVENESS

Australian book production is a relatively high cost industry in international terms, and is focussed mainly on the domestic market. The terms of reference of this inquiry call for an assessment of the competitiveness of Australian book production. Competitiveness depends partly on exchange rates. The assessment also requires detailed consideration of factors determining the industry's costs and the demand for its services and products. These factors include unit labour and other input costs, and levels of protection. The assessment of competitiveness also requires a comparison with the situation in the countries which provide most competition for the Australian book production industry. These countries include Hong Kong and Singapore, which compete with Australian book producers for orders placed by Australian publishers, and the UK and US which supply most of Australia's book imports.

The costs of some types of paper are higher than those of competitors in Asia. In recent years Australia's unit labour costs have been increasing faster than those of the US and the UK, but slower than in Singapore and Hong Kong.

The local book production industry is undertaking that work in which publishers judge it has the advantage compared with overseas printers. Such work includes long runs of low value-added monocolour paperbacks, small runs, and runs for which timeliness in delivery is important.

3.1 Introduction

The competitiveness of book production in Australia is affected by a wide range of domestic and external factors.

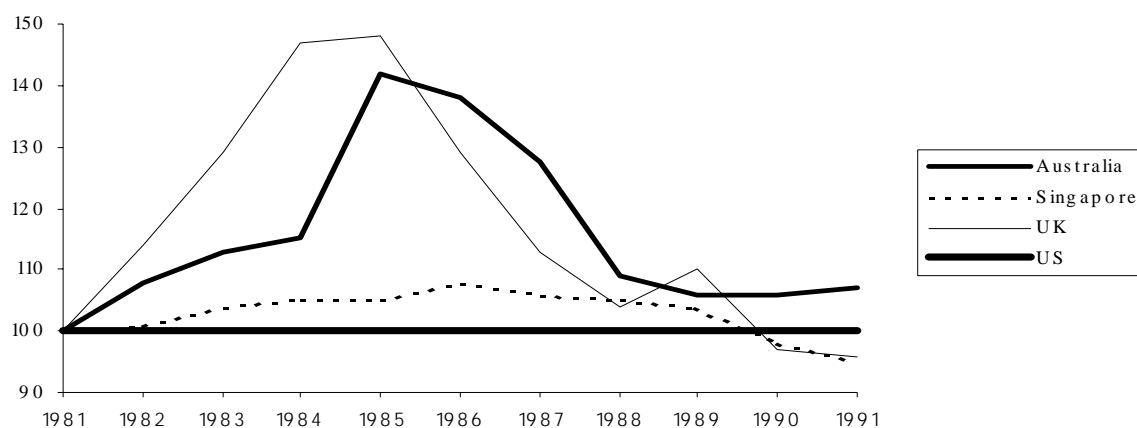
- Input costs are changing as tariffs on imports are being reduced, and as working practices become more flexible and cost effective.
- Technology is changing relative costs, leading to the substitution of capital for labour, and one type of labour for another, and opening up new production potential.
- The book bounty and other forms of assistance change the competitiveness of some categories of book production in Australia relative to others, and the competitiveness of domestic book production in relation to other producers.

Box 3.1: International competitiveness as measured by real exchange rates

International shifts in the production and consumption of traded goods are strongly affected by exchange rate and relative price movements. Measures of real exchange rates can be used as economy-wide indicators of changes in international competitiveness, although conditions faced by a particular industry may differ.

The competitiveness indexes in Figure 3.1 are of the exchange rate and inflation experiences of Australia, the UK and Singapore, each compared with the US. A (real) depreciation against the US dollar corresponds to a rise in competitiveness, and vice versa.

Figure 3.1: **Indexes of movements in competitiveness (as measured by real exchange rates) 1981 = 100**



Source: IMF (1992)

Australia's competitiveness improved in terms of real exchange rate movements over the first half of the 1980s but deteriorated between 1985 and 1988 when the exchange rate steadied but Australia's poor relative inflation performance continued. These later developments would have increased the costs of Australian book producers compared with those in the US and Singapore, and increased the costs of Australian books compared with imports. Based on these measures, changes in Australia's competitiveness were similar to those experienced by the UK. Since 1988, Australia's competitiveness has been steady compared with the US and has improved a little compared with the UK and Singapore.

Another important factor is the exchange rate between the Australian dollar and the currencies of the countries from which books are imported and with which we compete for production. Relative inflation rates also are important. See Box 3.1 for a description of how Australia's competitiveness has been affected by the combination of exchange rate and relative price movements. In brief, Australia's competitiveness improved in the first half of the 1980s and deteriorated in the second half. Since 1988 it has been fairly steady compared with the US and has improved compared with the UK and Singapore.

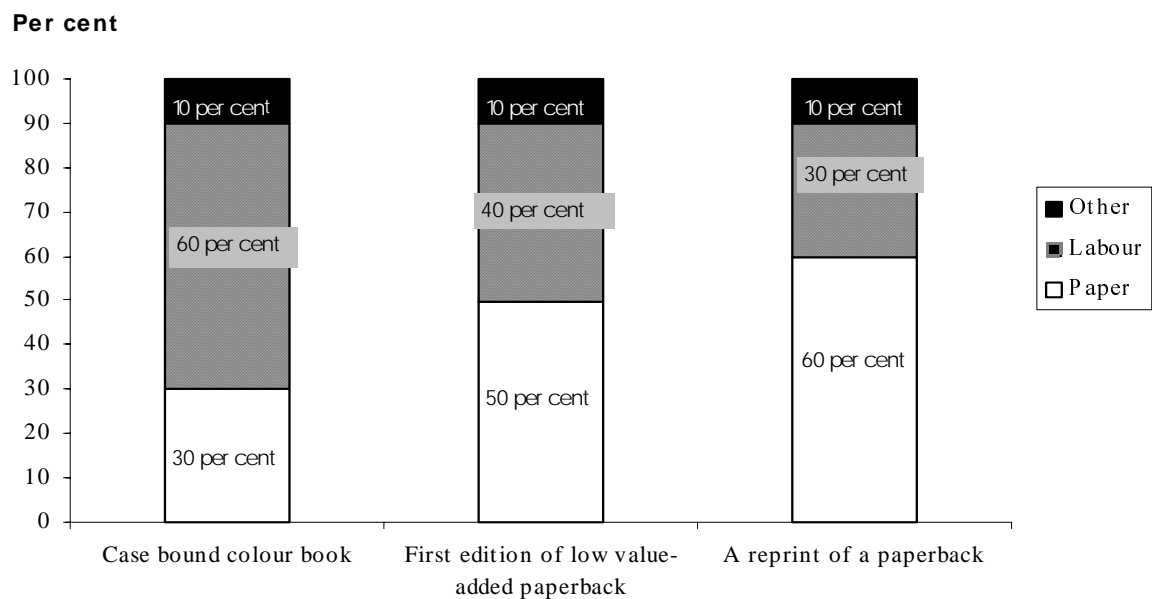
In the remainder of this chapter, four main aspects of the book production industry are examined to assist in the identification of sources of competitiveness and disadvantage for book production in Australia: input costs; market conditions; related industries; and firm strategy.

3.2 Input costs

3.2.1 Breakdown of input costs

The factors of production or input costs in book production are labour, capital equipment and land, and materials. Figure 3.2 illustrates the variation in cost breakdown in the Australian industry for three typical books. These represent a case-bound colour book, a first printing of a low value-added paperback, and a reprint of a paperback. The illustrations are confined to the physical production of books, that is, omitting the costs associated with writing and publishing the book.

Figure 3.2: Representative input costs in Australian book production



In most cases labour represents anything from 30 to 60 per cent of the total costs of producing a book in Australia, according to the type of book produced. Paper (the principal material input) generally represents from 30 to 60 per cent. Although capital equipment and land costs vary considerably, in these illustrative examples they are assumed to be part of the small (10 per cent) 'other' category.

3.2.2 Labour

Work commissioned by Australian publishers that is not printed in Australia is most likely to be printed in Hong Kong or Singapore where wages per hour are less than in Australia (see Box 3.2 for details). For manufacturing generally, unit labour costs in Hong Kong and Singapore remain lower, even though they have been increasing faster, than in Australia.

The Commission has no direct comparison of labour costs in book production with those in the US or the UK. Labour costs per unit of output in manufacturing industries in Australia have increased more rapidly than in those countries in recent years (OECD 1992 and earlier editions).

Box 3.2: Wages in Singapore, Hong Kong and China

Annual earnings in book production in Singapore and Hong Kong are not greatly different from those in Australia. Longer hours are worked in Singapore and Hong Kong, so that earnings per hour are less than in Australia.

Wages in Singapore and Hong Kong have been increasing. However, labour costs for book producers are being reduced by the relocation of book production work, to Malaysia and mainland China respectively. Estimates of the amount of Hong Kong book production work undertaken in or subcontracted to China vary from between 10 and 30 per cent, and are as high as 60 per cent for labour intensive case binding. Wages paid in Guandong Province, a special economic zone of China where book production work is undertaken, are around A\$10 per day for skilled staff and A\$5 for unskilled, equivalent to around 15 per cent of those paid in Hong Kong. However, worker productivity in China was said to be much lower than in Hong Kong.

Wage levels elsewhere in China are estimated to be only a quarter of those in Guandong Province, indicating that manufacturing could expand further into China if necessary to keep wage costs down (Fitzpatrick 1992).

Access to lower labour costs (even after allowing for lower productivity) in neighbouring countries has given Hong Kong and Singapore printers additional advantages in book production that involves a high labour content such as casebound and colour books.

Given these relative cost conditions, the Australian book production industry has concentrated partly on producing the types of books for which labour costs are less important, such as low value-added monocolour paperbacks.

Wages in the printing, publishing and allied industries in Australia have remained stable in real terms since 1986 and a new award classification structure should result in labour arrangements that are more flexible and are less constrained by demarcation problems than in the past.

However, labour practices in Australia still appear to be somewhat inflexible given the scope to improve capacity utilisation without adversely affecting working conditions for employees. Some participants stated that current awards did not allow them to come to a mutually agreeable arrangement with employees for a standard working week which might involve fewer hours altogether and allow 7-day working, without penalty rates being paid. At present weekend and late shift working involves the payment of penalty rates (including double time at weekends) which, they argued, is a disincentive to a fuller utilisation of capital equipment.

There was no evidence that labour in the book production industry is more or less flexible -- or that problems are greater or smaller -- than in the rest of the Australian economy. The situation is changing as workplace bargaining becomes more widespread.

Pac-Rim and other participants drew attention to the impact of employment related costs such as payroll tax, superannuation levy, training levy, workers' compensation insurance, leave loadings, shift allowances, overtime rates and meal allowances on book production costs in Australia. While overtime rates, annual bonuses and various other employment related costs are also paid in other book producing countries, in China, Malaysia and Indonesia, they do not appear as large as in Australia.

Agreements in Australia with the union on the use of skilled labour on printing presses mean that the ratio of skilled to unskilled labour is often higher than that in Hong Kong, but staffing practices may be more favourable than those in Singapore. In China there is relatively heavy reliance on use of labour and consequent low labour productivity.

Education and training

Industry education contributes to skill levels and efficiency. There are differences between major book producing countries in the types of training offered, and the extent to which it is on-the-job, college-based, or of an apprenticeship nature combining work and study. In Hong Kong skilled operatives often receive intensive two-year full-time training in specialised printing colleges, otherwise training is on-the-job. In the UK there is an apprenticeship and day release training system in book production with full-time courses being available in internationally renowned specialised colleges for industry management and for the most highly skilled operatives. In Australia the day release system and less specialised colleges are the norm, but there has been increasing emphasis on industry training in Australia in recent years.

In the book industry this has been evidenced in the provision of specialised in-house training facilities by one of the larger companies, for use by Australian and overseas trainees. This development supports the view held throughout the industry that the level of training and of skills in Australia is on a par with that in competing countries.

3.2.3 Capital

The cost of capital represents the interest on borrowed funds, or an imputed charge for the use of the firm's own money. Capital is used in the form of land, buildings, and equipment.

No evidence was given to the Commission in relation to the cost of funds for capital investment in other major book producing countries.

Equipment

Equipment can be substituted for labour with the use of modern pre-press and printing equipment, and the use of advanced labour-saving equipment is a feature of some of the large specialist book producers. In Australia, while a high level of capacity utilisation can reduce capital costs per unit of output, late shift and weekend penalty rates can offset the savings. Throughout the world, there have been substantial shifts within the book production industry towards the replacement of labour by capital, and of typesetting machinery with computer equipment, as discussed in Appendix G. Expenditure on printing presses accounts for over half of machinery and equipment outlays. Presses used for the production of books in Australia are of German, Japanese or North American origin and are basically the same as those used elsewhere in the world. Imports of these printing presses into Australia are duty free. The remainder of the outlay is on pre-press equipment, folding, cutting, glueing and sewing equipment, case binding equipment where this is utilised, and industrial and office equipment of a general nature.

Land

Land and industrial and office space are relatively expensive in Hong Kong and Singapore and can cost several times the equivalent in Australia. Non-metropolitan locations in each case can offer substantial cost advantages, but they may be less than additional transport costs involved for materials and final product.

Capacity utilisation

Actual and desired capacity utilisation vary within the Australian industry. Maximum capacity utilisation ('notional capacity') involves the working of 3 shifts on a 7 days a week basis, with the only down time being that for maintenance and make-ready time.

Notional capacity is not a meaningful measure of optimum capacity due to the fact that book production is a 'seasonal' activity. Printers have responded to this seasonality by providing capacity to meet the high demand periods. Even if seasonality could be smoothed out -- a doubtful proposition -- publishers are inevitably going to require urgent jobs from time to time. The ability to switch production between book and general printing work can provide an important element of flexibility in this respect.

Large scale Australian specialist book producers with very modern equipment work at full capacity at least some of the time, with three shifts 5-7 days a week as required (2 shifts in binding). Other producers typically work at less than notional capacity, with two shifts and some overtime as required. However, even these producers may have seasonal peaks when capacity is fully utilised. Operating a plant on this basis involves the payment of shift loadings of 20-25 per cent of normal rates for afternoon and night shifts, and double time for Saturday afternoons and Sundays. Casual workers are used at times of peak production. Depending on the volume of production during seasonal peaks, a higher price may need to be obtained to compensate for higher labour costs which may be involved.

The large specialised book producers in Australia utilise a high level of capacity on a regular basis, like their competitors in Asia. The reduction of make-ready times offers one method of improving capacity utilisation: the Commission was informed that this is receiving increasing attention in Australia.

3.2.4 Materials

Paper is a major cost component in book production, although its importance varies with the type of book produced. For example, the paper cost in producing an initial run paperback represents around 50 per cent of total manufacturing costs, while paper accounts for only around 30 per cent of total manufacturing costs of an illustrated book. For book reprints, paper comprises about 60 per cent of manufacturing costs, and up to 80 per cent in some cases.

Many participants suggested that paper prices in Australia explain some of the disparities in production costs of book producers in Australia compared with foreign suppliers. They indicated that the cost of paper to Australian book producers is from \$15 to \$200 per tonne higher than the cost of comparable paper to Hong Kong and Singapore printers, but did not provide details of the basis on which the comparison was made. Some indication may be gained from per tonne paper values for imports and exports in Appendix C, where average values of about \$1000 per tonne encompass a very wide range of values.

Various factors were suggested as contributing to paper price differentials. A major one was the cost of transport from the major suppliers in Japan, North America and Scandinavia to Australia relative to Hong Kong and Singapore. Freight and handling costs are lower than in Australia for

paper being imported into Hong Kong and Singapore, both major world ports with efficient and relatively low-cost port facilities. A network of paper distributors in Singapore and Hong Kong is able to buy in bulk and supply even small printers at competitive prices. The smaller quantities of paper purchased by the industry in Australia and the tariff duties imposed on some imports are also reasons for international cost disparities. The unavailability of bulk discounts on newsprint purchased from Australian mills¹ may also be relevant.

The Publishers Group stated that:

There is a competitive advantage for overseas printers for those publications which utilise paper which is dutiable in Australia and is not dutiable -- or even assisted -- when printed in countries such as Singapore, Korea, Japan and New Zealand. This applies especially to 'higher quality' colour books. (Submission No. 25, p. 3)

The extent to which higher paper costs constitute a disadvantage for Australian book producers is decreasing. Australian Pulp and Paper Mills (APPM) said that its prices have fallen by over 50 per cent in real terms since 1981. Some reduction would have been expected due to the phasing down of tariffs. Further planned tariff reductions should improve the situation.

Additional comment on paper is given in Appendix H.

Other materials used in book production such as ink, glue and cover bindings have duties of 15 or 5 per cent levied on them if they are imported. Pac-Rim (Submission No. 24, p. 13) stated that 'The 15 per cent tariff on certain paper, ink and other materials adds up to 8 per cent to production costs for some books'. Transport costs for these materials, and for imported machinery, can be high when suppliers are located in distant countries.

3.2.5 Conclusion on input costs

Under present circumstances, Australia does not have a cost advantage in any of the labour, capital or materials inputs to book production. General productivity improvements in manufacturing are unlikely to provide such an advantage, at least in the short term. The main cost disadvantage is from labour; the disadvantages of materials are smaller, reflecting their international mobility. Labour flexibility has improved in recent years. Costs of materials should decline as tariffs are reduced. However, the direction of more book production to China could enable Hong Kong book producers to retain or improve their competitiveness relative to Australia.

The Australian industry may continue to expect to receive work, even with the disadvantages listed above, when other factors are more important to the publisher: for example, urgency, or the need

¹ At the Melbourne draft report hearing, Pac-Rim's representative stated that under the terms of its charter Australia Newsprint Mills (ANM) has to sell newsprint to every purchaser at the same rate.

for close liaison. Otherwise, it will send work abroad when that is cheaper, like its foreign competitors do.

3.3 Market conditions

The demand for the manufacture of books is derived from what readers purchase. It is the task of publishers to anticipate and meet this demand. For any particular book a publisher decides *where* the book is to be manufactured. In making this decision, the publisher (whether foreign or Australian) takes into account a number of factors, not least being the cost of production. Transport costs are an additional factor, as are timeliness, transactions costs, quality and reliability. The comparative cost of production (in Australia or abroad) varies with the exchange rate and this is a further consideration.

There are numerous final demand sub-markets for books; for example, for novels, text books, guides, directories, diaries, exercise books. There are close substitutes for some (for example, novels or text books by different authors) while for others there are no direct substitutes (for example, telephone directories). The closeness of substitutes affects the quantity demanded for any sub-market. At the aggregate level of demand, the important variables are population, per capita income, book prices, prices of other goods (particularly substitutes), and a range of sociological, demographic and cultural attributes (for example, age composition of the population, literacy levels).

Strong, sustained rivalry will usually put pressure on firms to improve products and reduce costs. The large number of book producers in Australia suggests that there is strong rivalry among them, and that is reinforced by competition from the (dominant) import sector.

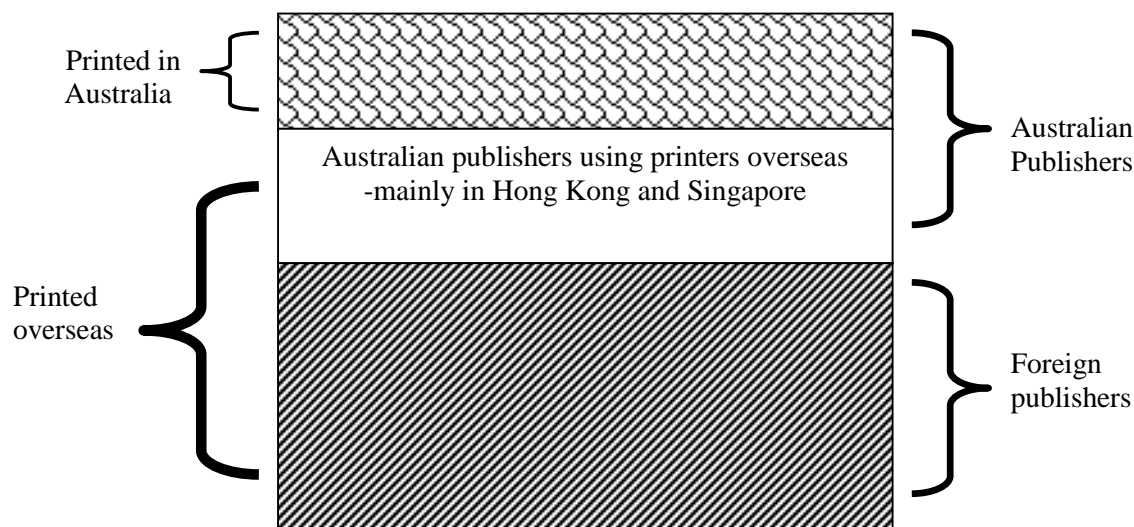
Imports and exports of books (and the materials used in them) are influenced by real exchange rate movements, which determine the prices of a country's goods relative to those of competing countries. See Box 3.1 for movements in real exchange rates over the past decade.

3.3.1 The domestic market

The book production industry in Australia competes on two major fronts as illustrated in Figure 3.3. Firstly, it competes against imports of books which are published and produced overseas. These accounted for some 50 per cent by value of the \$1288 million worth of retail book sales in Australia in 1990. Secondly it competes against imports (wholly or partly produced offshore) of Australian published books; these accounted for about a quarter of the domestic market. Domestic book producers supplied the remaining quarter of the domestic Australian market in 1990.

These market estimates are based on ABPA figures and include bountiable and some non-bountiable books. They do not cover local directories, diaries, account books, calendars and other items, which are protected by the tariff and are not bountiable; some 500 persons are employed in this segment but no other detailed information is available on its components.

Figure 3.3: **Australian book market: diagrammatic representation of competition**



Source: ABPA, see Appendix B.

Retail purchases of books in Australia were around A\$76 per head in 1990, lower than in the US and roughly the same as in the UK.

The demand for books, and hence the services of book producers, is influenced by trends in income. Purchases of books in Australia fell by 3-4 per cent in real value terms between 1987 and 1990. This decline was associated with a lack of growth in real Gross Domestic Product (GDP) in Australia in 1989-1990, and budgetary restraints on book purchases by educational institutions.

Prices are also an important determinant of demand for books. Retail prices of books, newspapers and magazines have been increasing at a faster rate than the Consumer Price Index in Australia. No detailed information was presented which would enable the Commission to assess the degree of price sensitivity at the retail level.

3.3.2 Imports

Imports compete with local production of virtually all types of books. The US supplies around 39 per cent of book imports into Australia, and the UK around 35 per cent, by value

(refer Appendix B). The UK and the US print large volumes of books in spite of relatively high domestic labour costs. However, some of the books imported from the UK and US are published in those countries but printed elsewhere, in South-East Asia, Southern and Eastern Europe and Latin America.

Around 15 per cent by value of books imported into Australia are from Hong Kong, Singapore (or their subsidiary operations in China and Malaysia), and South Korea, with Hong Kong accounting for over half of those imports. They are mostly published in Australia, and some of the work involved, for example typesetting, is often undertaken in Australia.

3.3.3 Exports

The value of exports is equivalent to a little less than 10 per cent of the value of books sold on the domestic market (on an ex-factory cost basis). Some are re-exports of imported books, including books produced offshore for Australian publishers. New Zealand is the main export market, accounting for 45 per cent of Australian printed book exports in 1991-92. Hong Kong is the second most important export destination, but it appears that most books sent there are for distribution to other markets.

3.3.4 Impediments to increased domestic production and exports

There are some obstacles which deter the Australian domestic book production industry from printing more books and increasing its share of domestic and export markets. Compared with the costs of competitors in Asia, inputs such as labour, paper and other materials tend to be more expensive in Australia. Transport costs are high, partly because of the distances involved. Air freight is only a feasible option for small quantities of high-value low bulk books. The location of major world book publishers and markets in the US and the UK, and the narrow focus of the domestic publishing industry, are further impediments. They are discussed in the next section.

It is argued by some that Australia's relatively small domestic market of some 17 million people and its isolation from major markets may have adverse implications for the development of book production.

Participants said that most books produced for the domestic market are of limited or no interest to overseas book purchasers. For example, school textbooks produced for Australian schools are not suitable for curricula in the US or the UK. The terminology and spelling used in Australia are different from those used in the US. Asian markets require books which feature local people or situations.

To export to such markets a somewhat different product has to be produced, involving modifications made by authors and publishers, and some new typesetting. The printing and binding work will not differ from that for Australian editions. There is some targeted export

marketing by Australian publishers, but this does not necessarily mean the manufacture of the book is undertaken in Australia. That will depend on the range of factors which influence publishers.

Some Australian industries have been able to overcome the problem of distance from markets in Europe and North America by concentrating on expanding exports to Asia, which now account for over half of all Australian exports. However, the major world markets for books are the English-language markets of North America and Europe. There are some 850 million readers of what may be termed 'British' English, in the UK, the Republic of Ireland, the rest of the EC, Africa and elsewhere, and 250 million North American readers of 'US' English (THES 1992).

Export markets are more risky for publishers than the domestic market in some circumstances, and that may well affect the amount of work Australian printers obtain. The lack of copyright protection or failure to observe copyright in certain Asian countries, and difficulties in obtaining payment from some developing countries, exemplify this. One participant said that higher prices and profit margins are required for educational books sold in the US than for equivalent books produced for the Australian market, because of the greater element of risk involved. The risk arises because it may be more difficult to anticipate the sales of a book for an export market than for the domestic market which is likely to be better understood by the publisher.

Despite these difficulties, there are instances of Australian-made books being sold in the US at prices appropriate for a run of books produced primarily for the Australian market. There is limited scope for similar sales in Asia because the language and content are not usually appropriate for those markets.

In some instances international production and marketing arrangements presently operate in favour of the Australian book production industry. One form of export franchising involves the assignment of certain markets to a subsidiary company by a parent publishing company, so that other subsidiaries do not compete in the same markets. Harlequin Mills and Boon are publishers who benefit from such arrangements in being able to supply Australia, New Zealand, the Philippines, Thailand, Singapore, Indonesia, Hong Kong and Japan (13.5 million books a year in total) from production currently undertaken (with bounty assistance) in Australia. Such arrangements can work against production in Australia, when the local market is assigned to a foreign producer.

3.3.5 Conclusion on market conditions

Books produced in Australia account for only about one quarter of total sales in the domestic market; imports are dominant. A small part of Australia book production is exported, but much of the remainder is on topics of particular interest to the domestic market and is not suitable for sale elsewhere.

3.4 Related industries

The activities of related and supporting industries can influence an industry's competitiveness. The relationship between book producers, paper and other materials suppliers, and general printers is covered elsewhere in this report. The following focusses on the relationship between publishing and book production.

Local publishing companies create a demand for book production services beyond that which may arise on the basis of factors such as cost and timeliness alone. Publishers' proximity to local book producers provides ready availability of service and customer liaison if problems arise, and the low transactions costs involved can be an advantage for local printers when small runs are being placed. As local publishers are increasingly undertaking typesetting and other pre-press stages of book production themselves, this part of book production is retained in Australia even if other activities are performed abroad.

Australian publishing firms

Publishers commission printers to produce books. The publishing industry in Australia comprises subsidiaries of overseas -- principally UK and US -- publishing houses, and many local firms. It concentrates on educational books, books on Australian topics, and other specialised areas.

The demand for local textbooks and books with a specifically Australian interest has provided the publishing industry with a reliable local market with which it is familiar and for which the associated level of risk is therefore relatively low. Local authors have provided considerable material on Australian topics.

Some publishing companies in Australia are producing editions for sale overseas. One participant said that the cost of creating intellectual property such as photography and illustrations is lower in Australia than in the US or Europe. Publishers may use offshore facilities to produce books wholly or partly, or sell the edition for reproduction in other countries.

Major world publishing firms

Participants indicated that the local subsidiaries of overseas publishing houses generally aim to produce books for the Australian market rather than compete with the activities of their parent companies. However, where large runs were undertaken in Australia for export, they were for the local subsidiaries of overseas publishing companies, mainly for export to parent companies.

The world's major English-language publishers are located in the UK and the US, close to large markets in which they may readily understand demand and anticipate trends. Some English-language publishing houses in the Netherlands and Germany also produce for regional and global markets. UK publishers undertake much of their colour separation and layout work, and long runs

of monocolour paperbacks, at home; much of their colour printing is undertaken in Asia, and some in southern and eastern Europe. The industry in the US operates on a similar basis, but its offshore production is also undertaken in Central and South America.

Publishing in the UK and the US has been supported by a large pool of domestic printing expertise, by large and relatively affluent and literate domestic markets, and by access to low-cost offshore book producers.

Publishers in Australia face much the same situation, except that the local labour force and domestic markets are not so large. They use Australian book producing facilities for part of their output, and in some cases to produce books for export. Publishers (and printers) in Australia also have access to offshore production facilities, and the local subsidiaries of international publishing groups can in some cases obtain low cost artwork and typesetting from parent companies on a share cost basis to produce local editions.

3.5 Firm strategy

The extent to which the book production industry is affected by further planned reductions in tariffs and other protection will depend on the ability of domestic producers to maintain competitiveness and market share. They have succeeded in doing so despite the phasing down of assistance in recent years.

3.5.1 Concentration on certain sectors and products

The Australian book production industry has remained relatively small, with a workforce of less than a sixth of the 24000 or so people employed in book production in Hong Kong and Singapore combined. It produces books mainly for the domestic market, unlike Singapore and Hong Kong where most production is exported.

With the assistance of the bounty, Australia is competitive in the production of long runs of low value-added monocolour paperbacks: for one major producer they represent over half of total production (by value), compared with around a quarter five years ago. For runs of around 5000 copies of higher-value books which have little or no colour printing work and are not case-bound, production costs in Australia are higher than in Asia; but for very small runs, Australian producers are mostly competitive when all aspects are taken into account. The cost differential varies according to factors such as the length of the run and the quality of paper used.

Although colour separation work is undertaken in Australia for books, and more importantly for magazines, a large amount of colour separation work is done offshore.

Like their foreign counterparts, publishers in Australia may minimise costs by having part of the book production undertaken offshore, and the rest in Australia. In some cases typesetting or other

pre-press work is undertaken overseas but the actual printing is done in Australia. In others, the pre-press work is undertaken in Australia and the printing offshore. Most commonly, where offshore work is involved, it covers all the main production processes. However, there is an increasing trend for publishers to undertake typesetting in-house, regardless of where the book is to be produced.

3.5.2 Rationalisation

There has been concentration of long production runs among a few large firms within Australia, accompanied by growth in the number of specialist book producers that operate on a small scale. This is indicated by the distribution of bounty payments, and is evident in rationalisation and investments undertaken by the major groups in the industry.

It reflects two different aspects of technological change. The first is the installation of highly productive, high-quality presses and related equipment, allowing long runs to be undertaken with benefits in the form of economies of scale. The second is the replacement of hot lead typesetting and block making (previously undertaken by skilled printers within printing establishments) by computer typesetting and pre-press preparation facilities. These latter facilities allow work to be undertaken by staff with keyboard and computer skills, and to be located in the offices of authors, publishers and specialist sub-contractors.

3.5.3 Run sizes

Modern book production technology is characterised by sharply falling marginal costs of production as run length is enlarged beyond a few thousand copies. The 'run on' costs are low because pre-press costs are spread further, make-ready times are minimised, and high speed presses are better utilised for long runs. However, there is a world-wide trend toward shorter production runs as publishers move towards a 'just in time' approach to stock holdings. This minimises their opportunity costs of holding stocks of books and minimises the risk of printing books that will not be sold. It does not necessarily advantage Australian producers, since the shorter production runs may be undertaken overseas, but it does help them if the runs are required urgently. The use of photocopying could also help.

Because of the scale economies in book production, local smaller scale production is in some cases not competitive with imports of books from larger runs undertaken in the UK and the US for publishers there. While many of them are sold in the UK, many are also sold in Europe, Canada and Australia. Because of the large size of UK print runs, the unit cost of production may be low enough to compensate for transport and handling costs to Australia, so that the Australian market would be supplied from the UK and no local printing would be undertaken. The publisher may

alternatively choose to have 5000 or so copies of a title produced in Australia to meet local requirements, if the transport costs involved in supplying from overseas would be greater than the additional production cost of a small run in Australia; in such cases, pre-press work would not be undertaken locally.

Australian book producers have the capacity to undertake long runs. Participants provided examples of a run of 300 000 being undertaken mainly for the US market, and a run of around 100 000 mainly for the UK. Such long runs may, if appropriate, be spread over time to accommodate production scheduling.

3.5.4 Factors on which the Australian industry competes

Publishers seek a number of characteristics in placing a print order (see Table 3.1). For many types of books, printing cost, paper price, and colour separation costs will be higher in Australia than for offshore producers. However, aspects of timeliness, reliability of delivery, level of transaction costs, and closeness of involvement of the author or publisher, are also relevant factors in determining the sourcing of book production.

Timeliness

Australia's geographic location affords some natural protection to domestic book producers by way of the time it takes for books to be printed overseas and the time and cost involved in freighting them to Australia.

Table 3.1 Australian publishers: factors in placing a print order

<i>Factor</i>	<i>Rating out of 5</i>
Printing cost	4.64
Paper price	4.21
Reliable timing of delivery	4.19
Print quality	4.17
Paper quality	3.95
Colour separation price	3.93
Colour separation quality	3.81
Printer's reputation	3.71

Source: ABPA (Submission No. 12, Attachment D, p. 5).

The timeliness of delivery and ease of transactional arrangements with local printers and book producers can offset the cost savings of using an offshore printer. While actual printing times may be comparable, shipping time can add 2-4 weeks to delivery times for books printed offshore.

Reliability of delivery

Reliability of delivery is a significant factor in placing a print order. The fear of a consignment not arriving on time and missing the needed release date can weigh heavily in favour of Australian printers.

Transaction costs for short print runs

There are various circumstances where short runs are likely to be printed in Australia. Boolarong Publications (Submission No. 3, p. 2) said that 'It is clear that the smaller books, or books of shorter print run, are unlikely to be of interest to offshore printers'.

Nevertheless, smaller Asian printing firms, in particular, are willing to produce short runs. Large Australian publishing firms or those using print brokers are likely to compare the costs of overseas and local production in most circumstances.

3.6 Conclusion

In comparison with the US, the UK, Hong Kong and Singapore, book producers in Australia are disadvantaged by the costs of some major inputs, distance from major markets for inputs and outputs, and by the failure to capture scale economies from long production runs when local publishers focus on the domestic market.

The cost of paper is increased by distance from major world paper suppliers. High labour costs also constitute a disadvantage, particularly in comparison with book producers directing work to China and Malaysia.

Some of the cost disadvantages confronting the Australian book production industry when the bounty was introduced in 1969 are declining. Tariff induced cost burdens, for example those relating to some grades of paper, will continue to be reduced by the general program of tariff reductions. Technological change has helped to offset some of the labour cost disadvantage.

In terms of supplying local market needs, the primary advantage that Australian printers have over their foreign rivals is that books printed in Australia can be delivered to publishers and placed in retail stores much faster than those books that are printed overseas. This is important when the release time is crucial to their sales success. In other instances the need for a close working relationship between printer and publisher will be the determining factor.

The industry is currently equipped to world standards; it has the capacity to produce long runs and the skills needed for that purpose. Despite strong competition from foreign printers, it supplies a large portion of work commissioned by publishers operating in Australia. Distance from major world markets is likely to remain an impediment to industry development, since very long runs are

required to minimise production costs. There is little demand outside Australia for the local interest works in which many Australian publishers specialise and for which print runs are typically short.

Improvements in competitiveness are needed if the industry is to prosper in the future. With gradual reduction of the cost burdens imposed by the existing tariff structure in Australia, the main opportunities for future advance seem likely to lie in the general areas of management and work practice. For example, the industry (both employers and unions/employees) might usefully direct attention to the relationship between the level of utilisation of capital equipment and other conditions of employment presently incorporated in relevant industry awards. Improved flexibility in these aspects would bring benefits to the book production industry, and to the Australian community.

4 TRENDS IN INDUSTRY ASSISTANCE

This review of the book industry is taking place in the context of general reductions in industry-specific assistance in the Australian economy. Tariffs are coming down, as are rates of bounty for seven of the nine bounty schemes still in operation. Unless assistance to the book industry is reduced in line with lower tariffs on paper and other inputs, effective assistance to Australian book producers will rise. This would be contrary to the trend in assistance for the economy generally, where the need to ensure that Australia's resources are better used, in globally competitive industries, has led to continuing reductions in industry-specific assistance.

4.1 Current trends in assistance

Most activities in the Australian economy are not assisted by industry-specific measures. About one third of the 5800 items in Australia's Customs Tariff carry substantive tariff rates of zero. When goods entered under concessional entry schemes are taken into account, the majority of imports (around two-thirds by value) enter Australia free of duty.

For those activities which are still protected by tariffs, bounties and other schemes, assistance is being reduced. In some cases, these reductions have been occurring for several years. The rate of bounty assistance to book production has been declining since 1982, although the cost of the total bounty paid, in nominal terms, has been generally rising until 1991-92.

In May 1988 the Government announced that most tariffs over 10 and 15 per cent would be reduced to 10 or 15 per cent over four years. In its March 1991 statement Building a Competitive Australia, the Government announced that it would continue to reduce tariff protection beyond 1992. Under this arrangement, general tariffs will phase down over a period of four years from 10 or 15 per cent on 1 July 1992 to a common rate of 5 per cent by 1 July 1996.

The Government also announced changes to some bounty schemes in its March 1991 Statement (for example, minimum payment provisions were introduced in some), but most remained unchanged. It said:

The Government does not consider it necessary to make changes to general bounty arrangements to take into account the effect of the continuation of the tariff reductions program at this time. On their renewal, however, bounty rates will be set to reduce in line with the fall in tariffs. (DPMC 1991, p. 5.4)

The Australian Customs Service (ACS) administers the nine bounty schemes currently in effect. Details are presented in Table 4.1 below.

Table 4.1: Bounty rates and phasing: 1991 to 1996

	<i>1 July 1991</i>	<i>Phasing</i>	<i>Bounty period ends on</i>
Bed sheeting	16c/sq.m.	16c/sq.m. on 1 July 1992 12c/sq.m. on 1 July 1993 8c/sq.m. on 1 July 1994	30 June 1995
Books	14%	13.5% on 1 January 1992	31 December 1993
Citric acid	\$700 per tonne	\$550 per tonne on 1 July 1992 \$350 per tonne on 1 July 1993 \$250 per tonne on 1 July 1994 \$150 per tonne on 1 July 1995	31 December 1995
Computers	14%	12% on 1 July 1992 10% on 1 July 1993 8% on 1 July 1994 8% on 1 July 1995	31 December 1995
Metal working machine tools and robots ^a	24%, 20%	20%, 17% on 1 July 1992 16%, 14% on 1 July 1993 12%, 11% on 1 July 1994 8% on 1 July 1995 5% on 1 July 1996	30 June 1997
Printed fabrics	45%	41% on 1 March 1992 30% on 1 July 1992 22% on 1 July 1993 15% on 1 July 1994	30 June 1995
Sensitised photographic film	\$3.75/sq.m.	no change	31 December 1994
Ships ^b	10%	5% on 1 July 1993	30 June 1995
Textile yarns	various ^c	30% on 1 July 1992 22% on 1 July 1993 15% on 1 July 1994	30 June 1995 ^d

a The machine tools and robots bounty was extended to cover machines capable of working with advanced materials on 1 July 1991. However, the bounty is no longer paid on equipment produced for in-house use and only those firms who achieve annual in-house value-added in bountiable production of at least \$200,000 (indexed from the base period 1 July 1991 by reference to the CPI) are eligible to receive bounty.

b Bounty is payable on the basis of eligible construction costs (design costs, direct labour and direct materials) multiplied by a factor of 1.2. The additional 0.2 is used as a measure of factory overheads.

c There were five bounty rates applying to different types of textile yarns on 1 July 1991. They were brought to a common rate of 30 per cent on 1 July 1992.

d A 5 per cent tariff on textile yarns will be introduced on 1 July 1995.

Sources: Relevant Bounty Acts.

The rates at which bounty is paid are being phased down in seven of the nine schemes. The book bounty is one of the few bounties for which a schedule of future rate reductions has not yet been set.

4.2 The effect of general reductions in assistance

Industry assistance is funded by consumers and/or tax-payers. It benefits owners of, and workers in, the favoured industry. Assisted industries are insulated from the full force of competition, and this reduces the incentive to adopt improved production methods and to respond to changes in their markets. The reduction of industry-specific assistance helps to restore some necessary flexibility, although it may not be the only measure needed, especially at times of high unemployment.

The provision of such assistance embodies costs to others, and runs the risk of impeding flexibility. The question, as always, is whether there are wider benefits to the economy from assisting a particular industry. Competitiveness (see Chapter 3) is the key issue in this complex judgement. Australia must be competitive in international markets to the greatest extent possible if national income is to be maximised.

When other countries assist their industries they also limit their national income and reduce their citizens' standard of living. Faced with this situation, Australia could try to match the assistance provided by others, but this would be very costly. Australia could not succeed if it attempted to retaliate when more powerful and wealthier nations engage in subsidising their industries. Alternatively, Australia can seek to remove impediments within its own economy so that labour and capital are able to move freely between activities in response to changes in its competitive advantage.

The Federal Government affirmed its commitment to this latter strategy in its March 1991 Statement. The then Treasurer, Mr Keating, said:

By turning its back on tariffs, Australia will be further propelled in its quest for international trade and efficiency... Within this decade, Australia will have renounced once and for all the fallacious doctrine that prosperity can be found behind the insular wall of protection... But these decisions do more than complete the transition to an open economy... They will also make our domestic economy more responsive and supple, giving us a greater capacity to compete with imports and produce goods and services at lower levels of cost. (DPMC 1991, pp.2.1,2.2)

4.3 Managing reform

The immediate impact of structural change in industry may vary depending on general economic conditions. The reduction or removal of industry-specific assistance, while providing benefits to most Australians, will usually impose costs on those who are part of the assisted industry or activity, even in buoyant economic conditions. Phasing down assistance over time spreads out these adjustment costs.

Not all of those adversely affected when assistance is reduced face large adjustment costs. Some workers will find alternative employment more readily than others. Over the longer term, capital will be freed to move to activities offering a better rate of return.

The sooner that reductions in assistance can be feasibly achieved, the sooner will the full benefits of those reductions flow. However, abrupt change -- unless there are immediate compensating effects -- can be wasteful of committed resources.

If the Government states how far and how fast assistance will be reduced, owners, workers and investors can face the future with an element of certainty, and so make an orderly adjustment to changed circumstances. The Government can also encourage workers who may be displaced to find alternative work or to acquire new skills by, for example, participating in retraining schemes.

In some cases where it is judged appropriate to remove assistance quickly, offering compensation to those most adversely affected is one way of smoothing the adjustment process. However, the danger in this approach is that expectations can be created in other assisted industries that they should receive similar treatment. Compensation and other forms of adjustment assistance should be judged on a case-by-case basis.

5 THE FUTURE OF ASSISTANCE FOR BOOK PRODUCTION

The Commission has concluded that there are no compelling reasons why assistance for book production should continue at the present rate.

Against a background of declining tariffs and other industry assistance in the rest of the economy, the gradual reduction in the book bounty rate of recent years should continue. The Commission recommends the lowering of the bounty rate from 13.5 per cent to 10.8 per cent on 1 January 1994, giving industry a full year's notice. There would be further annual reductions to 9.0 and 7.2 per cent, and finally to 4.5 per cent on 1 January 1997. (The final rate of bounty would provide a similar degree of assistance to a tariff of 5 per cent, a rate which is to take effect from 1 July 1996).

Interaction among eligibility criteria affects the scope of the bounty scheme. In order to control the impact on eligibility of reductions in the bounty rate, the Commission recommends that the present \$500 claim threshold be converted to a requirement for a \$3700 minimum value of publisher's production cost.

A bounty capitalisation scheme is not considered a feasible alternative to the phasing down of assistance to the industry.

5.1 Should assistance continue?

Many submissions to this inquiry argued for retention of the book production bounty because, for a wide variety of reasons, books in general, or books produced in Australia in particular, were perceived as particularly worthwhile. Their educational, cultural and artistic values were emphasised by participants who saw these values as justifying assistance from the Government for production of books in Australia. The first thing that can be said about this line of reasoning is that the authorship of books by Australian writers and the reading of books by Australian citizens is not dependent on the production of books in this country. Authors want their works to be published, but that objective can be achieved regardless of where printing occurs, even though some have argued that they would prefer their books to be printed in Australia.

With regard to readership of books a range of factors is important, not the least being access and literacy levels. Content, promotion, and the quality of presentation are also important. There is no available evidence to suggest that Australian readers prefer to read books that have been produced locally. In some segments of the market there is a preference for books which are written by

Australians and/or are about Australia. That is a different matter. For these kinds of reasons the issue of where books are produced can be divorced from issues of authorship and readership.

Assistance to Australian authors and encouragement of reading are provided by direct subsidies to authors, public libraries and government funded education. There can be debate about the appropriate level of funding for these purposes, but that is not the subject matter of this inquiry.

This inquiry relates to the industry which makes books in Australia, whatever their content and use, and wherever they are sold. The Commission has not been asked to make recommendations in relation to matters of encouraging readership of books, or assisting the writing of books, or promoting books which have a specified educational, cultural or other content. However, it notes that such measures enlarge the market for books and so have an incidental effect of benefiting the industry which produces books in Australia.

Australia's observance of the UNESCO Florence Agreement on the free importation of educational, scientific and cultural books has led to the book bounty being the major form of assistance to book production in Australia. The Agreement itself reflects the desirability of having a free flow of books, or at least certain types of books, because they contain ideas and knowledge. However, the desire for unimpeded trade in books which are considered to have educational, scientific or cultural value does not necessarily mean that assistance should be given to domestic production of them.

The industry which manufactures books in Australia has certain disadvantages and some natural advantages, as outlined in Chapter 3. Book manufacture has no special economic characteristics which warrant its encouragement by the community other than by those measures which are available to all other industries. In principle, there is no inherent case for industry-specific assistance.

However, the Australian industry retains a structure of assistance inherited from the past, in the form of (declining) levels of tariffs and bounty. The abrupt removal of the remnants of assistance could place the industry at some disadvantage in comparison with the rest of manufacturing industry, at least for a period. A number of participants, including Australia Post, Southwood Press, and Boolarong Publications, said that the removal of the bounty would reduce the viability of the industry, causing more book production to go offshore, or not be undertaken, and discourage plans to expand production and exports. Termination of the bounty at 31 December 1993 (when the current legislation expires) would result in assistance for the bountiable books sector of the book production industry being reduced to a level lower than that of some competing sectors and industries, and at a faster rate. This could lead to an inefficient movement of resources from an economy-wide perspective. The Commission considers that this would be undesirable.

Despite natural enthusiasm shown by the industry for the retention of the bounty, there appears to be a broad expectation that assistance will be reduced as a consequence of the general approach taken throughout the economy. The views put by the Printing & Allied Trades Employers Federation of Australia (PATEFA) are worth quoting:

As the rate of bounty has declined and competitive pressures increased the industry met the challenge by constant attention to its own efficiencies.

There is no doubt that market share has been maintained or even slightly increased at the expense of profits. However, as market share increases provide greater economies, and costs of production rise in Asia, the book industry is well placed to continue its development under a reducing bounty regime as indeed the assistance afforded to material input industries also reduces. (Submission No. 16, p. 8)

This appears to confirm the ability of the industry to continue its adaptation to reducing levels of industry-specific assistance, subject to the provision of predictability. That ability is partly based on the major changes in production methods that have been introduced in recent years, such as the introduction of computer-based typesetting, and partly on the continuing reduction of burdens imposed on the industry by assistance elsewhere, especially in lower tariffs on inputs such as paper.

5.2 What happens next to bounty and tariff assistance?

In the terms of the Government's March 1991 Statement (DPMC 1991), tariff assistance for books will be phased down together with other tariff assistance, unless an explicit decision is made otherwise (see Chapter 4). The Commission has found no reason to exclude book tariffs from this general program, or to change the way they are treated in it.

If the bounty were to be maintained at its present rate while tariffs are being reduced, resources could be encouraged to move into the production of bountiable books, and away from the production of tariff-protected and unassisted books, and other activities.

Since neither the continuation of the bounty at current rates nor its abrupt termination is desirable, a mechanism is required to mesh it with the tariff reductions.

At the draft report hearings, none of the participants sought to change the Commission's basic approach of further reductions in the bounty rate. PATEFA, Pac-Rim Printing Pty Ltd, and Associated Pulp and Paper Mills (Paper Division) (APPM) all accepted that the existing bounty should be reduced, but argued that reductions should be delayed beyond the associated program of general tariff reductions. The Australian Book Publishers Association Ltd (ABPA), and the Australian Society of Authors stated that a delayed phasing down of the bounty rate would be preferable, but they and other participants were willing to accept phasing down at the same rate as the tariff in the interests of simplicity. Some other participants indicated that they would support a phasing down of the bounty in line with the general tariff rate.

5.3 Considerations in phasing down the bounty

Several matters are relevant to the future of the bounty.

Given the economy-wide basis of the Commission's considerations, it is important that the assistance provided should be consistent with that for the rest of manufacturing industry, and with that for the section of the book industry that is protected by tariffs, so as to minimise distortions between bountiable book production and other activities.

Future changes in bounty should also have regard to the industry's experience with the changes that have already taken place.

It is also desirable that the costs of administering assistance, relative to the value of assistance, be kept to a minimum.

5.3.1 The appropriate level of bounty and schedule for change

General reductions in tariffs applicable to certain book imports are scheduled to take place at the beginning of the financial years, from 15 to 12 per cent from 1 July 1993, to 10 per cent from 1 July 1994, to 8 per cent from 1 July 1995, and to 5 per cent from 1 July 1996. A continuing bounty scheme should provide benefits at a level consistent with that provided by the tariff, as reduced from time to time.

The continued reduction of the bounty could be made to coincide with the reductions of tariff rates. However, bounty rate reductions have to date been made at the beginning of the calendar year. It would be unreasonable to lower the present rate of 13.5 per cent before the expiration on 31 December 1993 of the current bounty arrangements. Reducing the bounty then and at the end of subsequent calendar years would make the timing of these reductions out of step with tariff reductions.

PATEFA has argued that the bounty be reduced in line with tariff reductions, but over an extended period (as shown below) (Submission No. 16, p. 12):

1 January 1994	11.25 per cent
1 January 1996	9.0 per cent
1 January 1998	6.75 per cent
1 January 2000	4.5 per cent.

PATEFA stated that it sought:

... no special assistance for the book industry but (does) seek equity in assistance with other sectors of the printing industry and, indeed, other sectors of Australian manufacturing industry. (p. 6)

The Commission cannot see grounds for arguing that the book production industry should continue to benefit from relatively higher bounty rates for as long as 3 years after the tariffs on paper and other inputs have been reduced.

Another aspect of this matter is the pace at which reform is proceeding elsewhere in the economy. Pac-Rim emphasised a range of factors — including labour cost and labour inflexibility, tariffs on goods and services, and the extent of government regulation — which adversely affect the competitiveness of industry generally (as opposed to affecting the book production industry in isolation).

Proposals in the draft report for a phasing schedule moving directly in step with tariff reductions drew criticism from the industry .

Pac-Rim sought a more gradual rate of reduction, saying that ‘Because production of a book often spans more than twelve months, we believe that reductions should be timed in two years rather than annual breaks’ (Submission No. 37, p. 3). It also said that an interval of only six months between the first two reductions in the bounty rate, as proposed by the Commission in its draft report, would lead to the likelihood of bunching of orders (Transcript pp. 227-228). Because of the disruption that would be caused unless it did so, the Commission has modified its approach accordingly.

5.3.2 The structure of the bounty scheme

In formulating a mechanism to mesh bounty and tariff reductions, the Commission is conscious of the need to give due regard to the effects on the industry. This is especially important because of the complex interrelations among the present bounty eligibility requirements. As the bounty has been reduced over time, progressively more small and low value production runs have been automatically excluded from bounty eligibility. With the present bounty rate of 13.5 per cent and minimum claim threshold of \$500, the minimum value of a production run in Australia on which bounty may be paid is some \$3700. If the current bounty rate were, for example, to be halved and the minimum claim remain unchanged, then the minimum value of Australian production on which bounty might be paid would rise to around \$7400.

In 1991 the Government abandoned plans to raise the minimum claim from \$500 to \$2000 because it accepted arguments that this would result in some book production work moving offshore, and some loss of bounty eligibility for medium to large scale printers and publishers as well as small scale book producers (Button 1991). The change would have increased the minimum value of an eligible production run to nearly \$15 000.

Following the abandonment of its plans to increase the eligibility threshold, the Government had intended to introduce a minimum annual bounty payment for the book and other bounty schemes as part of the 1991 Bounty Legislation Amendment Bill. However, as legislation to introduce minimum annual thresholds for other bounty schemes was defeated in the Senate, the Government decided not to proceed with such an arrangement for books.

The impact of the minimum annual bounty payment would have been to restrict eligible claimants to printers and/or publishers undertaking substantial book production work. It would have reduced the administrative costs of the scheme as fewer but larger claims would have been made. It may have limited access to bounty for small scale publishers and printers undertaking only occasional book production work. One participant, Mount Press, said that such a decision:

... to assist large and specialist book printers but not small printers would create monopolies, nullifying market forces which maintain efficiency in the industry and preventing small operators from ever getting established in book printing. (Submission No. 8, p. 2)

In this inquiry, PATEFA said that the bounty should be restricted to book manufacturers with total sales of bountiable and non-bountiable books of \$1 million during one of the previous three years, or alternatively whose total sales had been composed of at least 50 per cent books during one of the previous three years (Submission No. 16, p. 10). It said that this would limit bounty payments to some 50 or 60 firms.

Industry representations to the Commission at draft report hearings and in associated submissions indicated that retention of the present \$500 minimum claim value in conjunction with phasing down of the bounty would quickly lead to the exclusion from assistance of a substantial part of currently eligible industry output.

Pac-Rim said that reducing eligibility (through the effect of the \$500 threshold combined with a decreasing bounty rate) would be counter-productive to 'just in time' production initiatives:

The philosophy of these is for the publisher to print in smaller batches to reduce inventory and returns. It is hoped that these perceived savings will draw publishers back to Australia. If the smaller batches result in smaller claims and if these are to be discriminated against, the exercise will be fruitless. (Submission No. 37, p. 6)

Harlequin Mills & Boon said that a consequence of maintaining the \$500 threshold and phasing down the bounty rate to the schedule proposed initially by the Commission in its draft report would be to reduce in stages the proportion of their total printing eligible for bounty from 90 per cent at present to 30 per cent by 1 July 1995. The Mandarin language books which the company produces for export and which are all eligible for bounty now would lose eligibility in most cases (Submission No. 39, p. 2). Pac-Rim said that Budget Books would lose 80 per cent of its present eligibility (Submission No. 37, p. 6).

In order to avoid the reduction in eligibility which would result from the retention of the \$500 threshold, conversion to a minimum equivalent invoice value, or a similar scheme, was advocated by most participants at the draft report hearings.

The Commission accepts these arguments and favours a mechanism which will retain the present scope of the scheme as the bounty rate declines further. That can be achieved by maintaining a

minimum value of publisher's production cost per title per production run of \$3700 for bounty eligibility, as the bounty rate declines. That amount could be indexed to prevent unintended changes in the scope of the bounty scheme as prices change.

An alternative mechanism could be to reduce the minimum claim threshold each year in order to retain its relativity to reducing bounty rates. The implied threshold values are shown in Table 5.1 below.

Table 5.1: **Implied minimum claim thresholds**

<i>Date</i>	<i>Bounty rate</i> %	<i>Minimum claim threshold</i> \$
1 January 1994	10.8	400
1 January 1995	9.0	333
1 January 1996	7.2	267
1 January 1997	4.5	167

Under this alternative, the minimum claim values shown above also would warrant adjustment for inflation. This mechanism would also retain the existing scope of the bounty scheme.

In choosing between the two approaches, the Commission has taken the view that the simplicity of the first alternative __ which retains a constant point of reference (\$3700) to be indexed annually, and is based on a measure of production with which book producers can identify __ is preferable. In the public hearings, PATEFA supported such a mechanism.

5.4 The Commission's proposal

The Commission considers that the book production industry can continue to accommodate gradual reductions in assistance without significant disruption, or loss of profits and employment.

Accordingly, the Commission recommends that the tariff rates applicable to imported books remain within the phased reduction program announced by the Government as part of its March 1991 Statement, and which applies generally. This would see relevant tariff rates on dutiable book imports reduced to 5 per cent on 1 July 1996.

Subject to the modification described below, the Commission also recommends that the existing book production bounty be continued, at a rate of benefit commensurate with the level of the tariff applicable from time to time to book imports. The first reduction, to 10.8 per cent, would take place from 1 January 1994.

The Commission recommends also that the present \$500 minimum claim threshold of the book production bounty scheme be converted to a requirement for a minimum publisher's production cost per title per production run of \$3700, effective from 1 January 1994. That minimum value should be varied every year thereafter by reference to changes in the Consumer Price Index in the most recent twelve month period.

The proposed rates of tariff and bounty, and operational dates recommended to apply, are set out in Table 5.2.

Table 5.2: Proposed book production assistance arrangements

<i>Date</i>	<i>Tariff rates</i> %	<i>Bounty rates^a</i> %
Up to 30 June 1993	15	
31 December 1993		13.5
From		
1 July 1993	12	
1 January 1994		10.8
1 July 1994	10	
1 January 1995		9.0
1 July 1995	8	
1 January 1996		7.2
1 July 1996	5	
1 January 1997		4.5

a See Box 2.2 in Chapter 2 for an explanation of the relationship between bounty rates and equivalent tariff rates.

5.5 Consequences of the Commission's proposal

Reductions of industry-specific assistance such as those proposed in this report benefit the economy generally, by improving mobility of resources, and freeing them to move to uses which offer the highest returns in a competitive economy. Although some gains will result immediately, considerable time may elapse before the full extent of direct and indirect gains is realised. Nevertheless, it is important to recognise that the process of micro-economic reform is aimed at improving over time the economic well-being of all Australians.

5.5.1 Industry consequences

The consequences of continued reduction of the bounty will be similar to those of the recent past, and will differ between the various sectors of the industry. Those companies and sectors whose advantage is based on the timeliness of local production (for example specialist producers of

commercial books) should not experience additional competition from offshore producers. Even if they cannot achieve production efficiencies, they may be able to increase the prices of their products to customers or reduce profit margins, in order to compensate for the reduction in bounty receipts. Large scale producers of low value-added paperback books may still have a competitive edge over offshore printers due not only to the timeliness of their production but also the shipping costs of high bulk but relatively low value items.

Others who face more intense competition from Asian printers (for example producers of case bound books which include colour work) may become less price competitive, in spite of reductions in the cost of paper resulting from the phasing down of the tariff on imports.

The strong concentration of current bounty benefits in just a few relatively large firms, most of which belong to two major groups, is important. The corporate entities concerned have been well aware of trends in assistance policy in general, and in the book industry in particular. Because they are large businesses, they are likely to be receiving sizeable -- if diffuse and occasionally indirect -- benefits in their input costs resulting from the general programme of tariff reductions. They should be able to continue a smooth path of adjustment as a consequence of book bounty reductions. This is not to suggest that the bounty payments they have been receiving are negligible to those firms; indeed, they are large enough in absolute terms to ensure that corporate planners are well aware of vulnerability to their reduction, and that appropriate strategies are in place to accommodate reductions.

The further reduction of bounty and tariff assistance for books will continue to generate pressure to improve efficiency and productivity in the industry, and to allow other industries to benefit from a less distorted pattern of pricing of resources, with consequent potential gains in national income and welfare.

5.5.2 Effects on output

Australian book production may well increase or at least be maintained in the face of continued reduction of bounty and tariff protection. PATEFA stated that implementation of the recommendations made by the Commission in the draft report would:

... preserve a book manufacturing industry in Australia at about its current level or a little below, depending on the prevailing economic conditions of the time and provided the very necessary micro-economic reforms are introduced. (Submission No. 38, p. 14).

The recommendations contained in this final report involve a longer period for phasing down the bounty and less restrictive eligibility than the proposals contained in the draft report; hence the effect on industry may be more favourable than that which had been anticipated by PATEFA.

That generally optimistic assessment of the effect on output of the Commission's recommendations is consistent with past developments. While the bounty rate was reduced considerably from 25 per cent in 1985 to 13.5 per cent in 1992, there was significant growth in real terms in the value of bountiable book production, in the range 25 to 50 per cent between 1984-85 and 1991-92 (see Appendix B for details). A reduction was evident in the most recent year, when total bounty payments fell to \$21.5 million from \$24.2 million in 1990-91, but that appears to reflect poor economic conditions generally rather than any new underlying trend in bountiable book production. The budget estimate for book bounty payments in 1992-93 was \$26.3 million.

Substitution between bountiable books and other printing work

Much book production is undertaken by establishments which also undertake general printing work and non-bountiable book production. Where book production is only a small part of the printing business, a reduction in book production might be compensated by an increase in other printing work, depending on the demand for it.

PATEFA stated that, notwithstanding the recession, the printing industry in general 'has still been one of the better performing sectors of Australian manufacturing industry' (Submission No. 16, p. 8). This could suggest that as demand increases with economic recovery, so would general printing work. If demand for general printing work is static, increased competition among book producers could divert work from general printers. Shifting to general printing work may be less feasible for book producers who are located away from metropolitan or suburban locations.

The shifting of work offshore

A number of participants said that the continued reduction of the bounty would result in more book production work moving offshore, or not being undertaken. The large specialist book producers, particularly in the paperback, monocolour segment of the industry appear better able to compete with offshore producers on price grounds and hence to retain work in spite of the phasing down of the bounty. Where timeliness and tight quality control are important factors Australian producers should retain a competitive edge. Pac-Rim said that:

Given the success of the industry as a whole it would seem likely that, with a gradually-reducing level of assistance and the concurrent elimination of as many cost disadvantages as possible, the book manufacturing sector of the industry could re-establish successfully in the face of off-shore competition. (Submission No. 24, p. 3)

Some of the very small-scale publishers, for example non-commercial organisations, are likely to continue to have their books produced in Australia because of the transactions costs and inconvenience involved in making arrangements abroad, taking into account the low value of their production runs.

Whatever the level of assistance, ultimately relative wage rates, quality of production, lead times, capacity to undertake large runs in a short time period, and continued innovation will continue to be major factors in determining the Australian industry's ability to retain or capture work from offshore book producers. It is not unrealistic to expect countries such as mainland China and Malaysia to develop their already competitive printing industries further. Australia will still have to compete with them.

5.5.3 Effect on consumers

It is not possible to know what proportion of the bounty is passed on to consumers. To the extent that it is presently passed on to them (see Appendix F), reduction of the bounty would lead to higher prices. Comparable import prices will provide an effective upper limit to increases. Some contraction in the range of books produced in Australia may also occur.

Tariff reductions may reduce the prices of the small proportion (about 10 per cent) of book imports subject to duty, and hence decrease local production of those types of books. However, imports from certain countries which will lose their preferential rate status (Singapore, Hong Kong, South Korea and Taiwan)¹ will not be affected until later.

5.5.4 Effect on exports

The future level of exports will depend on prices, and on demand conditions in export markets.

In addition to exporting a proportion of its domestic book production, Australia acts as a regional distribution centre, importing books in substantial quantities from the UK, the US and other sources, and sending them on in smaller lots to New Zealand, Papua New Guinea and other countries in the region. This activity is not dependant on the prevailing level of assistance, and should not be affected by continued reductions in assistance.

Some publishing companies in Australia are allocated markets in other countries by their parent companies, on an export franchising basis. Allocations are based on a variety of factors, including such matters as production, transport and transactions costs; managerial skills; international taxation regimes; and corporate traditions. Continued reduction of bounty and tariff assistance in Australia may be one such influence on market allocations, but it is unlikely to be the sole determinant.

If the past success of the industry in adjusting through innovation and increased productivity to a decreasing assistance regime is a guide to the future, exports should not be adversely affected by

¹ In 1991-92, around 38 per cent of total imports of tariff assisted books were sourced from these four countries.

continued reduction of bounty. Eligible exports will continue to be assisted under the Export Market Development Grants Scheme, as discussed in Chapter 2.

5.5.5 Consequences for employment

The main basis that the Commission has for assessing the likely employment consequences of its recommendations is to examine what has happened to book production employment in recent years as the bounty rate and tariffs have declined.

PATEFA (Submission No. 16, p. 17) claimed that employment in the industry has been 'fairly stable' in recent times even though production efficiencies have led to reduced staffing arrangements, and '... employment would be static or decline slightly as new technology continues to be introduced'.

Participants also indicated that technological change has resulted in some transfer of work from printers and book producers to publishers, with computer typesetting and desk-top publishing facilities allowing typesetting and layout to be undertaken by staff in publishers' offices. It has also resulted in some substitution of unskilled or partly skilled labour for skilled labour in book production.

Evidence of such trends, and of the loss of positions for skilled printers, was provided by the Printing and Kindred Industries Union (PKIU).

These generally qualitative assessments appear consistent with PATEFA's estimates that total employment in the book production industry fell by 8 per cent from 3800 in 1984-85 to 3500 in 1991-92. These figures do not include those employed in the production of exercise books, albums, diaries, account books and similar items; there were 700 in 1984-85 but only 500 in 1991-92.

What is important, and particularly relevant to the Commission's recommendations, is that there has been a marked expansion of employment in the production of bountiable books: PATEFA estimated a rise of 22 per cent from 1800 in 1984-85 to 2200 in 1991-92.

In some locations the industry has absorbed any employment effects of the bounty reduction in recent years. However, significant rationalisation by the two major specialist book producers has resulted in job losses in specific locations.

Most book production is undertaken in cities where the employment market is large and book production activities are relatively minor.

The major non-metropolitan activity is at Maryborough, in Victoria, where 10 per cent by value of total bountiable book production is undertaken.

5.5.6 Regional impact

Two major book producing firms operate in Maryborough. They are The Book Printer, a unit of McPherson's Printing Pty Ltd, and Chertsey Fifty-Nine Pty Ltd, trading as The Australian Print Group. The latter company was established some six years ago, in 1986, and has always operated in a context of declining levels of book bounty. Both plants undertake similar work, specialising in bountiable monocolour paperbacks in mostly long runs. Accordingly, their assistance levels are generally relatively high. The book bounty is important for both these producers, and for those other firms in Maryborough who supply specialist services to them, such as typesetting and case binding.

Around one-fifth of the Maryborough work force is currently unemployed, and the clothing industries -- which were formerly significant local employers -- have declined. Retraining assistance has been available to employees retrenched from these industries. While some new industry has been established in recent years, and Maryborough is within commuting distance of several important regional employment centres, local alternative employment opportunities are less than in most other provincial towns in Victoria.

Job losses at the book production plants have occurred in the course of re-organisation, and it is possible that more will occur as firms seek to minimise costs. Reduction of book bounty payments will impact on the two firms differently, because of differences in their corporate organisation and financing.

The adjustment problems that confront these and other book producers are no different from those being addressed by many other industries throughout Australia. Companies would first look to reallocate labour within their overall operations, and rely on natural attrition, before considering retrenchment. The Commission takes the view that generally available labour support mechanisms should be adequate for the relatively small likely effects of continuing reduction in the book bounty. Regional government agencies should be alerted by the companies if job-shedding is expected.

5.5.7 Environmental impacts

The Commission is required to assess the environmental impact of its recommendations. On the available evidence it has no grounds to believe there will be any adverse or beneficial environmental impacts from its recommendations.

5.5.7 Capitalisation of bounty receipts

In its draft report, the Commission invited participants to comment on the appropriateness or otherwise of allowing bounty recipients to choose to forgo all future bounty payments in exchange for a one-off capitalised payment.

Participants were generally opposed to capitalising the bounty unless the resulting payment was equivalent to several years' bounty payments and was non-taxable. However, some raised objections to the proposal on the grounds that many of those who currently receive assistance indirectly through the bounty, such as colour separators and book binders, would not receive any benefit from the one-off payment. These firms do not receive the bounty directly, but are paid by the publisher or printer who lodges the bounty claim. Australia Post

said that up to four or five such firms may be engaged by a publisher in the production of a book. If these firms were to benefit from the one-off payments, then a considerable administrative effort would be required to identify who they were, and how much each should receive. Simply making one-off payments to firms on the basis of their past bounty claims could see a large part of the Australian book production industry lose its assistance without compensation.

The Australian Customs Service (ACS) considered there would be no significant administrative savings from capitalising the book bounty, for three reasons. Firstly, the current method of administering the book bounty is simple, with the exception of some anomalies in the eligibility criteria. Administering a capitalisation scheme is likely to be more complex. Secondly, the initial administrative costs in identifying who is eligible for a capitalisation payment and to what extent they are eligible may be significant, given the high number of existing claimants and variation in the sizes of their claims. Thirdly, if conditions were imposed on recipients of capitalisation payments, as was required in the textile yarns bounty capitalisation scheme, there may be an ongoing need, and hence an ongoing cost, to ensure that those conditions are being met (Submission No. 46).

On the basis of the views expressed in submissions made in response to the draft report and at the draft report hearings, the Commission does not consider that capitalising the book bounty is a feasible alternative to continuing it.

6 ADMINISTRATIVE ARRANGEMENTS

The Commission found no significant problems with the administration of the tariff provisions applying to books. However, participants expressed dissatisfaction with the application of certain eligibility criteria in the current book bounty scheme.

The Commission considered resolving these problems through a fundamental revision of the bounty eligibility criteria. However, it could not be sure that there would be commensurate benefits to Australia from such a recasting, which would necessarily have changed the scope of the book bounty.

The Commission then considered modifying those criteria which have caused the most problems for industry and the Australian Customs Service (ACS). After a closer examination, it concluded that while amendments may resolve the current range of problems, they also risk creating a whole new set of problems.

6.1 Introduction

The Commission did not identify any major difficulties in the administration of the current tariff provisions relating to imports of books and materials used in book production. Nor did participants raise any problems with the administration of the current commercial tariff concession and by-law systems, through which goods which are usually subject to duties if imported may be imported duty free.

Other than in relation to matters of consistency in interpretation, discussed below in Section 6.7, the Commission was not informed of any general problems with the administration of the current bounty scheme. The industry itself did not seek any fundamental changes to the scheme, but directed attention to some specific provisions of the current bounty scheme, particularly those relating to eligibility.

Ideally, a bounty scheme for books should have the characteristics of being neutral with regard to the technology used, the market orientation of products, and the content or authorship of individual books. The scheme should identify what a book is for the purposes of bounty eligibility, and should exclude those items which are clearly not books, or which are books but which are not intended to receive bounty assistance.

Some of these criteria are not met by the current bounty scheme. That raises the question as to whether a fundamental revision of the book bounty eligibility criteria is warranted.

6.2 Eligibility

In its draft report, the Commission said that given its recommendation in Chapter 5 to phase down the bounty scheme, such a fundamental revision did not appear to be warranted. This approach attracted criticism from participants in their submissions and at the draft report hearings.

Generally, the problems raised were not concerned with the way in which the scheme is administered, but with perceptions of fairness, where some production is assisted and some production is not.

Chief among the matters raised in submissions was the view that the legislation should define which books are eligible for bounty, rather than the present approach of nominating those types of books which are to be considered ineligible for bounty. Some sought the elimination of printed page limits, of the minimum 1000 copies production run threshold, and of existing exclusions for certain types of books such as workbooks and books with perforated pages.

Such requests reflected participants' dissatisfaction with the restrictions in, and discriminatory nature of, the bounty scheme. The Commission also recognises the scheme's discriminatory nature, and has drawn attention to the distortions in production and consumption that are inevitably associated with industry- and product-specific assistance (see Chapter 2).

Over time, various amendments have been made to the bounty eligibility criteria. They have sought to restrict the payment of bounty to books of the types considered most likely to be printed abroad, to prevent local producers from benefiting from more than one form of direct industry assistance, and to overcome definitional problems as they have arisen. In consequence, the provisions of the bounty legislation have created privileged categories of books and, indirectly, of bounty beneficiaries.

While a fundamental revision of the bounty eligibility criteria would have the benefit of removing or reducing many of the anomalies which have emerged, it inevitably would involve changes in the scope of eligibility. This could, in turn, create new problems, as successive changes to the boundaries of the scheme have generated in the past. The Commission cannot be sure that there would be commensurate benefits to the Australian community from any such fundamental change to the existing bounty scheme.

Accordingly, the Commission has judged that there is not adequate justification for a general recasting of the eligibility criteria. Nevertheless, the Commission has examined some particular eligibility problems raised during the inquiry in order to decide if modification of specific criteria would provide net benefits to the community, taking into consideration the Commission's recommendation for a continued reduction of the bounty rate.

These criteria have already been modified many times in the past. Each modification has gone some way towards resolving existing problems of interpretation. But the modifications have themselves opened new areas of dispute, or have extended or removed bounty assistance from various types of books.

As claimants and the Australian Customs Service (ACS) have sought to interpret and apply the definitions of eligible and ineligible books given in the legislation, a large body of case law has now been built up on the main contentious issues. These precedents are clearly understood by those in the industry, even if some of them are still open to dispute.

The Commission therefore has refrained from making specific recommendations about eligibility criteria. However, the Commission has made some observations about some of the current anomalies below.

The Commission notes, in this regard, that there were no real complaints about the existing appeal processes as such. Some comments on the cost of appeals, in terms of both money and time, were received, but no one argued that the appeal processes currently in place failed to bring about resolution of disputes on a case-by-case basis.

An outline of the current administrative arrangements for the book bounty is provided at Appendix I.

6.2.1 Directories

Disputes over directories have been the main source of appeals to the Administrative Appeals Tribunal (AAT). These disputes have been dealt with. The outcomes have -- on occasion -- been perceived to be unfair when previously eligible books have been excluded from bounty following AAT determinations.¹

With a substantial body of cases having been determined, the Commission is unaware of any ongoing administrative problems in this area.

6.2.2 Advertising

The ACS drew attention to the administrative difficulties in determining whether or not a publication qualifies for bounty because of its advertising content.

The difficulty arises in deciding if a publication is 'essentially devoted to advertising' which is the criterion for classification under the Customs Tariff, and thus for determining whether tariff assistance or bounty assistance applies. To overcome this anomaly, the ACS suggested that:

¹ One such instance, relating to the publication 'The Age Cheap Eats in Melbourne' was brought to particular attention in the draft report hearings. See Transcript of draft report public hearings, pp.109-111.

'advertising' should be defined and dealt with as a specific exclusion in the bounty legislation or as a minimum it should be made clear what level of advertising may be acceptable to make a publication eligible for the payment of bounty. (Submission No. 19, p.6)

However, the Commission is of the view that if a specific level of advertising is set, book producers will modify their publications in order to qualify for bounty.

Importantly, the major industry body PATEFA, did not seek changes in this area.

6.2.3 Children's books

Under the current scheme, some children's books are eligible for bounty if they contain more than 16 but less than 49 pages. Bounty was extended to these books because very few of them were produced in Australia. They are currently defined in the Bounty (Books) Act as:

a book intended for children, whether with or without pictures, of which the text (if any) is not less than 3 millimetres in height². (Bounty (Books) Act, Sn. 4. (1))

According to the ABPA, the 'text height' criterion enshrined in the definition has created a distinction between children's books when there is no difference in the way in which those books are produced. The ABPA sought to remove the 'text height' criterion from the current definition. This would extend the scope of the bounty to books which are currently ineligible for bounty, and may well raise new problems of definition.

The ACS currently interprets the text height as the height of the letter 'x' (see Appendix D, p. 2). This is simple, and straightforward.

PATEFA suggested that the minimum text height criterion could be replaced with an appropriate minimum printing pitch criterion. In this case the minimum 3 millimetres height criterion would be replaced with a minimum 12 point type criterion.

This also appears to be sensible, and could readily be pursued by the ACS if necessary.

6.2.4 Magazines and periodicals

The current bounty legislation precludes the payment of bounty on magazines and periodicals which are not casebound and which are issued at regular intervals that do not exceed 6 months. This was an attempt to define a magazine or periodical in the bounty legislation by using its common or dictionary meaning.

However, some producers of magazines deliberately produce them at irregular intervals, or at intervals that exceed 6 months, thereby ensuring that they qualify for bounty under the existing legislation. This is clearly anomalous, but as with other eligibility criteria, it reflects the inherent limitations of the bounty scheme itself, rather than any administrative difficulties per se.

² **THIS TEXT IS 3 MILLIMETRES HIGH.**

One solution proposed by PATEFA is to word the magazines exclusion in terms of the Customs Tariff.³ That may be viewed by some as being undesirable, if it encouraged publishers to change some publications in order to qualify for bounty.

The Commission has not identified any substantial benefits which would lead it to recommend a change in the present arrangements.

6.3 Claimants

Under the current scheme, either the publisher or printer of a bountiable book may lodge a claim for bounty on that book. In its submission, the ACS said it would prefer claims to be restricted to printers only. Australia Post said a publisher's right to claim bounty should be continued because:

Production of a book can involve up to 5 separate companies. ... the fact that the publisher co-ordinates these companies in the production of a book makes the publisher the most appropriate entity to claim bounty. This minimises the number of claimants for bounty in respect of the production of any one book and delivers clear gains to the Government in the administration of the bounty scheme. (Submission No. 18, p.13)

The Commission has reservations about restricting the lodgement of claims to printers unless that is the stated objective of any subsequent bounty scheme. As it stands, the Commission sees no particular reason to exclude publishers from lodging claims unless that would reduce the cost of administering the bounty. The suggestion by the ACS would not reduce administrative costs in total. It may, in fact, increase them. At the very least, it would transfer these costs from the ACS to book printers and publishers. It could also require publishers to give commercially sensitive information to printers in order to claim bounty on what are currently legitimate bountiable costs. The Commission recommends that the present arrangements, whereby either a publisher or a printer may claim bounty, remain unchanged.

6.4 Removal of redundant provisions in the existing legislation

The ACS suggested removing from the current list of ineligible books those which have become automatically ineligible for bounty under subsequent, broader exclusions. It is not clear why they have not already been removed. The Commission considers that if any of the current provisions

³ PATEFA suggested that the current provision dealing with magazines and periodicals be replaced, and requested that 'a book be defined as a publication that is not a magazine, journal or periodical of the type that if imported would be classified within Item 4902 of the Customs Tariff'. (Submission No. 16, p.10)

are truly redundant then they could be readily deleted in any legislation which extended the life of the bounty.

6.5 Books sold in New Zealand

Books produced in Australia for sale in New Zealand are ineligible for bounty under the terms of the Australia -- New Zealand Closer Economic Relations Trade Agreement (ANZCERTA). Bounty was withdrawn on 1 July 1990. This appears to be anomalous, given that otherwise eligible books receive bounty when exported to all countries except New Zealand.

Many participants requested that the bounty be reinstated because most titles destined for New Zealand were now being produced in Asia. The ACS added that it was difficult to determine, at the time a claim for bounty was lodged, if any of the books in question would be sold in New Zealand. In its submission on the draft report, the New Zealand Government said:

Under the 1988 CER Agreed Minute on Industry Assistance, Australia and New Zealand agreed not to pay production bounties on goods which are exported to the other country from 1 July 1990. In the free trade area which exists between Australia and New Zealand, the payment of such bounties would give the producers in the exporting country an unfair advantage over the producers in the importing country. This would be contrary to the provisions contained in the Agreed Minute.

The non-payment of bounties on book exports to New Zealand is therefore not a subject for review.

We note that the payment of the bounty on books sold in Australia itself affects competition between New Zealand and Australian producers in the Australian market, and can cause distortions in the free trade area. ... Our preference would be for the book bounty to cease on 31 December 1993. (Submission No. 45)

In its draft report, the Commission suggested that this issue could be considered when the ANZCERTA is next reviewed. However, the Commission now accepts that this is not a practical course of action.

6.6 Problem of different interpretations arising between ACS State Offices

Participants commented at the draft report hearings that there were often differences in the way in which the bounty criteria were interpreted by ACS staff in the different ACS regional offices.

The ACS is changing the way in which it administers the nine Bounty Acts still in operation. In future, the administration of the Bounty (Books) Act will pass to the Brisbane office of the ACS. This should remove problems of inconsistency in interpretation currently experienced by book bounty claimants.

APPENDIX A: LIST OF PARTICIPANTS, SUBMISSIONS AND ORGANISATIONS CONSULTED

I. PARTICIPANTS AND SUBMISSIONS	Submission Number
Artists Associated Pty Ltd (trading as Boolarong Publications)	3
Associated Pulp and Paper Mills, Paper Division (APPM)	21, 41
Australia Council for the Arts	7
Australian Book Publishers Association Ltd (ABPA)	12, 33, 34, 35, 42
Australian Customs Service (ACS)	19, 46
Australian Institute of Quantity Surveyors, The	22
Australian Library and Information Association	14
Australian Postal Corporation	18, 48
Australian Society of Authors Limited, The	11
CCH Australia Ltd	27
Committee of Australian University Librarians	5
Currency Press Pty Ltd	9
Edward Arnold (Australia) Pty Ltd	29, 44
Elephas Books Pty Ltd	2
Federation Press, The	36
Harlequin Mills and Boon Pty Ltd 1,	39
Linnean Society of New South Wales	20
Maryborough and District Development Committee	43
McPherson's Printing Pty Ltd	26
Mount Press Pty Ltd	8
National Book Council Inc	6
New Zealand High Commission	45
Pac-Rim Printing Pty Ltd	24, 37
Printing and Allied Trades Employers Federation of Australia (PATEFA)	16, 38
Printing and Kindred Industries Union (PKIU)	32
Printing Industries Federation of New Zealand Inc	30
Publishers Group, The	25, 40
Signs Publishing Company	28
Southwood Press Pty Ltd	10
St John Ambulance Australia	13
Star Printery Pty Ltd	23
Universal Magazines Pty Ltd	31
Universal Press Pty Ltd	17, 47
University of Technology, Sydney, School of Information Studies	4
Women's Redress Press Inc	15

II. ORGANISATIONS, COMPANIES AND INDIVIDUALS CONSULTED	DATE	VENUE
Association of Australian University Press	19 February 1992	Melbourne
Australian Book Publishers Association Ltd	8 February 1992	Melbourne
Australian Customs Service	16 January 1992	Canberra
Australian Geographic Pty Ltd	3 March 1992	Sydney
Australian Large Print and Video Pty Ltd	19 February 1992	Melbourne
Australian Print Group, The	22 June 1992	Maryborough
Bookbuilders Ltd	31 July 1992	Hong Kong
Book Printer, The	22 June 1992	Maryborough
CCH Australia Ltd	3 March 1992	Sydney
Creative Printing Ltd	29 July 1992	Hong Kong
Dai Nippon Printing Company (Hong Kong) Ltd	30 July 1992	Hong Kong
Department of Industry, Technology and Commerce	16 January 1992	Canberra
Greene, Ian Mr.	27 July 1992	Perth
Gillingham Printers Pty Ltd	17 February 1992	Adelaide
Griffin Press Ltd	17 February 1992	Adelaide
Harlequin Mills and Boon Pty Ltd	3 March 1992	Sydney
Hunt, Garth Mr.	31 July 1992	Hong Kong
Hyde Park Press Ltd	17 February 1992	Adelaide
James Ferguson Pty Ltd	24 February 1992	Brisbane
L Rex Printing Company Ltd	29 July 1992	Hong Kong
Lutheran Publishing House	17 February 1992	Adelaide
Macarthur Press (Sales) Pty Ltd	4 March 1992	Sydney
McPherson's Printing Pty Ltd	18 February 1992	Melbourne
Media Masters	7 August 1992	Singapore
Merino Lithographics Pty Ltd	24 February 1992	Brisbane
Peninsula Production and Distribution Ltd	31 July 1992	Hong Kong
Printing and Allied Trades Employers Federation of Australia (PATEFA)	4 March 1992	Sydney
Printing and Kindred Industries Union	3 March 1992	Sydney
Queensland University Press	24 February 1992	risbane
Reader's Digest (Australia) Pty Ltd, The	4 March 1992	Sydney
Singapore Book Publishers Association	8 August 1992	Singapore
Star Printery Pty Ltd	4 March 1992	Sydney
Tenon and Polert Colour Scanning Ltd	30 July 1992	Hong Kong
Times Publishing Group Ltd	7 August 1992	Singapore
Wilke & Co Ltd	18 February 1992	Melbourne

Local book production is a small sub-sector of the printing industry and accounts for about a quarter by value of total book sales in Australia. Over the last decade, the value of bountiable book production has increased strongly despite decreasing bounty rates. Book production and bounty payments are concentrated in a few large organisations.

B.1 Introduction

Production of books forms only a small part of the total printing and bookbinding industry. The 1985 IAC survey of book producing establishments reported that books represented less than 5 per cent of their total printing output. The Printing and Allied Trades Employers Federation of Australia (PATEFA) stated that the book production industry now employs 4000 persons¹ or about 10 per cent of the printing and bookbinding industry². The printing and bookbinding industry is the largest component of the wider paper, paper products, printing and publishing sector (PKIU 1991).

Most books are produced by a few large corporations. A much smaller proportion is produced by many small scale operators (mainly commercial, job or speciality printers).

Book production is more exposed to import competition than most other printing work in which there is an advantage in being near to the purchaser of the printing service.

B.2 Australian book production activity

Production

About a quarter by value of all books sold in Australia are printed in Australia. The Australian Book Publishers Association (ABPA) estimated that about \$289 million worth of books, valued at retail prices, were printed in Australia in 1990, representing about 22 per cent of the value of all books sold (see Table B.1).

¹ This includes the full-time employment of about 500 persons who produce exercise books, diaries, albums, account books and receipt books, and books of a similar nature.

² PKIU estimated that employment in the printing and bookbinding industry in 1989-90 was 38 587 (PKIU 1991).

ABPA estimates indicate that the share of Australian printed books (as a proportion of total book sales) has remained fairly stable since 1984-85 despite significant reductions in book bounty rates. In 1984-85, 23 per cent by value of all books sold in Australia were printed in Australia (IAC 1985). Between 1987 and 1990 this share fluctuated between 21 per cent and 24 per cent (see Table B.1).

There were 2200 establishments in 1988-89 in the broad printing, publishing and bookbinding group³. This represented an increase of 32 per cent in the ten years up to and including 1988-89. The book production industry is a sub-sector of this group -- in 1990-91 there were 672 book bounty recipients (some of whom were related in corporate groupings).

In 1990 printers and publishers located in Australia accounted for about \$650 million worth of book production (valued at retail prices), of which about 55 per cent were printed overseas (see Table B.1).

Table B.1: Estimated composition of Australian book markets: 1987 to 1990
(\$ million, value at retail prices)

<i>Category</i>	<i>1987</i>	<i>1988</i>	<i>1989</i>	<i>1990</i>
Australian printed books	253	252	277	289
Overseas printed Australian books ^a	255	300	305	361
Total Australian published books	508	552	582	650
Overseas published and printed books	561	631	648	638
Total domestic sales	1069	1183	1230	1288

a ABPA defines an Australian book as one that originates with an Australian-based publishing house, irrespective of whether the book is printed within or outside Australia.

Source: ABPA 1991a.

Although many of the broader group of printing, publishing and bookbinding establishments produce books from time to time, relatively few of them produce a significant value of books.

In nominal terms the ex factory value of bountiable book production rose by 125 per cent between 1984-85 and 1991-92 (see Table B.2). To estimate real growth, a price deflator is required. The most appropriate price index available is that for articles produced by the paper, paper products, printing and publishing industries. It increased by 52 per cent over that period, indicating that the

³ This includes Australian Standard industry Classification (ASIC) 2642, Printing and Publishing and ASIC 2644, Printing and Bookbinding. Data source ABSd.

value of bountiable book production in real terms increased by nearly 50 per cent, or an average of about 6 per cent per annum. This relatively strong growth took place during a period when the bounty rate was reduced from 25 per cent, by steps, to its present rate of 13.5 per cent.

As the coverage of that price index is very broad, the Commission examined price movements for the two component industries, printing and publishing (ASIC 2642) and printing and bookbinding (ASIC 2644), that are most relevant to book production; they also encompass many other activities. That information is not available for publication, but prices of articles produced in these industries since 1984-85 increased at about the same rate as those for the broader industry group shown in Table B.2.

Table B.2: Indexes of bountiable book production (nominal and deflated), price index of production and the books etc component of the CPI (1980-81=100)

<i>Financial Year</i>	<i>Ex factory value of bountiable book production (\$ million)</i>	<i>Nominal index of bountiable book production</i>	<i>Price index of production^a</i>	<i>Nominal index deflated with price index of production</i>	<i>Books etc component of the CPI^b</i>	<i>Nominal index deflated with books etc CPI index</i>
1980-81	45	100.0	100.0	100.0	100.0	100.0
1981-82	47	104.7	113.7	92.1	116.8	89.6
1982-83	59	131.9	128.3	102.8	130.8	100.9
1983-84	65	143.4	136.0	105.4	139.2	103.0
1984-85	70	154.4	145.4	106.2	148.7	103.8
1985-86	75	167.2	155.3	107.7	166.6	100.4
1986-87	77	170.1	168.8	100.8	189.9	89.6
1987-88	104	230.9	180.6	127.9	211.9	109.0
1988-89	135	299.4	188.4	158.9	225.1	133.0
1989-90	142	315.5	196.5	160.6	232.7	135.6
1990-91	162	360.2	209.1	172.3	252.1	142.9
1991-92	156	346.7	221.0	156.9	269.2	128.8

a The manufacturing price index of articles produced by the paper, paper products, printing and publishing industries (ASIC 26).

b The books etc component of the CPI measures changes in the retail prices of books, newspapers and magazines.

Sources: ABSa, ABSg, ACS, Willis 1992.

However, the books, newspapers and magazines component of the Consumer Price Index (CPI) increased more rapidly than did the indexes discussed above. It suggests that the value of production of bountiable books in real terms may have increased less, by about 25 per cent between 1984-85 and 1991-92; details are provided in Table B.2.

None of these prices indexes is ideal for assessing developments in bountiable book production. Accordingly, in this report the Commission has characterised the real growth over the period 1984-85 to 1991-92 as in the range 25 to 50 per cent.

Production processes

The book production process commences when a manuscript is ready for conversion into a book. It includes typesetting, layout, colour separation, reproduction and plate making (comprising the pre-press stage of book manufacture) followed, as appropriate, by the printing stage consisting of printing, folding, collating, sewing, casemaking, binding and packaging for delivery.

Changes in technology, especially the use of desk top publishing packages, have resulted in a significant portion of the work traditionally undertaken by typesetters now being performed by authors and publishers. The Paper Conversion, Printing and Publishing Industry Council stated in 1984 that:

Technological developments within the publishing industry have resulted in an increasing number of authors now preparing their manuscripts on magnetic disk (rather than in printed form) so that publishers can use word processing equipment to directly type set publications. (Paper Conversion, Printing and Publishing and Industry Council 1984, p. 23)

ABPA stated that desk top publishing in the 1980s and 1990s may accelerate the trend away from printers performing tasks ancillary to the mainstream printing and binding.

Four major printing methods are now in use for large scale printing in Australia.

- Offset (lithographic) printing involves a flat surface with an ink-repelling non-image area and a water repelling image area. Ink and water are applied to the plate in a carefully controlled balance so that the image is preferentially inked. The inked image is usually transferred to a rubber 'offset' cylinder and from there to the substrate, but in some cases the image is transferred directly to the substrate.

Offset printing is the most common method used amongst commercial and job book printers and comprises both single and multicolour production using sheet-fed or web-fed (continuous paper) printing processes.

- Letterpress printing involves a relief or raised image that is sequentially inked and pressed into contact with paper or substrate. It uses a hard printing surface and a rather stiff ink. This is the traditional method of printing and is gradually declining in usage as new technologies emerge.
- Flexographic printing is a relief or raised image process which uses a soft plate and a liquid ink. The process is of special importance when printing on substances that cannot bear much pressure (eg corrugated board). This combination of the offset and letterpress printing techniques is usually used to print specialised books.
- Gravure printing is done with a recessed image in a cylinder which rotates in a trough of ink. Excess ink is scraped off with a blade before the substrate is pressed into contact with the cylinder. The ink is transferred by capillary action of the substrate or through electrostatic charges. High quality long production run book and magazine printing is usually done using this type of printing.

Increasingly, web-fed offset printing machines which have computer assisted heat-set technology are being used in book and magazine production. This technology is particularly suited to printing long production runs. For short runs, modern photocopying technology is becoming accepted for the quick production of some book types.

Book producers are adopting new technologies in typesetting and graphic composition, including desk top publishing, computerised composing equipment, photo-typesetting equipment, and electronic or laser colour scanners. In book finishing, the greatest technological advancements have been most apparent where fully automated and computerised guillotines, collators, folders, binders and laminating equipment have been integrated with printing machinery. Some of the process technology involved is discussed in Appendix G.

Industry concentration and specialisation

Given the multi-product and service activity of most printing firms it is difficult to establish accurately the level of concentration in the book production industry. Approximate levels are estimated using market share estimates and book bounty payments. It is recognised that these estimates do not necessarily reflect conditions in the non-bountiable sector of the industry.

A very large proportion of books is produced by only a few establishments. Units of the largest two organisations (Pacific Magazines and Printing Ltd, and McPherson's Ltd) produce over 37 per cent by value of all bountiable books in Australia (see Table B.3). The three largest organisations (that is, the two firms named above, and Chertsey Fifty-Nine Pty Ltd produce about 42 per cent by value of such books in Australia -- and the eight largest, about 56 per cent). In 1990-91 only 38 book producers received more than \$100,000 of book bounty (equivalent to a value of book production of \$670 000 or more). More detail is provided in Appendix E.

News Corporation Ltd (News Ltd) is a major shareholder in one of the largest book producers in the industry. It owns 45 per cent of Pacific Magazines and Printing Ltd (Pacific Magazines), which is the holding company of two of the largest book bounty recipients, namely Griffin Press (Griffin) and Wilke and Co Ltd (Wilke). Together Griffin and Wilke drew over 19 per cent of all book bounties paid in 1990-91. Pacific Magazines as a group produces about 15 per cent of all books manufactured in Australia and prints more than 21 million telephone directories each year for the domestic and export markets (Pacific Magazines 1991, p. 6).

PATEFA stated that about 50 of the largest book printers account for 80 per cent of all book production (Submission No. 16, p. 18).

Table B.3: **Distribution of book bounty to major recipients^a and others, 1990-91**

<i>Organisation</i>	<i>Bounty received (\$ '000)</i>	<i>Per cent of total</i>
Pacific Magazines and Printing Pty Ltd ^b	4 600	19.0
McPherson's Ltd ^c	4 266	17.6
Chertsey Fifty-Nine Pty Ltd	1 326	5.4
CCH Australia Ltd	925	3.8
Penguin Books Australia Ltd	619	2.6
Boswell Printing Pty Ltd	603	2.4
Butterworths Pty Ltd	579	2.4
Law Book Company Ltd	523	2.2
660 others	10 773	44.5
Total	24 214	100.0

a Includes organisations receiving more than \$500 000 of book bounty in 1990-91.

b Includes Griffin Press, Wilke & Co, Prestige Litho Pty Ltd, and Mercury Walch Pty Ltd.

c Includes McPherson's Printing, Owen King Printers Australia, Globe Press, The Book Printer and Macarthur Press.

Source: ACS.

There is a continued international and Australian trend towards mergers of book producers, with a resultant increase in the concentration of production. The amalgamation of The Book Printer (located at Maryborough), the Globe Press Pty Ltd (Brunswick), Macarthur Press (Sales) Pty Ltd (Parramatta) and Owen King Printers Australia Pty Ltd (Mulgrave) all under McPherson's Printing Pty Ltd (Mulgrave), completed on 1 July 1992, is a recent example. Competition between firms in the same group may be constrained by management.

In addition to the larger firms there are many small to medium sized establishments which together produce a small proportion of bountiable books (by value), mainly as a sideline to general printing work and/or non-bountiable book production. Over 95 per cent of the book printers/publishers together produce only about 25 per cent of all bountiable books (by value). This does not include the many other small book producers who do not qualify for book bounty. The book bounty eligibility criteria (including the requirement of a 1000 copies minimum production run and a minimum claim of \$500 per title) would preclude many of those printers from receiving bounty.

Most book production activity is located in the major capital cities. Queensland, which has over 14 per cent of bounty recipients, gets only about 4 per cent of the book bounty -- indicating a greater proportion of smaller book producers in the state.

The bulk of book production activity (by value) is located in New South Wales and Victoria (over 70 per cent of book bounty payments are made to printers/publishers located in these states). South

Australia, which is home to Griffin Press, is the next most significant book producing state (over 15 per cent of the book bounty is paid to this state's printers/publishers).

The degree of integration of book production activities varies considerably within firms. Many firms which predominantly print magazines and periodicals sometimes print some books. Some book publishers, such as CCH Australia Ltd with consumers in the taxation and law fields, value quick access to information about latest policy changes, and so do almost all their printing and associated work in-house. Other book publishers, such as Harlequin Mills and Boon, that can pre-plan most of their output, often contract out most of their printing works to specialist printers, such as Griffin Press. Specialist book printers such as Chertsey Fifty-Nine Pty Ltd and The Book Printer in Maryborough print books almost exclusively; almost all the books printed by them are bountiable.

Employment

PATEFA estimated that the Australian book production industry now employs about 4000 persons compared with 4500 persons in 1984-85⁴. PATEFA stated that the 11 per cent decline in numbers reflected the effect of technological changes as well as import competition. The Printing and Kindred Industries Union (PKIU) stated that technological changes were leading to some substitution of capital (including computers) for labour, and of relatively less expensive and less skilled labour for skilled tradespeople such as typesetters and printers.

PATEFA estimated that employment in the bountiable book production sector had increased from 1800 in 1984-85 to 2200 persons in 1991-92. This represents a significant growth of employment of over 22 per cent in the seven year period, despite the adverse impact of the general economic recession on book production activity in recent years. This is consistent with the outcome expected in a protected industry: resources including labour are drawn into more highly assisted sectors at the expense of other less assisted sectors. Specialisation in bountiable book production (rather than in non-bountiable book production) has increased since 1984-85.

Employment in the book production sector is equivalent to three per cent of total employment in Australian Standard Industry Classification (ASIC) groups 2642 (printing and publishing) and 2644 (printing and bookbinding) combined, and a little over 2 per cent of that in ASIC 264 (total printing and allied industries), according to the most recent data which are for 1988-89. Employment in the combined ASIC 2642 and 2644 groups increased by about 10 per cent over the most recent 4 year period for which data are available (from 58 100 in 1984-85 to 63 900 in 1988-89). Over the same

⁴ This includes employment in the sector producing exercise books, diaries, albums, account books and receipt books. If this sector is excluded, PATEFA estimated that the Australian book production industry now employs about 3500 persons compared with 3800 persons in 1984-85, representing a decline in employment of about eight per cent.

period, real turnover per person employed also increased by about 9 per cent. Employment data for relevant ASIC categories are provided in Appendix C.

B.3 Book distribution and retailing

A wide range of book distribution and retailing systems is used in Australia. This differs from the United Kingdom and United States which rely more on major specialist wholesalers to distribute the books to the retail trade. Some book wholesalers however do operate within individual State boundaries in Australia (Australia Council 1990).

The large publishers have their own sales forces, often specialised in marketing hardbacks, paperbacks, or in servicing the educational market and/or libraries. The distribution of small scale publishers' books is often carried out by other larger publishers, such as Penguin, Collins/Angus & Robertson, Transworld and Lothian Books. Some small scale publishers of books combine in organising sales forces and/or develop direct marketing arrangements, for instance through established internal mailing systems in universities.

General wholesalers, for example Gordon & Gotch, service special outlets such as newsagents and remote locations. Some large publishers, including Penguin and Octopus Books, market books through these wholesalers' distribution systems.

Large chain 'bookshops' are operated by Collins Booksellers and Angus & Robertson Bookshops, and independent booksellers. Bookshops account for some 50 per cent of the general book trade. Department stores such as Myer and David Jones are similar in some respects to the large bookselling chains in their approach to customers, and in their ability to extract larger discounts from publishers through central buying. The independent booksellers tend to sell below recommended retail prices.

Newsagencies account for up to 20 per cent of the general retail book trade. Supermarkets and discount stores are taking an increasing share, achieved by concentrating on a limited stock sold below recommended retail prices. Their greater purchasing capacity enables them to obtain bulk purchasing discounts. Book clubs and mail order houses have minor market shares.

Major academic and public libraries import directly most of the overseas titles they purchase. In Australia, most books bought by libraries are purchased from specialist library suppliers who sell below recommended retail prices to compete with direct importation. Major American wholesalers have become active in recent years, offering to supply books to the library market at a discount. Quick acquisition and cost savings (up to 30 per cent) are important determining factors for librarians' purchasing decisions.

'Sale or return' of books is a common though not universal arrangement which obliges the publisher to take back all or a majority of unsold books. Return rates can range from 20 to 40 per cent (the latter is more common for mass paperback titles). Many of these returns are pulped. This system of distribution is said to reduce retailers' working capital requirements.

B.4 Markets for books

The 1989 ABPA survey indicated that 38 per cent of all new titles and as many as 64 per cent of reprints published by ABPA members were educational publications (ABPA 1989). Paperbacks accounted for 47 per cent of new titles and 25 per cent of reprints, hardbacks for 16 per cent of new titles and 11 per cent of reprints.

The paperback sector has been one of the fastest growing sectors of the book production industry in recent years, 'reflecting a world wide trend as publishers seek to broaden markets with cheaper products well suited to short run requirements' (PATEFA, Submission No. 38, p. 11).

Associated Pulp and Paper Mills (APPM) assessed that:

Australian bountiable book producers are competitive in the production of monocolour and paperback books (produced from uncoated and mechanical papers) due mainly to demand for quick printing, delivery and supply of these books.

This would appear to be the growth area for the book production industry.

In the area of hardcover and/or printed books, Australian book producers appear to be under severe pressure from overseas (predominantly Asia/South East Asia) book producers having scale advantages and/or access to the latest technology aided by low labour, material, and production costs. (Submission No. 21, pp. 13-14)

Pac-Rim Printing Pty Ltd (Pac-Rim) the wholly owned commercial printing division of Pacific Magazines & Printing Ltd stated that:

the demand for mono paperbacks had increased but that for high quality "coffee table" books had decreased (Submission 24, p. 4).

B.5 Imports

The value of imports classified by the Australian Bureau of Statistics (ABS) as printed books increased by 101 per cent in nominal terms over the period 1983-84 to 1991-92. For children's books, the increase was 154 per cent and for maps and charts it was 107 per cent (see Table B.4).

In 1990-91, 53 per cent by value of the printing orders by Australian publishers were placed with Australian firms, 42 per cent with Asian firms and the remaining 5 per cent were mainly co-editions (information based on ABPA members responding to a survey, see ABPA 1992).

Table B.4: **Imports of printed products, 1983-84 to 1990-91 (\$m)**

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92
Printed books	253.5	304.5	359.0	379.5	401.7	434.5	487.1	483.5	509.5
Children's books	2.4	3.3	3.4	3.1	3.5	5.6	5.2	6.5	6.1
Maps & Charts ^a	2.7	4.0	4.7	4.2	4.9	5.4	6.0	4.4	5.6
Other ^b	114.0	146.2	170.1	177.6	181.0	231.6	273.0	291.2	320.1
TOTAL	372.6	458.0	537.2	564.4	591.1	677.1	771.3	785.6	841.3

a Includes some maps and charts in book form.

b May include some books.

Source: ABS.

The proportions of the different types of books sold on the domestic market differed for Australian (published and/or printed) books and imported books. Educational books comprised about 52 per cent by value of all Australian printed and/or published books sold, compared with only 28 per cent of all imported books sold, indicating the natural advantage Australian publishers have because of their location (ability to deliver quickly) in the educational book market.

About 40 per cent of imports classified by ABS as printed books were from the UK and about 35 per cent from the US, over the period 1988-89 to 1991-92 (see Tables B.5 to B.8). Imports from Hong Kong comprised about 9 per cent while Singapore supplied about 6 per cent.

Table B.5: Import clearances of books into Australia: 1991-92

Country of origin	Printed books		Children's books		Maps and charts ^a		Articles of stationery ^c		Other printed material ^d	
	\$'000	%	\$'000	%	\$'000	%	\$'000	%	\$'000	%
UK	180 417	35	2 439	40	576	10	4 532	8	80 686	31
USA	198 968	39	860	14	451	8	4 135	7	86 507	33
Hong Kong	41 700	8	726	12	1 489	27	4 455	8	23 864	9
Singapore	31 246	6	310	5	2 761	49	8 792	15	17 091	7
Japan	16 588	3	141	2	2	...	2 491	4	14 023	5
Canada	3 045	1	486	8	..	...	1 332	2	1 359	1
New Zealand	2 631	1	1	...	3	...	4 451	8	10 084	4
Malaysia	2 881	1	1	...	0	...	2 334	4	363	...
Korea	1 490	...	0	...	0	...	5 663	10	722	...
Taiwan	925	...	264	4	0	...	3 048	5	1 874	1
China	1 224	...	260	4	25	...	8 392	14	7 139	3
Other	28 387	6	595	10	298	5	8 868	15	17 931	7
Total	509 502	100	6 083	100	5 605	100	58 494	100	261 642	100

.. Less than \$1000, ... Insignificant. Korea = Republic of South Korea.

a In book form.

b Includes Australian timetables.

c Includes registers, account books etc.

d May include some books (for example, music books).

Source: ABSe.

Table B.6: Import clearances of books into Australia: 1990-91

Country of origin	Printed books		Children's books		Maps and charts ^a		Articles of stationery ^c		Other printed material ^d	
	\$'000	%	\$'000	%	\$'000	%	\$'000	%	\$'000	%
UK	193 484	40	1 845	28	528	12	4 775	9	82 100	35
USA	165 544	34	595	9	287	7	3 367	6	74 244	31
Hong Kong	42 289	9	289	4	1 429	32	4 718	9	13 124	6
Singapore	30 072	6	198	3	2 132	48	8 204	15	16 053	7
Japan	14 589	3	54	1	1	...	2 921	5	14 438	6
Canada	3 199	1	5	...	1	...	1 269	2	1 141	...
New Zealand	2 920	1	..	...	1	...	2 733	5	9 923	4
Malaysia	2 347	...	73	1	0	...	1 526	3	460	0
Korea	1 327	...	0	...	0	...	7 441	14	517	...
Taiwan	809	...	71	1	0	...	2 626	5	1 574	1
China	486	...	88	1	..	...	6 059	11	4 320	2
Other	26 426	5	3 286	51	23	1	8 839	16	18 825	8
Total	483 492	100	6 504	100	4 402	100	54 478	100	236 719	100

.. Less than \$1000, ... Insignificant. Korea = Republic of South Korea.

a In book form.

b Includes Australian timetables.

c Includes registers, account books etc.

d May include some books (for example, music books).

Source: ABSe.

Table B.7: Import clearances of books into Australia: 1989-90

Country of origin	Printed books		Children's books		Maps and charts ^a		Articles of stationery ^c		Other printed material ^d	
	\$'000	%	\$'000	%	\$'000	%	\$'000	%	\$'000	%
UK	193 361	40	2 119	41	831	14	4 626	8	56 748	26
USA	168 388	35	1 491	29	775	13	4 115	7	67 373	31
Hong Kong	44 563	9	239	5	1 562	26	4 893	9	17 913	8
Singapore	29 214	6	181	3	2 299	38	7 873	14	13 944	6
Japan	9 881	2	137	3	2	...	2 535	5	21 989	10
Canada	2 764	1	14	...	0	...	1 137	2	1 030	0
New Zealand	3 077	1	1	...	5	...	3 659	7	13 481	6
Malaysia	2 629	1	0	...	0	...	1 245	2	206	...
Korea	1 435	...	0	...	0	...	7 017	13	1 777	1
Taiwan	673	...	216	4	0	...	3 540	6	1 545	1
China	534	...	13	...	47	1	7 369	13	2 075	1
Other	30 625	6	777	15	4 928	7	709	14	19 241	9
Total	487 144	100	5 188	100	6 013	100	55 718	100	217 322	100

.. Less than \$1000, ... Insignificant. Korea = Republic of South Korea.

a In book form.

b Includes Australian timetables.

c Includes registers, account books etc.

d May include some books (for example, music books).

Source: ABSe.

Table B.8: Import clearances of books into Australia: 1988-89

Country of origin	Printed books		Children's books		Maps and charts ^a		Articles of stationery ^c		Other printed material ^d	
	\$'000	%	\$'000	%	\$'000	%	\$'000	%	\$'000	%
UK	183 283	42	2 527	45	399	7	5 116	11	46 691	25
USA	136 769	31	1 103	20	297	6	2 881	6	60 879	33
Hong Kong	44 864	10	422	8	910	17	4 550	10	18 281	10
Singapore	25 429	6	536	10	3 310	62	5 917	13	11 588	6
Japan	9 564	2	275	5	174	3	2 762	6	20 513	11
Canada	2 824	1	9	...	4	...	536	1	1 665	1
New Zealand	2 804	1	10	...	0	...	3 057	7	7 249	4
Malaysia	2 093	...	0	...	0	...	934	2	98	...
Korea	2 108	...	0	...	0	...	8 426	18	1 361	1
Taiwan	813	...	131	2	0	...	2 438	5	1 306	1
China	288	...	41	1	0	...	5 323	11	407	...
Other	23 707	5	531	10	288	5	4 696	10	14 934	8
Total	434 546	100	5 585	100	5 382	100	46 636	100	184 972	100

.. Less than \$1000, ... Insignificant. Korea = Republic of South Korea.

a In book form.

b Includes Australian timetables.

c Includes registers, account books etc.

d May include some books (for example, music books).

Source: ABSe.

B.6 Exports

Nearly \$35 million worth of goods classified by ABS as printed books were exported from Australia in 1983-84. In 1991-92, the value was \$96.6 million, an increase in nominal terms of 177 per cent (see Table B.9). Exports of children's books did not follow a similar upward trend: exports in 1991-92, in nominal terms, were only 1.5 times those in 1983-84. In 1986-87 and 1987-88 their value was significantly higher than in previous or subsequent years, and accounted for around 40 per cent of the total value of children's books exported over the period.

Maps and charts exported from Australia declined sharply in nominal terms over the period 1983-84 to 1985-86, rose strongly in 1987-88, and fell sharply in 1990-91 and 1991-92.

Some exports were originally imported books which were re-exported. The Australia Council estimated that re-exports comprised about 27 per cent of all book exports (Australia Council 1990).

Table B.9: **Exports of printed products, 1983-84 to 1991-92 (\$m)**

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92
Printed books	34.9	35.0	37.4	38.0	40.7	57.0	69.1	80.7	96.6
Children's books	0.4	0.5	0.6	1.7	1.6	0.8	0.9	0.5	1.0
Maps & Charts ^a	0.8	0.3	0.2	0.2	0.5	0.5	0.6	0.1	0.1
Other ^b	26.1	33.1	34.3	8.3	55.5	52.2	94.0	52.3	60.1
TOTAL	62.2	68.9	72.5	78.2	97.8	110.5	164.6	133.6	157.8

a Includes some maps and charts in book form.

b May include some books.

Source: ABSb.

Tables B.10 and B.11 indicate the main destination countries of book exports from Australia in the two most recent years. About 45 per cent of exports classified by ABS as printed books in 1991-92 were sent to New Zealand and 13 per cent to Hong Kong (see Table B.10). The USA, the UK and Singapore were less significant destinations taking 8, 7 and 3 per cent respectively of the printed book exports in 1991-92 (see Table B.10).

The 1990 ABPA survey indicated that about 46 per cent of export sales by value (including re-exports) were of educational and children's books (ABPA 1992).

Table B.10: Exports of books from Australia: 1991-92

Country of origin	Printed books		Children's books		Maps and charts ^a		Articles of stationery ^c		Other printed material ^d	
	\$'000	%	\$'000	%	\$'000	%	\$'000	%	\$'000	%
New Zealand	43 114	45	246	24	13	32	2 560	30	28 736	56
Hong Kong	12 963	13	34	3	0	0	387	5	1 526	3
USA	7 627	8	53	5	7	17	602	7	3 825	7
UK	6 786	7	71	7	6	15	284	3	2 409	5
Singapore	3 166	3	129	13	8	20	324	4	2 429	5
Thailand	2 944	3	0	...	0	...	3	...	1 353	3
PNG	2 936	3	12	1	0	...	2 390	28	1 770	3
Japan	2 839	3	201	19	0	...	122	1	3 116	6
Malaysia	2 135	2	6	1	0	...	386	5	385	1
Taiwan	1 657	2	24	2	0	...	3	...	92	...
Canada	1 475	2	74	7	0	...	16	...	337	1
Korea	1 277	1	24	2	0	...	3	...	73	...
Other	7 690	8	157	15	7	17	1 463	17	5 597	11
Total	96 609	100	1 031	100	41	100	8 543	100	51 648	100

... Insignificant. PNG = Papua New Guinea. Korea = Republic of South Korea.

a In book form.

b Includes Australian timetables.

c Includes registers, account books etc.

d May include some books (for example, music books).

Source: ABSf.

Table B.11: Exports of books from Australia: 1990-91

Country of origin	Printed books		Children's books		Maps and charts ^a		Articles of stationery ^c		Other printed material ^d	
	\$'000	%	\$'000	%	\$'000	%	\$'000	%	\$'000	%
New Zealand	32 835	41	217	40	24	33	3 245	39	24 347	55
Hong Kong	14 651	18	0	...	0	...	206	3	1 953	4
USA	8 048	10	232	43	0	...	133	2	4 337	10
UK	6 745	8	13	2	4	5	166	2	1 901	4
Singapore	2 630	3	0	...	0	...	527	6	1 446	3
PNG	2 591	3	13	2	30	41	2 276	28	1 182	3
Malaysia	2 491	3	25	5	0	...	43	1	261	1
Thailand	1 666	2	0	...	0	...	17	...	702	2
Canada	1 595	2	6	1	0	...	109	1	300	1
Other	7 416	9	38	7	15	21	1 496	18	7 675	17
Total	80 668	100	544	100	73	100	8 219	100	44 103	100

... Insignificant. PNG = Papua New Guinea.

a In book form.

b Includes Australian timetables.

c Includes registers, account books etc.

d May include some books (for example, music books).

Source: ABSf.

Pac-Rim stated that export sales of bountiable directories (including telephone, facsimile, buying, residential and commercial and industrial directories for Hong Kong, Kowloon and the New Territories) produced by Wilke & Company in Victoria in the three years 1989-1991 exceeded \$20 million, with a total projected \$18.5 million per annum in 1991-92 and 1992-93. In effect, Australian taxpayers subsidised foreign users of the directories to the extent of about \$2.75 million in 1991-92. Users of Australian telephone directories receive no subsidy, but may have had the cost of producing them and the charges made for their sale inflated by the tariff.

APPENDIX C: INDUSTRY STATISTICS

This appendix presents data collected by the Australian Bureau of Statistics (ABS) on the paper, printing, and allied industries sector in Australia. Book production is just one activity within this sector, and one for which no separate official statistics are available. Based on information supplied by participants, book production in Australia accounts for around 3 per cent of total employment, and around 4 per cent of total turnover, in the printing, publishing and bookbinding industry.

Tables C.1, C.2 and C.3 provide data on the number of establishments, level of employment, and turnover in the paper, printing and allied industries sector. The data are disaggregated into sub-categories according to the Australian Standard Industry Classification (ASIC) code. Tables C.4, C.5 and C.6 provide data on imports and exports of paper and paperboard, and Tables C.7 and C.8 provide data on imports and exports of books and other printed products.

Table C.1: **Number of establishments in the paper, printing and allied industries: 1977-78 to 1988-89**

Table C.2: **Number of people employed in the paper, printing and allied industries: 1977-78 to 1988-89**

Table C.3: **Turnover of firms in the paper, printing and allied industries: 1977-78 to 1988-89**

Table C.4: **Imports of paper and paperboard, 1981-82 to 1989-90**

Table C.5: **Import clearances of paper of the types used in book production: 1990-91**

Table C.6: **Exports of paper of the types used in book production: 1990-91**

Table C.7: **Imports of printed products, 1983-84 to 1991-92**

Table C.8: **Exports of printed products, 1983-84 to 1991-92**

C.1 Number of establishments

The number of establishments in the paper, printing and allied industries sector increased by around 17 per cent between 1982-83 and 1988-89. Those in the printing and publishing industry rose by just over 25 per cent; in the printing and bookbinding industry, the increase was about 17 per cent.

Table C.1: **Number of establishments in the paper, printing and allied industries^a: 1977-78 to 1988-89**

<i>Year</i>	<i>Printing and publishing</i>	<i>Printing and bookbinding</i>	<i>Total printing, publishing and bookbinding</i>	<i>Total printing and allied industries</i>	<i>Total paper, printing, and allied industries</i>
1977-78	240	1 394	1 634	2 293	2 573
1978-79	248	1 423	1 671	2 345	2 612
1979-80	249	1 509	1 758	2 518	2 000
1980-81	241	1 555	1 796	2 549	2 816
1981-82	251	1 625	1 876	2 673	2 946
1982-83	243	1 624	1 867	2 651	2 909
1983-84	224	1 649	1 873	2 668	2 911
1984-85	231	1 667	1 898	2 731	2 972
1985-86	na	na	na	na	na
1986-87	248	1 740	1 988	2 845	3 076
1987-88	279	1 890	2 169	3 013	3 356
1988-89	305	1 895	2 200	3 127	3 398

a By Australian Standard Industry Classification (ASIC) code.

na Not available.

Sources: ABSd, ABS 1991.

C.2 Employment

Total employment in the paper, printing and allied industries sector increased by around 11 per cent between 1982-83 and 1988-89, although it declined slightly (by 1.5 per cent) between 1982-83 and 1983-84 (see Table C.2). A similar decline (of about 1.2 per cent) occurred in total employment in printing and publishing between 1982-83 and 1983-84, but over the period 1982-83 to 1988-89, employment in that industry rose marginally. Employment in the printing and bookbinding industry rose by nearly 25 per cent over the same period.

Table C.2: **Number of people employed in the paper, printing and allied industries^a: 1977-78 to 1988-89**

<i>Year</i>	<i>Printing and publishing</i>	<i>Printing and bookbinding</i>	<i>Total printing, publishing and bookbinding</i>	<i>Total printing and allied industries</i>	<i>Total paper, printing, and allied industries</i>
1977-78	25 116	25 765	50 881	70 176	97 144
1978-79	26 015	25 625	51 640	71 987	98 042
1979-80	26 631	28 032	54 663	75 573	101 579
1980-81	25 780	29 482	55 262	77 195	102 410
1981-82	25 682	31 049	56 731	78 271	102 913
1982-83	26 535	29 873	56 408	77 439	100 734
1983-84	26 200	30 600	56 800	77 300	99 300
1984-85	26 500	31 600	58 100	78 900	102 100
1985-86	na	na	na	na	na
1986-87	27 100	34 200	61 300	85 600	107 100
1987-88	26 083	36 198	62 281	87 117	109 544
1988-89	26 700	37 200	63 900	89 600	112 100

a By Australian Standard Industry Classification (ASIC) code.

na Not available.

Sources: ABSd, ABS 1991.

C.3 Turnover

Total turnover in the paper, printing and allied industries sector rose by 106 per cent in nominal terms between 1982-83 and 1988-89 (see Table C.3). In the printing and publishing industry, it rose by 96 per cent and in the printing and bookbinding industry by 128 per cent. Over the same period, average turnover per employee rose by 94 per cent in nominal terms in the printing and publishing industry, by 83 per cent in the printing and bookbinding industry, and by 85 per cent in the paper, printing and allied industries sector.

Over that period, the price index of production for that sector increased by 47 per cent. Based on that price index, total turnover in real terms increased by 40 per cent in the paper, printing and allied industries sector, by 33 per cent in the printing and publishing industry, and by 55 per cent in the printing and bookbinding industry. Average turnover per employee rose by 32 per cent in real terms in the printing and publishing industry, by 24 per cent in the printing and bookbinding industry, and by 26 per cent in the paper, printing and allied industries sector as a whole.

Table C.3: **Turnover of firms in the paper, printing and allied industries^a : 1977-78 to 1988-89 (\$m)**

<i>Year</i>	<i>Printing and publishing</i>	<i>Printing and bookbinding</i>	<i>Total printing, publishing and bookbinding</i>	<i>Total printing and allied industries</i>	<i>Total paper, printing, and allied industries</i>
1977-78	744.9	672.7	1 417.6	2 100.9	3 418.2
1978-79	821.8	774.1	1 595.9	2 396.0	3 901.9
1979-80	959.8	937.7	1 897.6	2 828.9	4 555.1
1980-81	1 062.5	1 149.1	2 211.6	3 320.2	5 255.0
1981-82	1 250.3	1 378.7	2 628.3	3 866.6	6 118.3
1982-83	1 343.9	1 492.0	2 835.9	4 142.4	6 484.4
1983-84	1 518.7	1 669.8	3 188.5	4 629.9	7 089.1
1984-85	1 779.1	1 905.6	3 648.7	5 410.6	8 144.7
1985-86	na	na	na	na	na
1986-87	1 968.0	2 504.7	4 472.7	6 807.8	10 400.7
1987-88	2 341.5	3 007.9	5 349.4	8 031.0	12 018.3
1988-89	2 629.7	3 398.7	6 028.4	8 856.9	13 367.3

a By Australian Standard Industry Classification (ASIC) code.

na Not available.

Sources: ABSd, ABS 1991.

C.4 Imports of paper

Newsprint and printing and writing papers are used to produce books. Imports of these kinds of papers averaged around 69 per cent by volume of total paper imports over the period 1981-82 to 1989-90 (see Table C.4). In 1981-82, around 62 per cent of all papers imported into Australia were newsprint and printing and writing papers. In 1989-90, the proportion was around 76 per cent.

Table C.4: **Imports of paper and paperboard, 1981-82 to 1989-90 ('000 tonnes)**

	<i>1981-82</i>	<i>1982-83</i>	<i>1983-84</i>	<i>1984-85</i>	<i>1985-86</i>	<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>	<i>1989-90</i>
Newsprint	135	289	194	303	257	231	264	300	288
Printing/ Writing	193	259	250	31	253	311	416	455	439
Other	201	205	220	247	247	229	358	282	231
TOTAL	529	753	664	861	757	771	1038	1037	958

Source: Pulp and Paper Manufacturers Federation.

Australia imported nearly \$580 million worth of paper of the types commonly used in book production in 1990-91 (see Table C.5). These papers may also be used in other printing activities, including the production of newspapers. Coated woodfree paper (other than cast-coated paper) accounted for 28 per cent, and newsprint accounted for 22 per cent of the total.

Table C.5: Import clearances of paper of the types used in book production: 1990-91

<i>Description</i>	<i>Quantity</i>	<i>Value</i>	<i>Duty paid</i>	<i>Average rate of duty paid</i>
	<i>Tonnes</i>	<i>\$'000</i>	<i>\$'000</i>	<i>%</i>
Newsprint	186 567	128 747	-	-
Uncoated woodfree paper weighing 150 g/m2 or less	30 795	43 954	4 290	9.8
weighing more than 150 g/m2 but not more than 205 g/m2	1 803	3 128	440	14.0
weighing more than 205 g/m2	14 943	18 756	1 034	5.5
Uncoated mechanical paper having a water absorbency, when tested by the one-minute Cobb method of not less than 45 g/m2; containing not less than 70 per cent mechanical pulp; and weighing 40 g/m2 or more but not more than 62 g/m2	56 359	52 661	-	-
other	22 870	22 733	724	3.2
Cast coated woodfree paper and paperboard	5 167	12 271	-	-
Other coated woodfree paper and paperboard	114 501	162 332	19 944	12.3
Light weight coated mechanical paper	80 984	97 202	110	0.1
Other coated mechanical paper	27 833	33 979	1 608	4.7
Other cast coated paper and paperboard	41	199	-	-
Other printing and writing paper	879	3 238	319	6.2
TOTAL	542 742	579 200	28 349	

Source: ABSe.

C.5 Exports of paper

Table C.6: Exports of paper of the types used in book production: 1990-91

<i>Description</i>	<i>Quantity</i>	<i>Value</i>	<i>Average rate</i>
	<i>Tonnes</i>	<i>\$'000</i>	<i>of duty paid</i> <i>%</i>
Newsprint	240	187	779
Uncoated woodfree paper weighing 150 g/m2 or less	27 479	37 752	1 373
weighing more than 150 g/m2 but not more than 205 g/m2	247	783	3 169
weighing more than 205 g/m2	480	961	2 002
Uncoated mechanical paper having a water absorbency, when tested by the one-minute Cobb method of not less than 45 g/m2; containing not less than 70 per cent mechanical pulp; and weighing 40 g/m2 or more but not more than 62 g/m2	8	12	1 460
other	420	249	592
Cast coated woodfree paper and paperboard	..	2	ne
Other coated woodfree paper and paperboard, weighing 150 g/m2 or less	1 743	2 656	1 523
Coated woodfree paper and paperboard, weighing more than 150 g/m2	31	143	4 625
Light weight coated mechanical paper	104	261	2 512
Other coated mechanical paper	79	115	1 456
Other paper and paperboard	700	4 066	5 808
TOTAL	31 531	47 187	

.. Less than 1 tonne.

ne Not able to be estimated.

Source: ABSf.

Australia exported \$47 million worth of paper of the types commonly used in book production in 1990-91 (see Table C.6). Exports of uncoated woodfree paper accounted for around 80 per cent by value (and 87 per cent by volume) of this total. Coated woodfree paper (other than cast-coated paper) accounted for nearly 6 per cent by value (and by volume) of total exports.

APPENDIX D: BOOK BOUNTY ELIGIBILITY CRITERIA, TARRF PROVISIONS, FLORENCE AGREEMENT AND NAIROBI PROTOCOL

This appendix lists the eligibility criteria used for book bounty payments, the Customs Tariff Provisions, and some tariff concession orders and by-laws which affect the rate of duty for imports relevant to the book industry. The Florence Agreement and the Nairobi Protocol presented in Section D.5 have influenced the nature of assistance given to some sectors of the book industry in Australia.

D.1 BOOK BOUNTY ELIGIBILITY CRITERIA

Customs' guide to the book bounty¹

Bounty is paid as a percentage of the publisher's production costs incurred in Australia. It is not payable on a claim for a book where the bounty payable is less than \$500 per production run.

Eligible books

Not every book printed in Australia is eligible for bounty. If a book meets all three of the following general conditions it may be eligible for bounty.

1. Binding:

- The book must have its pages securely fastened together in covers of paper, cardboard, cloth or other binding material by sewing, perfect or burst binding, saddle or side stapling, comb, spiral, ring or post binding, or 'velo-bind'.
- Publications which have the page content shrink-wrapped and placed loose inside ring binders are not eligible for bounty.

2. There must be an absolute minimum of 1000 copies of the book in each production run.

¹ Australian Customs Service (ACS), Guide to the book Bounty, May 1991. ACS advises that this guide has no legal force and should be read in conjunction with the Bounty (Books) Act 1986 (as amended).

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3. Except for the following special cases, the book must contain an absolute minimum of 49 printed pages excluding the covers or any pages which are not an essential part of the book, for example blank pages.

Special Cases:

- Casebound books: no minimum number of pages.
- Text books: books of 16-48 printed pages, (excluding covers and non-essential pages) for use solely or principally in connection with education provided at ‘recognised educational institutions’². (Collections of past examination papers are not regarded as textbooks).
- Children's books: books of 16-48 printed pages, (excluding covers and nonessential pages) intended for children, with or without pictures, where the minimum ‘x-height’ of the text, if any, is not less than 3 mm.

Ineligible books

While a book may meet the general eligibility conditions above it still may not receive bounty if it is one of the following:

A magazine or periodical issued at regular intervals of not more than six months (but not including case bound magazines).

An annual report issued by a body or authority for shareholders or directors, and reports of a similar nature.

A directory or a timetable - in the nature of telephone directories; trade, business or professional directories; accommodation directories; or timetables relating to services if the subject matter relates to Australia, or a place or places in Australia.

A book for making entries, including stationery articles, exercise books, stamp and photo albums, note books, account books, invoice or receipt books, cheque books, diaries and calendars. However combined exercise/text books which mainly contain spaces for answering questions in the book may be eligible.

An actor’s script - a book designed for the sole or principal use of performers which consist of words that are to be spoken or sung by a performer during a performance. A book containing more than the words to be spoken or sung, for example the addition of stage directions, sound effects and

² ‘Recognised educational institutions’ include: Australian pre-school playgroups, pre-schools and kindergartens, primary and secondary schools, technical colleges, colleges of advanced education and universities in Australia, Papua New Guinea, Fiji and most south Pacific countries but do not include any school or institution conducted for the profit of an individual or individuals.

other instructions may be eligible for bounty providing all other requirements of the Act are met.

A specification or a bill of quantity consisting wholly or substantially of specifications; or a bill of quantity for either a building, other structure, plant, equipment or works. Also excluded are specifications for commercial or industrial purposes.

A book produced in whole or in part by photocopying in which one or more pages of the book are produced by photocopying. This exclusion does not include books produced by electronic publishing systems.

A tender document being a book which consists wholly or substantially of a tender document, or a proposal relating to a building or buildings.

A town planning report.

A book intended to be unbound or taken to pieces.

An in-house publication, that is, a book which has been produced by an organisation and all or a substantial number of copies are intended to be used by the organisation. Such a book is also ineligible where it is intended to be used by a group associated with the organisation/s or employees, agents, customers or intended customers of the organisation/s.

A toy book such as a book which incorporates 'stand-up' or movable figures or where a majority of the pages are designed to be removed.

A prohibited import, being books which, if imported, would be considered prohibited imports. A government publication produced, or published, by or on behalf of an instrumentality or authority of the Commonwealth or of a State. The Minister may waive this exclusion if a particular instrumentality or authority of the Commonwealth or of a State produces and/or publishes bountiable books and these authorities are in substantial competition with the private sector. The Northern Territory is considered to be a State for the purposes of book bounty.

A book bound by means of padding, that is, flexible adhesive affixed to one edge.

Tariff Classification: books which would be subject to duty if imported are excluded from bounty; for example, books such as catalogues which are produced by companies to further their commercial interests.

A book which, at the time of production, is intended for export to New Zealand, either directly or indirectly through another country or countries.

D.2 TARIFF PROVISIONS, CUSTOMS TARIFF

NOTE: Unless otherwise indicated, goods produced or manufactured in New Zealand, Papua New Guinea, Forum Island Countries³ and Developing Countries⁴ rates are Free.

<i>Reference Number</i>	<i>Statistical Code/Unit</i>	<i>Goods</i>	<i>Rate #</i>
4801.00.00		NEWSPRINT, IN ROLLS OR SHEETS	Free
4802		UNCOATED PAPER AND PAPERBOARD, OF A KIND USED FOR WRITING, PRINTING OR OTHER GRAPHIC PURPOSES, AND PUNCH CARD STOCK AND PUNCH TAPE PAPER OF 4801.00.00 OR 4803; HAND-MADE PAPER AND PAPERBOARD	
4802.10.00		Hand-made paper and paperboard	Free
4802.20		-Paper and paperboard of a kind used as a base for photo-sensitive, heat-sensitive or electro-sensitive paper or paperboard:	
4802.20.10		Dyeline base paper and paperboard	15%
		From 1 July 1993	DC:10%
			12%
			DC ^a 10%
			DC: 7%
		From 1 July 1994	10% ^b
			DC: 5%
		From 1 July 1995	8% ^b
			DC: 3%
		From 1 July 1996	5% ^b
4802.60		-Other paper and paperboard, of which more than 10 per cent by weight of the total fibre content consists of fibres obtained by a mechanical process:	

³ The Forum Island countries comprise 10 South Pacific islands (refer to Customs Tariff, Schedule 1 for details).

⁴ Refer to Customs Tariff, Schedule 1 for a list of Developing Countries.

^a Denotes the rate of duty for imports of Hong Kong, Republic of Korea, Singapore or Taiwan Province origin.

^b General rate of duty includes rate for Hong Kong, Republic of Korea, Singapore and Taiwan Province.

TARIFF PROVISIONS - Continued
CUSTOMS TARIFF - Continued

<i>Reference Number</i>	<i>Statistical Code/Unit</i>	<i>Goods</i>	<i>Rate #</i>
4802.60.10		-Paper, as follows: (a) having a water absorbency, when tested by the one-minute Cobb method of not less than 45 g/m ² ; (b) containing not less than 70% of mechanical woodpulp; and (c) weighing 40 g/m ² or more but not more than 62 g/m ² .	Free
4810		PAPER AND PAPERBOARD, COATED ON ONE OR BOTH SIDES WITH KAOLIN (CHINA CLAY) OR OTHER INORGANIC SUBSTANCES, WITH OR WITHOUT A BINDER, AND WITH NO OTHER COATING WHETHER OR NOT SURFACE-COLOURED, SURFACE-DECORATED OR PRINTED, IN ROLLS OR SHEETS:	
4810.1		-Paper and paperboard of a kind used for writing, printing or other graphic purposes, not containing fibres obtained by a mechanical process or of which not more than 10% by weight of the total fibre content consists of such fibres:	
4810.11		--Weighing not more than 150 g/m ² :	
4810.11.10		---Cast coated paper and paperboard	Free
4810.11.90		---Other	15% DC: 10%
		From 1 July 1993	12% DC ^a 10% DC: 7%
		From 1 July 1994	10% ^b DC: 5%
		From 1 July 1995	8% ^b DC: 3%
		From 1 July 1996	5% ^b

^a Denotes the rate of duty for imports of Hong Kong, republic of Korea, Singapore or Taiwan Province origin.

^b General rate of duty includes rate for Hong Kong, Republic of Korea, Singapore and Taiwan Province.

TARIFF PROVISIONS - Continued
CUSTOMS TARIFF - Continued

<i>Reference Number</i>	<i>Statistical Code/Unit</i>	<i>Goods</i>	<i>Rate</i>	<i>#</i>
4810.12		--Weighing more than 150 g/m2:		
4810.12.10		---Cast coated paper and paperboard	Free	
4810.12.90		---Other	15% DC: 10%	
		From 1 July 1993	12% DC ^a 10% DC: 7%	
		From 1 July 1994	10% ^b DC: 5%	
		From 1 July 1995	8% ^b DC: 3%	
		From 1 July 1996	5% ^b	
4810.2		-Paper and paperboard of a kind used for writing, printing or other graphic purposes, of which more than 10% by weight of the total fibre content consists of fibres obtained by a mechanical process:		
4810.21.00		--Light-weight coated paper	15% DC: 10%	
		From 1 July 1993	12% DC ^a 10% DC: 7%	
		From 1 July 1994	10% ^b DC: 5%	
		From 1 July 1995	8% ^b DC: 3%	
		From 1 July 1996	5% ^b	

^a Denotes the rate of duty for imports of Hong Kong, Republic of Korea, Singapore or Taiwan Province origin.

^b General rate of duty includes rate for Hong Kong, Republic of Korea, Singapore or Taiwan Province.

TARIFF PROVISIONS - Continued
CUSTOMS TARIFF - Continued

<i>Reference Number</i>	<i>Statistical Code/Unit</i>	<i>Goods</i>	<i>Rate</i>	<i>#</i>
4820		REGISTERS, ACCOUNT BOOKS, NOTE BOOKS, ORDER BOOKS, RECEIPT BOOKS, LETTER PADS, MEMORANDUM PADS, DIARIES AND SIMILAR ARTICLES, EXERCISE BOOKS, BLOTTING-PADS, BINDERS (LOOSE-LEAF OR OTHER), FOLDERS, FILE COVERS, MANIFOLD BUSINESS FORMS, INTERLEAVED CARBON SETS AND OTHER ARTICLES OF STATIONERY, OF PAPER OR PAPERBOARD; ALBUMS FOR SAMPLES OR FOR COLLECTIONS AND BOOK COVERS, OF PAPER OR PAPERBOARD:		
4820.10.00		- Registers, account books, note books, order books, receipt books, letter pads, memorandum pads, diaries and similar articles	15% DC:10%	
				From 1 July 1993
			12% DC ^a 10% DC: 7%	
			10% ^b DC: 5%	From 1 July 1994
			8% ^b DC: 3%	From 1 July 1995
			5% ^b	From 1 July 1996
	15 kg	Diaries		
	16 ..	Other		
4820.20		- Exercise books:		

^a Denotes the rate of duty for imports of Hong Kong, Republic of Korea, Singapore or Taiwan Province origin.

^b General rate of duty includes rate for Hong Kong, Republic of Korea, Singapore or Taiwan Province.

TARIFF PROVISIONS - Continued
CUSTOMS TARIFF - Continued

<i>Reference Number</i>	<i>Statistical Code/Unit</i>	<i>Goods</i>	<i>Rate #</i>
4820.20.10	31 ..	---Work books with printed texts and blank spaces to be filled in	Free
4820.20.90	32 ..	---Other	15% DC:10%
		From 1 July 1993	12% DC ^a : 10% DC: 7%
		From 1 July 1994	10% ^b DC: 5%
		From 1 July 1995	8% ^b DC: 3%
		From 1 July 1996	5% ^b
4820.30.00	18 ..	- Binders (other than book covers), folders and file covers	15% DC:10%
		From 1 July 1993	12% DC ^a : 10% DC: 7%
		From 1 July 1994	10% ^b DC: 5%
		From 1 July 1995	8% ^b DC: 3%
		From 1 July 1996	5% ^b
4820.40.00	19 kg	- Manifold business forms and interleaved carbon sets	15% DC:10%
		From 1 July 1993	12% DC ^a : 10% DC: 7%
		From 1 July 1994	10% ^b DC: 5%
		From 1 July 1995	8% ^b DC: 3%
		From 1 July 1996	5% ^b

^a Denotes the rate of duty for imports of Hong Kong, Republic of Korea, Singapore or Taiwan Province origin.

^b General rate of duty includes rate for Hong Kong, Republic of Korea, Singapore and Taiwan Province.

TARIFF PROVISIONS - Continued
CUSTOMS TARIFF – Continued

<i>Reference Number</i>	<i>Statistical Code/Unit</i>	<i>Goods</i>	<i>Rate #</i>
4820.50.00	20 ..	- Albums for samples or for collections	15% DC:10%
		From 1 July 1993	12% DC ^a : 10% DC: 7%
		From 1 July 1994	10% ^b DC: 5%
		From 1 July 1995	8% ^b DC: 3%
		From 1 July 1996	5% ^b
4820.90.00	21 ..	- Other	15% DC:10%
		From 1 July 1993	12% DC ^a : 10% DC: 7%
		From 1 July 1994	10% ^b DC: 5%
		From 1 July 1995	8% ^b DC: 3%
		From 1 July 1996	5% ^b
4901		PRINTED BOOKS, BROCHURES, LEAFLETS AND SIMILAR PRINTED MATTER, WHETHER OR NOT IN SINGLE SHEETS:	
4901.10.00	01 ..	- In single sheets, whether or not folded	Free
4901.9		- Other:	
4902.91.00	02 No	-- Dictionaries and encyclopaedias, and serial instalments thereof	Free
4901.99		-- Other:	

^a Denotes the rate of duty for imports of Hong Kong, Republic of Korea, Singapore or Taiwan Province origin.

^b General rate of duty includes rate for Hong Kong, Republic of Korea, Singapore and Taiwan Province.

TARIFF PROVISIONS - Continued
CUSTOMS TARIFF – Continued

<i>Reference Number</i>	<i>Statistical Code/Unit</i>	<i>Goods</i>	<i>Rate #</i>
4901.99.10	30 No	---Australian telephone directories and Australian timetables	15% DC:10%
		From 1 July 1993	12% DC ^a : 10%
		From 1 July 1994	DC: 7% 10% ^b
		From 1 July 1995	DC: 5% 8% ^b
		From 1 July 1996	DC: 3% 5% ^b
4901.99.90		---Other	Free
	03 No	<i>Books, booklets:</i> <i>.Fashion books</i>	
	31 No	<i>.Other:</i> <i>..Paperbound or unbound</i>	
	05 No	<i>..Other</i>	
	32 No	<i>Other</i>	
4902		NEWSPAPERS, JOURNALS AND PERIODICALS, WHETHER OR NOT ILLUSTRATED OR CONTAINING ADVERTISING MATERIAL:	
4902.10.00	07 No	- Appearing at least four times a week	Free
4902.90.00		- Other	Free
	08 No	<i>Comics and similar publications where the content is expressed mainly by means of illustrations</i>	
	09 No	<i>Fashion periodicals</i>	
	10 No	<i>Newspapers</i>	
	11 No	<i>Other</i>	
4903.00.00		CHILDREN'S PICTURE, DRAWING OR COLOURING BOOKS	Free
	12 No	<i>Paperbound or unbound</i>	
	13 No	<i>Other</i>	

^a Denotes the rate of duty for imports of Hong Kong, Republic of Korea, Singapore or Taiwan Province origin.

^b General rate of duty includes rate for Hong Kong, Republic of Korea, Singapore and Taiwan Province.

TARIFF PROVISIONS - Continued
CUSTOMS TARIFF – Continued

<i>Reference Number</i>	<i>Statistical Code/Unit</i>	<i>Goods</i>	<i>Rate #</i>
4904.00.00	14 No	MUSIC, PRINTED OR IN MANUSCRIPT, WHETHER OR NOT BOUND OR ILLUSTRATED	Free
4905		MAPS AND HYDROGRAPHIC OR SIMILAR CHARTS OF ALL KINDS, INCLUDING ATLASES, WALL MAPS, TOPOGRAPHICAL PLANS AND GLOBES, PRINTED:	
4905.10.00	15 No	- Globes	Free
4905.9		-Other:	
4905.91.00	16 No	--In book form	Free
4905.99.00	17 No	--Other	Free
4906.00.00		PLANS AND DRAWINGS FOR ARCHITECTURAL, ENGINEERING, INDUSTRIAL, COMMERCIAL, TOPOGRAPHICAL OR SIMILAR PURPOSES, BEING ORIGINALS DRAWN BY HAND; HAND-WRITTEN TEXTS; PHOTOGRAPHIC REPRODUCTIONS ON SENSITISED PAPER AND CARBON COPIES OF THE FOREGOING	Free
	18 No	<i>Fashion designs</i>	
	19 No	<i>Other</i>	
4907		UNUSED POSTAGE, REVENUE OR SIMILAR STAMPS OF AUSTRALIA, OF CURRENT OR NEW ISSUE; STAMP-IMPRESSED PAPER; BANKNOTES; CHEQUE FORMS; STOCK, SHARE OR BOND CERTIFICATES AND SIMILAR DOCUMENTS OF TITLE:	
4907.00.10	33 ..	---Stamps and banknotes	Free

TARIFF PROVISIONS - Continued
CUSTOMS TARIFF – Continued

<i>Reference Number</i>	<i>Statistical Code/Unit</i>	<i>Goods</i>	<i>Rate #</i>
4907.00.90		--- Other	15% DC:10%
		From 1 July 1993	12% DCa: 10% DC: 7%
		From 1 July 1994	10% ^b DC: 5%
		From 1 July 1995	8% ^b DC: 3%
		From 1 July 1996	5% ^b
	20 TH ²¹	<i>Travellers cheques</i>	
	34 ..	<i>Other</i>	
4908		TRANSFERS (DECALCOMANIAS):	
4908.10.00	22 ..	-Transfers (decalcomanias), vitrifiable	15% DC:10%
		From 1 July 1993	12% DC ^a : 10% DC: 7%
		From 1 July 1994	10% ^b DC: 5%
		From 1 July 1995	8% ^b DC: 3%
		From 1 July 1996	5% ^b
4908.90.00	23 ..	- Other	15% DC:10%
		From 1 July 1993	12% DCa: 10% DC: 7%
		From 1 July 1994	10% ^b DC: 5%
		From 1 July 1995	8% ^b DC: 3%
		From 1 July 1996	5% ^b

^a Denotes the rate of duty for imports of Hong Kong, Republic of Korea, Singapore or Taiwan Province origin.

^b General rate of duty includes rate for Hong Kong, Republic of Korea, Singapore and Taiwan Province.

²¹ No. of thousands (that is, 10 is 10 000)

TARIFF PROVISIONS - Continued
CUSTOMS TARIFF – Continued

<i>Reference Number</i>	<i>Statistical Code/Unit</i>	<i>Goods</i>	<i>Rate #</i>
4909.00.00		PRINTED OR ILLUSTRATED POSTCARDS; PRINTED CARDS BEARING PERSONAL GREETINGS, MESSAGES OR ANNOUNCEMENTS, WHETHER OR NOT ILLUSTRATED, WITH OR WITHOUT ENVELOPES OR TRIMMINGS	15% DC:10%
		From 1 July 1993	12% DC ^a : 10% DC: 7%
		From 1 July 1994	10% ^b DC: 5%
		From 1 July 1995	8% ^b DC: 3%
		From 1 July 1996	5% ^b
	24 No	<i>Posters and showcards for advertising and commercial purposes</i>	
	25 No	<i>Other</i>	
4910.00.00	26 ..	CALENDARS OF ANY KIND, PRINTED, INCLUDING CALENDAR BLOCKS	15% DC:10%
		From 1 July 1993	12% DCa: 10% DC: 7%
		From 1 July 1994	10% ^b DC: 5%
		From 1 July 1995	8% ^b DC: 3%
		From 1 July 1996	5% ^b
4911		OTHER PRINTED MATTER, INCLUDING PRINTED PICTURES AND PHOTOGRAPHS:	
4911.10		-Trade advertising material, commercial catalogues and the like:	
4911.10.10	35 ..	---Catalogues of visual or auditory material of an educational, scientific or cultural character	Free

^a Denotes the rate of duty for imports of Hong Kong, Republic of Korea, Singapore or Taiwan Province origin

^b General rate of duty includes rate for Hong Kong, Republic of Korea, Singapore and Taiwan Province.

TARIFF PROVISIONS - Continued
CUSTOMS TARIFF – Continued

<i>Reference Number</i>	<i>Statistical Code/Unit</i>	<i>Goods</i>	<i>Rate #</i>
4911.10.90	36 ..	--- Other	15% DC:10%
		From 1 July 1993	12% DC ^a : 10%
		From 1 July 1994	DC: 7% 10% ^b
		From 1 July 1995	DC: 5% 8% ^b
		From 1 July 1996	DC: 3% 5% ^b
4911.9		- Other:	
4911.91.00	28 ..	-- Pictures, designs and photographs	11% DC: 6%
		From 1 July 1992	10% DC: 5%
		From 1 July 1993	9% DCa: 5%
		From 1 July 1994	DC: 4% 8% DCa: 5%
		From 1 July 1995	DC: 3% 7% DCa: 5%
		From 1 July 1996	DC: 2% 5% ^b
4911.99.00	29 ..	-- Other	15% DC:10%
		From 1 July 1993	12% DCa: 10%
		From 1 July 1994	DC: 7% 10% ^b
		From 1 July 1995	DC: 5% 8% ^b
		From 1 July 1996	DC: 3% 5% ^b

a. Denotes the rate of duty for imports of Hong Kong, Republic of Korea, Singapore or Taiwan Province origin

b General rate of duty includes rate for Hong Kong, Republic of Korea, Singapore and Taiwan Province.

Chapter notes to Chapter 49

1. This Chapter does not cover:
 - a) Photographic negatives or positives on transparent bases (Chapter 37);
 - b) Maps, plans or globes, in relief, whether or not printed (9023.00.00);
 - c) Playing cards or other goods of Chapter 95; or
 - d) Original engravings, prints or lithographs (9702.00.00), postage or revenue stamps, stamp-postmarks, first-day covers, postal stationery or the like of 9704.00.00, antiques of an age exceeding one hundred years or other articles of Chapter 97.
2. For the purposes of Chapter 49, 'printed' also means reproduced by means of a duplicating machine, produced under the control of a computer, embossed, photographed, photocopied, thermocopied or typewritten.
3. Newspapers, journals and periodicals which are bound otherwise than in paper, and sets of newspapers, journals or periodicals comprising more than one number under a single cover are to be classified in 4901, whether or not containing advertising material.
4. 4901 also covers:
 - a) A collection of printed reproductions of, for example, works of art or drawings, with a relative text, put up with numbered pages in a form suitable for binding into one or more volumes;
 - b) A pictorial supplement accompanying, and subsidiary to, a bound volume; and
 - c) Printed parts of books or booklets, in the form of assembled or separate sheets or signatures, constituting the whole or a part of a complete work and designed for binding.

However, printed pictures or illustrations not bearing a text, whether in the form of signatures or separate sheets, fall in 4911.
5. Subject to Note 3 to this Chapter, 4901 does not cover publications which are essentially devoted to advertising (for example, brochures, pamphlets, leaflets, trade catalogues, year books published by trade associations, tourist propaganda). Such publications are to be classified in 4911.
6. For the purposes of 4903.00.00, 'children's picture books' means books for children in which the pictures form the principal interest and the text is subsidiary.

D.3 SOME TARIFF CONCESSION ORDERS

Reference Number	General description of certain goods ²⁶	
4802.60	Paper, printing , commonly known as ‘Bible Paper’	TC 8733909
4804.31	Saturating Kraft Paper	TC 8535388
4804.31	Saturating Kraft Paper, high wet strength, etc	TC 8535389
4804.41	Saturating Kraft Paper	TC 8732192
4805.70	Outer sleeve material	TC 8634160
4810.39	Paperboard, coated on one or both sides	TC 8733216
4811.29	Stamp paper, clay coated, wood free etc	TC 8633690
4811.39	Book Cloth	TC 8434749
4811.40	Covers, tympan, designed for use with printing presses	TC 8906485
4811.40	Paper and paperboard, wax barrier coated, used in production of printer’s proofs etc	TC 8439193
4811.90	Base paper, wood free	TC 8439177
4811.90	Electrosensitive Paper	TC 8732025
4811.90	Paper and paperboard, cloth lined	TC 8439196
4823.90	Endsheets, oversew, book binding	TC 8632793
4823.90	Masking Paper used to assist printing	TC 8530131
4823.90	Paperboard, embossing	TC 8732310

²⁶ Only the group of goods is described here. For full and detailed description of the specific type of good for which a commercial Tariff Concession Order was issued refer Customs Tariffs, Schedule of Concessional Instruments, Part 1, Tariff Concession Orders.

D.4 SOME RELEVANT BY-LAW ITEMS AND INSTRUMENTS LISTED IN SCHEDULE 4 OF THE CUSTOMS TARIFF

Item	Treat Code	Goods	Rate
1A	401	Books, publications and documents to which Annex A of the United Nations Educational, Scientific and Cultural Organisation (UNESCO) Agreement on the Importation of Educational, Scientific and Cultural Materials or Annex A of the Protocol to the Agreement adopted by UNESCO at its 19th session in Nairobi in 1976 applies, as prescribed by by-law.	Free
37A	646	Goods classified under 3705.10.00 of Schedule 3, as prescribed by by-law. (Item 37A applies to exposed film, for use in the printing of either: (a) the international content of newspapers, magazines or periodicals; or (b) books which, if imported, would be free of duty, under security. This by-law took effect on and from 6 May 1992).	Free
39A	626	Printing paper for use in the production of magazines, newspapers, periodicals, posters and other printed matter of a kind that, if imported, would be classified within Chapter 49, as prescribed by by-law.	Free
57		Raw materials and intermediate goods, as prescribed by by-law, classified under subheading 1519.2 or heading 5903 or within Chapters 28, 29, 32, 34, 35 37, 38, 39 or 48 of Schedule 3 which are ineligible for a Commercial Tariff Concession Order and in the opinion of the Minister have a substantial and demonstrable performance advantage, in the production of a specific end product, over goods serving similar functions which are produced in Australia. (One by-law relevant to book production has been made under this item. This instrument reads as follows. By-law No. 9140070: This by-law shall take effect on and from 1 October 1991. Item 57 ... applies to nitrocellulose- or pyroxolin-coated cotton fabric, for use in book binding, under security).	Free

D.5 EXTRACTS FROM FLORENCE AGREEMENT and NAIROBI PROTOCOL

NO. 1734. AGREEMENT ON THE IMPORTATION OF EDUCATIONAL, SCIENTIFIC AND CULTURAL MATERIALS, OPENED FOR SIGNATURE AT LAKE SUCCESS, NEW YORK, ON 22 NOVEMBER 1950

The contracting States,

...

have therefore agreed to the following provisions:

1. The contracting States undertake not to apply customs duties or other charges on, or in connexion with, the importation of:

- (a) Books, publications and documents, listed in Annex A to this Agreement;
- (b) Educational, scientific and cultural materials, listed in Annexes B, C, D and E to this Agreement;

which are the products of another contracting State, subject to the conditions laid down in those annexes.

2. The provisions of paragraph 1 of this article shall not prevent any contracting State from levying on imported materials:

- (a) Internal taxes or any other internal charges of any kind, imposed at the time of importation or subsequently, not exceeding those applied directly or indirectly to like domestic products;
- (b) Fees and charges, other than customs duties, imposed by governmental authorities on, or in connexion with, importation, limited in amount to the approximate cost of the services rendered, and representing neither an indirect protection to domestic products nor a taxation of imports for revenue purposes.

ANNEX A

Books, Publications and Documents

- (i) Printed books.
- (ii) Newspapers and periodicals.
- (iii) Books and documents produced by duplicating processes other than printing.
- (iv) Official government publications, that is, official, parliamentary and administrative documents published in their country of origin.
- (v) Travel posters and travel literature (pamphlets, guides, timetables, leaflets and similar publications), whether illustrated or not, including those published by private commercial

-
- enterprises, whose purpose is to stimulate travel outside the country of importation.
- (vi) Publications whose purpose is to stimulate study outside the country of importation.
 - (vii) Manuscripts, including typescripts.
 - (viii) Catalogues of books and publications, being books and publications offered for sale by publishers or booksellers established outside the country of importation,
 - (xi) Catalogues of films, recordings or other visual and auditory material of an educational, scientific or cultural character, being catalogues issued by or on behalf of the United Nations or any of its specialised agencies.
 - (x) Music in manuscript or printed form, or reproduced by duplicating processes other than printing.
 - (xi) Geographical, hydrographical or astronomical maps and charts.
 - (xii) Architectural, industrial or engineering plans and designs, and reproductions thereof, intended for study in scientific establishments or educational institutions approved by the competent authorities of the importing country for the purposes of duty-free admission of these types of articles.

(The exemptions provided by Annex A shall not apply to:

- (a) Stationery;
- (b) Books, publications and documents (except catalogues, travel posters and travel literature referred to above) published by or for a private commercial enterprise, essentially for advertising purposes;
- (c) Newspapers and periodicals in which the advertising matter is in excess of 70 per cent by space;
- (d) All other items (except catalogues referred to above) in which the advertising matter is in excess of 25 per cent by space. In the case of travel posters and literature this percentage shall apply only to private commercial advertising matter.)

PROTOCOL TO THE AGREEMENT ON THE IMPORTATION OF EDUCATIONAL, SCIENTIFIC AND CULTURAL MATERIALS

Nairobi, 26 November 1976

The Contracting States parties to the Agreement on the Importation of Educational, Scientific and Cultural Materials, adopted by the General Conference of the United Nations Educational, Scientific and Cultural Organisation at its fifth session held in Florence in 1950,

...

have agreed as follows:

- 1 The Contracting States undertake to extend to the materials listed in Annexes A, B, D and E and also, where the annexes in question have not been the subject of a declaration under paragraph 16 (a) below, Annexes C.1, F, G, and H, to the present protocol exemption from customs duties and other charges on, or in connexion with their importation as set out in Article 1, paragraph 1, of the Agreement, provided such materials fulfil the conditions laid down in these annexes and are the products of another contracting State.
- 2 The provisions of paragraph 1 of this protocol shall not prevent any contracting State from levying on imported materials:
 - (a) internal taxes or any other internal charges of any kind, imposed at the time of importation or subsequently, not exceeding those applied directly or indirectly to like domestic products.;
 - (b) fees and charges, other than customs duties, imposed by governmental or administrative authorities on, or in connexion with, importation, limited in amount to the approximate cost of the services rendered, and representing neither an indirect protection to domestic products nor a taxation of imports for revenue purposes.

ANNEX A

Books, Publications and Documents

- (1) Printed books, irrespective of the language in which they are printed and whatever the amount of space given over to illustrations, including the following:
 - (a) luxury editions;
 - (b) books printed abroad from the manuscript of an author resident in the importing country;
 - (c) children's drawing and painting books;
 - (d) school exercise books (workbooks) with printed texts and blank spaces to be filled in by the pupils;

-
- (e) crossword puzzle books containing printed texts;
 - (f) loose illustrations and printed pages in the form of loose or bound sheets and reproduction proofs or reproduction films to be used for the production of books.
- (2) Printed documents or reports of a non-commercial character.
 - (3) Microforms of the articles listed under items (1) and (2) of this Annex, as well as of those items listed under items (i) to (vi) of Annex A to the Agreement.
 - (4) Catalogues of films, recordings or other visual and auditory material of an educational, scientific or cultural character.
 - (5) maps and charts of interest in scientific fields such as geology, zoology, botany, mineralogy, palaeontology, archaeology, ethnology, meteorology, climatology, and geophysics, and also meteorological and geophysical diagrams.
 - (6) Architectural, industrial or engineering plans and designs and reproductions thereof.
 - (7) Bibliographical information material for distribution free of charge.

D.6 Annex H of Nairobi Protocol (not agreed to by Australian Government)

The Publishers Group has requested the Australian Government to agree to be bound by the following Annex H to the Protocol, so that tariffs would not be imposed on its inputs or the plant and machinery necessary to produce publications in Australia. Annex H reads as follows:

Materials and machines used for the production of books, publications and documents

- (i) Material used for the production of books, publications and documents (paper pulp, recycled paper, newsprint and other types of paper used for printing, printing inks, glue, etc.).
- (ii) Machines for the processing of paper pulp and paper and also printing and binding machines, provided that machines of equivalent technical quality are not being manufactured in the importing country.

APPENDIX E: THE DISTRIBUTION OF BOUNTY PAYMENTS

Bounty payments are mostly directed to a few large book producers. Most book producers receive only small payments, and the minimum claim threshold operating since 1988 denies bounty to an unknown number of otherwise eligible book producers. The Bounty (Books) Act 1986 requires the Australian Customs Service (ACS) to table data on the bounty in Parliament annually. The material in this appendix is derived from those data.

E.1 Total book bounty payments

In 1991-92 total book bounty payments amounted to \$21.5 million, down from \$24.2 million in the previous year. This decline is partly attributed to a reduction in average bounty rates between the two years, and partly to subdued economic conditions.

At the time of finalising this report, detailed information on bounty payments for 1991-92 was not available. The most recent information in this appendix on the distribution of bounty payments is therefore for the year 1990-91.

Table E.1 shows that in constant 1986-87 prices, the real value of book bounty payments in 1990-91 was much the same as in 1986-87. This was despite a reduction in the average rate of bounty paid from 22.5 per cent to 15 per cent.

Table E.1: **Total book bounty payments in nominal and real terms, and number of recipients, 1986-87 to 1990-91**

	1986-87	1987-88	1988-89	1989-90	1990-91
Bounty paid (\$ '000)	18 319	20 784	25 537	24 058	24 214
In constant 1986-87 prices ^a , bounty paid (\$ '000)	18 319	19 424	22 883	20 668	19 543
Average payment ^b (\$)	22 569	30 430	37 334	35 961	36 033
In constant 1986-87 prices ^a , average payment (\$)	22 569	28 439	33 453	30 894	29 082
No. of recipients	825	683	687	667	674

^a Calculated using the price index of production presented in Table B.2.

^b Commission estimates.

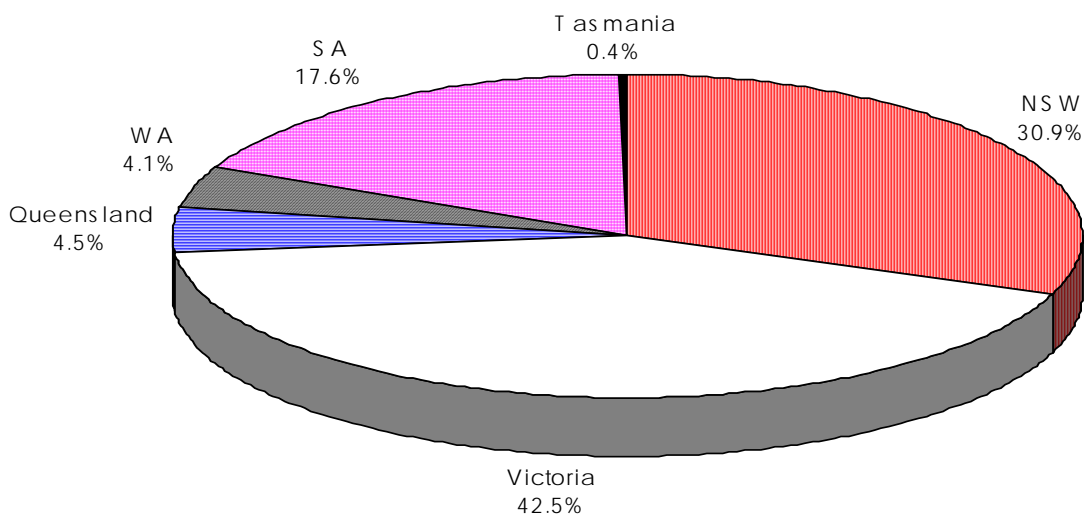
Source: ACS.

There are three major reasons why payments were maintained in real terms between 1986-87 and 1990-91. Firstly, the commencement of the new Bounty (Books) Act 1986 extended the range of books eligible for bounty. Secondly, bountiable book production increased strongly along with general economic activity (domestic and international) during the period from 1987-88 to 1989-90. The third factor was the effect of inflation on prices and production costs, increasing the nominal value of bountiable book production.¹ The increase in total payments was in spite of the introduction in 1988 of a minimum claim threshold. (The minimum claim was initially set at \$200 but shortly after was increased to \$500, making claims below \$500 ineligible for bounty).

E.2 State statistics

Figure E.1 depicts the percentage of book bounty paid in 1990-91 to claimants in each State. Bounty payments for New South Wales and Victoria accounted for about three quarters of all the book bounty outlays.

Figure E.1: The distribution of book bounty payments by States, 1990-91



Source: ACS.

¹ The books, newspapers and magazines component of the consumer price Index increased by about 33 per cent between 1986-87 and 1990-91 (ABSa).

Details for each State for the five years up to 1990-91 are provided in Table E.2.

Table E.2: Book bounty payments and number of recipients by State, 1986-87 to 1990-91

	1986-87a	1987-88a	1988-89	1989-90	1990-91
New South Wales^b					
Payment (\$ '000)	6 227	6 656	8 420	6 470	7 479
No. of recipients	318	249	260	245	256
Victoria					
Payment (\$ '000)	7 937	9 408	10 653	10 336	10 298
No. of recipients	252	189	193	197	178
Queensland					
Payment (\$ '000)	745	1 184	1 414	1 142	1 100
No. of recipients	91	117	98	82	100
Western Australia					
Payment (\$ '000)	724	514	580	1 036	983
No. of recipients	61	43	47	65	70
South Australia					
Payment (\$ '000)	2 570	2 866	4 304	4 953	4 249
No. of recipients	79	60	62	57	47
Tasmania					
Payment (\$ '000)	89	156	165	121	106
No. of recipients	21	25	27	21	23
Total					
Payment (\$ '000)	18 319 ^c	20 784	25 537	24 058	24 214
No. of recipients	825	683	687	667	674

a The figures for 1986-87 and 1987-88 include claims made under both the Bounty (Books) Act 1969 and Bounty (Books) Act 1986. Where a firm claimed under the two Acts, they were counted as one claim.

b Includes figures for the Australian Capital Territory.

c The total for 1986-87 includes an insignificant amount for the Northern Territory. Since then, the Northern Territory has not registered any claims as recorded by the ACS.

Source: ACS.

E.3 Distribution of bounty payments

Book bounty payments are not evenly distributed amongst claimants. Many claimants receive relatively little bounty while a few recipients receive very large payments.

Of the total number of recipients 83 per cent shared only 10 per cent of the \$24.2 million paid to claimants in 1990-91 with the remaining 17 per cent of claimants receiving 90 per cent, or \$21.8 million.

Affiliates of the largest two claimants of book bounty -- Pacific Magazines and Printing Ltd and McPherson's Ltd -- accounted for more than 37 per cent of the value of book bounty payments in 1990-91. These two firms make up only 0.3 per cent of the number of book bounty recipients. The operating units that they encompass are: Pacific Magazines and Printing Ltd -- Griffin Press Pty Ltd (\$3 582 206) and Wilke and Company Pty Ltd (\$1 009 684); McPherson's Ltd -- McPherson's Printing Pty Ltd (2 271 856), Globe Press Pty Ltd (\$1 144 862) and Macarthur Press (Sales) Pty Ltd (\$742 779).

Table E.3: **Percentage of book bounty received by percentage of claimants**

<i>Percentage of total bounty received</i>	<i>Percentage of recipients</i>				
	<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>	<i>1989-90</i>	<i>1990-91</i>
<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>
25	0.2	0.3	0.3	1.5	0.3
50	2.0	1.5	1.3	2.4	1.0
75	7.0	7.0	6.0	7.0	5.0
90	22.0	22.0	19.0	20.0	17.0

Source: ACS.

Table E.4: **Number and percentage of recipients of book bounty by amount received**

<i>Bounty Received</i>	<i>1986-87</i>		<i>1987-88</i>		<i>1988-89</i>		<i>1989-90</i>		<i>1990-91</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
Less than \$2 000	357	43.3	218	31.9	214	31.1	223	33.4	238	35.4
\$2 000 to \$10 000	267	32.4	272	39.8	280	40.8	249	37.3	255	37.8
\$10 001 to \$100 000	171	20.7	160	23.4	156	22.7	156	23.4	143	21.2
\$100 001 to \$1m	28	3.4	31	4.5	33	4.8	34	5.1	33	4.9
over \$1m	2	0.2	2	0.3	4	0.6	5	0.8	5	0.7
Total	825	100.0	683	100.0	687	100.0	667	100.0	674	100.0

Source: ACS.

The percentage of recipients classified by the amount of book bounty that they received is depicted in Table E.5.

There may be instances when companies combine smaller claims so that the total claim is eventually greater than the dollar limits shown above (say \$2000). Accordingly the number or percentage of recipients receiving less than \$2000 does not necessarily represent all claims of less than \$2000.

Table E.5: **Percentages of total bounty payments by amount received**

<i>Total Bounty Payment</i>	<i>1988-89</i> %	<i>1989-90</i> %	<i>1990-91</i> %
Less than \$2 000	0.9	1.0	1.1
\$2 000 to \$10 000	5.4	5.0	4.9
10 001 to \$100 000	20.1	18.1	18.8
\$100 001 to \$1m	38.6	33.8	36.7
over \$1m	35.0	42.1	38.6
Total	100.0	100.0	100.0

Source: ACS.

E.4 Bounty payments for book titles

In 1989-90, book bounty was paid on the production of 13 985 titles in Australia. Of these, 5 161 payments were for amounts of less than \$2000 (see Table E.6). This was equivalent to 37 per cent of the total number of book titles that received bounty payment. In 1990-91, bounty was paid on 10 661 titles, of which, 3 410 payments were for amounts of less than \$2000 -- equivalent to 32 per cent of the total number of eligible titles -- a fall from the previous year.

In 1989-90, \$6 027 006 was paid in amounts of \$2000 or less. This was equivalent to 25 per cent of the total book bounty paid. In 1990-91 this amount was \$4 171 929 -- equivalent to only 17 per cent of the total book bounty paid.

The fall in bounty payments of less than \$2000 probably reflects changes in bounty arrangements. The rate at which bounty was paid fell from an average of 17 per cent in 1989-90 to an average of 15 per cent in 1990-91. This reduction followed the implicit increase to the value of bountiable production needed to meet the minimum claim requirement from \$2778 in July-December 1989 to \$3571 in January-June 1991.

From Table E.4 it can be seen that around 230 recipients received bounty payments of less than \$2000 in 1989-90 and 1990-91. However, from Table E.6, it can be seen that 5161 and 3410 book titles in 1989-90 and 1990-91 respectively received bounty payments of less than \$2000. Therefore, a significant number of recipients who received more than \$2000 annually in total bounty payments received many individual book title bounty payments of less than \$2000 each.

Table E.6: **Total value of book bounty payments and number of book titles paid by size of bounty payment 1989-90 and 1990-91**

Bounty payment	1989-90		1990-91	
	Payments \$'000	Titles No.	Payments \$'000	Titles No.
\$500 to < \$750	684	1 091	297	475
\$750 to < \$1 000	787	908	499	564
\$1 000 to < \$1 250	996	896	544	513
\$1 250 to < \$1 500	1 280	936	1 102	808
\$1 500 to < \$1 750	1 447	883	817	531
\$1 750 to < \$2 000	832	447	915	519
\$2 000 to < \$2 250	633	300	754	353
\$2 250 to < \$2 500	742	311	803	365
> \$2 500	16 670	8 213	18 402	6 533
Total ^a	24 072	13 985	24 131	10 661

a There is a discrepancy between the bounty totals above and those in Table E.1 because the ACS used raw data and repayments are not included in the above, whereas in its *Return for Parliament*, the data have been refined.
Source: ACS (Submission No. 19, Appendix D).

APPENDIX F: ECONOMIC CONSEQUENCES OF BOUNTIES AND TARIFFS

Book producers in Australia may receive assistance through a bounty payable on production cost, or a tariff levied on imports. Each measure has different effects on the price and quantity of books printed in Australia. Bounties generally increase the returns Australian printers receive for books, causing local book production to rise, and book imports to fall. Tariffs generally raise the price of imports. This allows domestic producers to sell more books at a higher price, and to replace imports. Thus both bounties and tariffs increase domestic production although bounties do not raise prices as tariffs do. The cost of the bounty is paid by tax-payers; consumers pay the extra costs associated with the tariff mechanism. By-laws and CTCOs allow book producers to import some types of materials duty free under certain conditions. This reduces the cost of inputs, and makes local production more cost competitive with overseas printers.

F.1 The effects of a bounty on the price and quantity of books printed in Australia

The diagram which follows illustrates the impact of introducing a book bounty on the level of book printing and the cost of printing books in Australia. It assumes that all book printing services are perfect substitutes, even though in reality this is not the case.¹

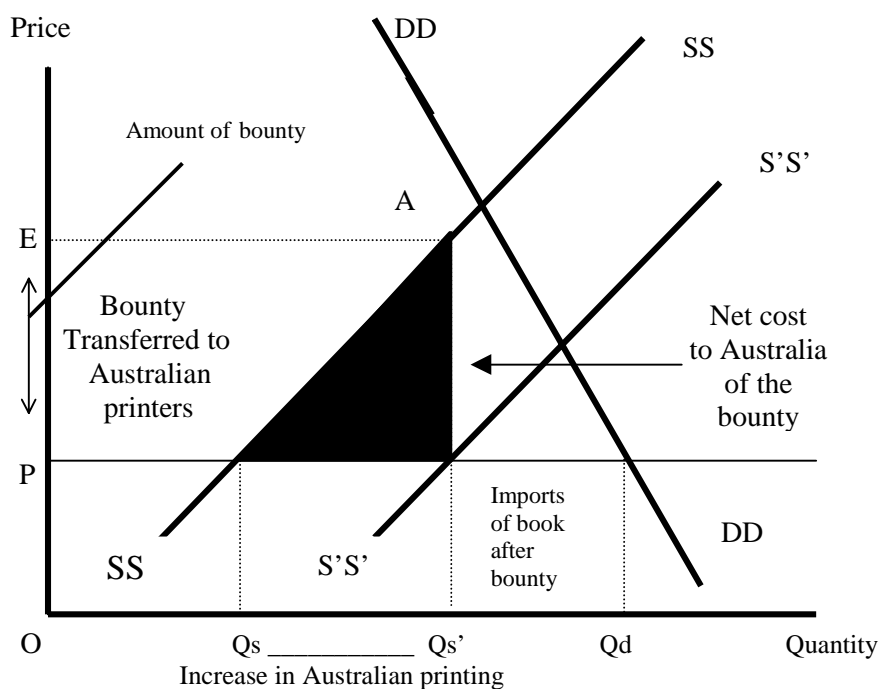
The demand for book printing services is generated by publishers, and derived from the demand for books. While for some books, demand may be insensitive to price (price inelastic), the demand for most books is said to be sensitive to price (price elastic). Therefore, the demand for book printing services has been assumed to be price elastic and the schedule of demand for book printing services (marked DD) is shown to be gently downward sloping.

The degree to which books are not homogeneous may also affect the composition of the book market, but it is unlikely to have a significant impact on the size of that market. As the demand for book printing services depends more on the size of the book market than on the composition of that market, changes in the demand for individual book titles may have little impact on the demand for book printers' services.

¹ The theoretical approach used in this appendix relies on the assumption that all books are produced in the same way, and that any Australian printer can print any type of book. However, in reality this is not the case, and hence the diagrams may not reflect the true demand for book printing and the actual costs of supplying book printing services.

The supply of book printing services is determined by printers' costs. These costs include pre-press work (such as typesetting, artwork, layout, colour separation and platemaking), printing, binding, packaging and transporting the finished products to the purchaser. The cost of producing a first run of a book is typically higher than the cost of reprinting a book.

Figure F.1: The intended effects of a bounty on book printing



where:

- DD the demand for book printing services by Australian publishers at different prices;
- SS the level of book printing services Australian printers are willing to supply at different prices without the bounty;
- S'S' the level of book printing services Australian printers are willing to supply at different prices with the bounty;
- OP the world price for book printing services;
- Qs the quantity of books produced in Australia without the bounty;
- Qs' the quantity of books produced in Australia with the bounty;
- Qd the quantity of books purchased by Australian publishers with or without the bounty.

Before the bounty is introduced, the quantity of printing purchased by Australian publishers is Qd, of which Qs is supplied by Australian book printers and (Qd-Qs) is supplied by overseas printers.

Australian book printers receive the world price (OP) for their printing, an amount some printers in Australia are willing to accept.

After the bounty is introduced, Australian printers receive the world price (OP) plus the amount of the bounty for each book printed.² This encourages them to increase their production from Q_s to Q_s' . However, the bounty does not raise or lower the price Australians have to pay for book printing services, and so the quantity of printing sold in Australia does not change. Rather, imports fall from $(Q_d - Q_s)$ to $(Q_d - Q_s')$.

The bounty is funded by Australian tax-payers. The amount they pay is shown in Figure F.1 as the area ABPE. Of this amount, the area ACPE is transferred to Australian book printers, and the area ABC is the additional cost to Australia of producing $(Q_s' - Q_s)$ books in Australia instead of purchasing those books from foreign printers at the world price. This additional cost could have been avoided if Australians had purchased these books from foreign printers, instead of from Australian printers.³

F.2 Price and quantity effects of a tariff

The production in Australia of some types of books is not assisted by a bounty, but is assisted by a 15 per cent tariff levied on imports of those types of books from most countries.⁴ These books include Australian telephone directories, note books, account books, timetables and some other books. The impact of a tariff differs from that of a bounty, and is analysed in this section.

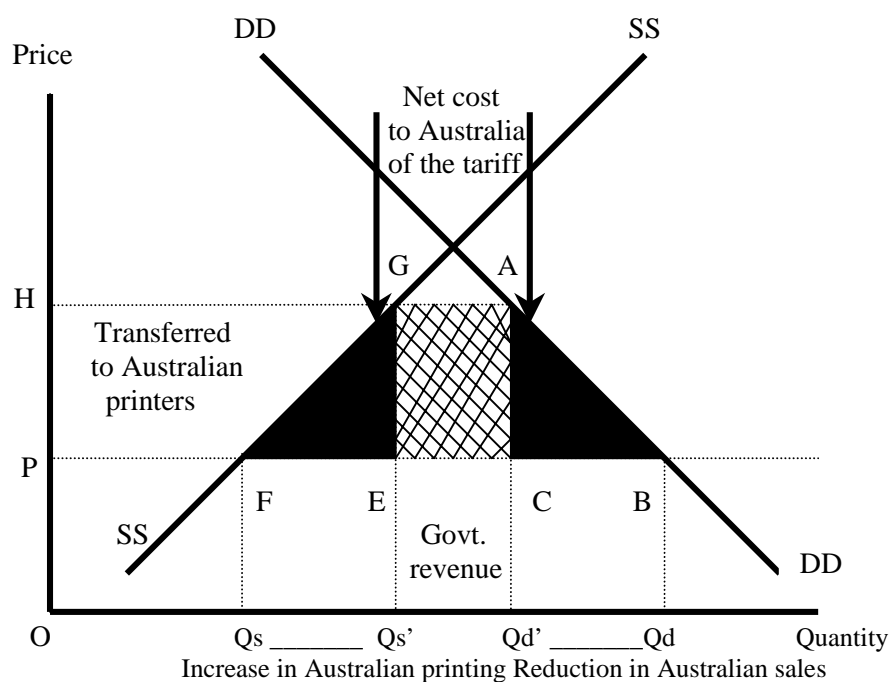
The impact of a tariff is to increase the price of imported books, enabling Australian printers to increase the price they receive for printing books and encouraging them to print more books. This situation is illustrated in Figure F.2.

² The actual amount of bounty retained by the Australian printer will depend on the elasticities of demand for and supply of book printing services. If demand is completely inelastic or supply is perfectly elastic, the entire bounty will pass on to consumers because the bounty does not increase the buyer's willingness to pay to the printer's ability to supply.

³ The outcomes described in this appendix related only to the situation where the prices of other goods which compete with books are not artificially increased by assistance arrangements or other forms of government intervention. Where the prices of these other goods are distorted by such measures, then the outcomes would be different.

⁴ A lower rate of tariff is imposed on these types of books when they are imported from developing countries, South Pacific Forum Island countries and New Zealand.

Figure F.2: The effects of a tariff on book printing



where:

- DD the demand for book printing services by Australian publishers at different prices;
- SS the level of book printing services Australian printers are willing to supply;
- OP the world price for book printing services;
- OH the world price for book printing services plus the amount by which the tariff raises the price of book printing services in Australia;
- Qs the quantity of books produced in Australia without the tariff;
- Qs' the quantity of books produced in Australia with the tariff;
- Qd the quantity of books purchased by Australian publishers without the tariff;
- Qd' the quantity of books purchased by Australian publishers with the tariff.

Before the tariff is introduced, the quantity of books purchased in Australia is Q_d , of which Q_s are supplied by Australian printers and $Q_d - Q_s$ are imported. The price of book printing services in Australia is the world price (OP). After the tariff is introduced, Australian printers receive the world price (OP) plus the amount by which the tariff raises the cost of book printing services in Australia (PH). Australian printers' production rises to Q_s' , and the quantity of books purchased by Australians falls to Q_d' . Imports fall from $(Q_d - Q_s)$ to $(Q_d' - Q_s')$.

Like the introduction of a bounty, the introduction of a tariff also leads to transfers in wealth between different groups in society. The cost of the tariff (shown as the area ABPH in Figure F.2) is borne by Australian consumers who now purchase fewer books at higher prices. Some of this amount is transferred to Australian printers who now receive higher prices for their printing, and who now sell more books than before. They receive the area GFPH. Some is transferred to the Government as revenue (shown as the area ACEG -- the level of the tariff multiplied by the number of books imported). This leaves consumers with a net loss, shown as the area ABC. This loss reflects the fact that because of the tariff, they can no longer buy $(Q_d - Q_d')$ books at world prices.

Australia itself also loses, as its resources are diverted to book production rather than to other alternative activities.⁵ Australians could have purchased $(Q_s' - Q_s)$ books from foreign printers at the world price instead of producing them in Australia where the cost of resources is higher. This loss is shown as the area EFG.

F.3 Duty-free entry of certain materials under by-laws and commercial tariff concession orders

Any opportunity for Australian book producers to lower their production costs helps them to compete against overseas printers. While many materials used in book production are protected by import duties, some materials can be imported duty free under a range of by-laws and commercial tariff concession orders (CTCOs). The effect of using duty-free materials in place of dutiable materials is illustrated in Figure F.3.

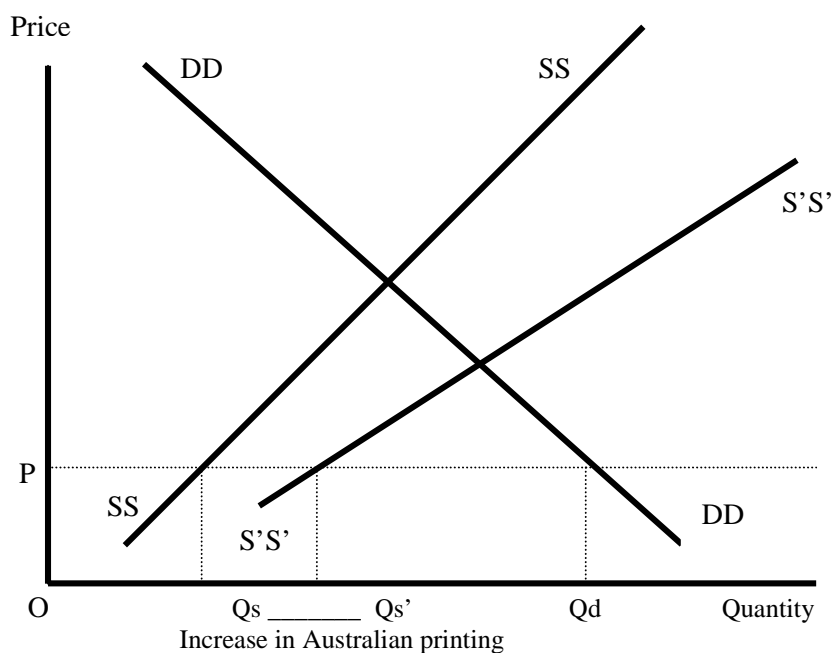
By reducing the cost of some materials to world prices, the cost of producing books in Australia falls. Australian printers are now willing to supply more books at any given price than they were before. Hence, local book production rises, and imports of books fall. Tariff revenue to the Government also falls, as book producers import fewer dutiable materials.

Local production of the previously assisted materials will also fall, as local producers lose market share to imports. Producers of similar products which are protected by tariffs may also lose market share if the goods allowed concessional entry can be used in place of their goods.⁶

⁵ Assuming that these alternatives are not similarly assisted.

⁶ For a more detailed discussion of the effects of CTCOs and by-laws, see IC 1991c.

Figure F.3: The effects of concessional entry of materials under by-law



where:

- DD the demand for book printing services by Australian publishers at different prices;
- SS the level of book printing services Australian printers are willing to supply at different prices without the by-law;
- S'S' the level of book printing services Australian printers are willing to supply at different prices with the by-law;
- OP the world price for book printing services (the price received by Australian printers with or without the by-law);
- Qs the level of printing in Australia without the by-law;
- Qs' the level of printing in Australia with the by-law;
- Qd the quantity of printing purchased by Australian publishers with or without the by-law.

APPENDIX G: TECHNOLOGICAL CHANGE IN BOOK PRODUCTION PROCESSES

Changes to the printing and book production industry have occurred throughout the world at differing rates. The Australian industry has been at the forefront of technological change. It has undergone significant technological advancement since the book bountly was introduced in 1969. The replacement of hot metal typesetting by phototypesetting and etched metal plates changed the basic character of an industry which had retained some of its processes for centuries. Press speeds were improved, make ready times reduced, and multi press units adopted. Faster drying inks became available, and finishing processes such as drying, collating, stitching, and binding became more automated. The pre-press area has seen the greatest changes due to technology with the full impact of desk top publishing yet to be realised.

G.1 The 1960s and 1970s

The most noticeable change to traditional printing in the 1960s and 1970s occurred in the pre-press area. The introduction of phototypesetting and the use of etched aluminium plates for printing replaced hot metal typesetting and the use of metal blocks for printing.¹ This resulted in a significant change in the industry as journeyman typesetters were replaced by less specialised staff using keyboards. This change constituted an electro/photomechanical substitute for mechanical hot metal typesetting. Following the introduction of phototypesetting came the use of optical character recognition typewriters and scanners, electronic computer composition, and direct entry photosetters.²

From the late 1960s, the development of photographic typesetting equipment, and composing machines like those produced by Addressograph, Multigraph and Compugraphic, led publishers of complex works such as mathematical texts or scientific textbooks to establish in-house typesetting facilities, due to the need for close supervision of typesetting work, or because each new edition required constant updating. While typesetting was increasingly undertaken in-house by some publishers, other processes such as layout and book binding were subcontracted to a growing number of specialist firms (PKIU 1991).

¹ Phototypesetting involves the shining of pulsed light through positioned letters on a rotating disc onto a photographic film through lens systems.

² Direct entry photosetters combine the processes of keyboard input and phototypesetter into the one machine.

G.2 The 1970s and 1980s

In the 1970s and 1980s the pre-press area experienced significant technological advancement while printing presses, aided by computerisation, also became faster and produced a higher quality product. During the 1970s and 1980s extensive changes occurred in work organisation skills and production techniques. Many processes such as plate mounting became automated. Developments in electronics, telecommunications and optical engineering restructured the pre-press stages of production into an integrated digital based form of production, particularly for colour elements within a page. These innovations led to the evolution of high quality desk top publishing systems. Eliminating several discrete steps in the pre-press process, desk top publishing gave authors and publishers the capability to prepare text and graphic artwork directly.

The electronic linking of personal computers and other elements of information technology such as facsimile machines and modems³ allowed authors and publishers a considerable degree of flexibility and time saving in the preparation and world wide transmission of print ready material. New production techniques also gave printers a greater degree of flexibility. Full page make up systems (originally designed for newspapers) and sophisticated phototypesetting equipment and scanners (both high cost systems originally) were been modified to make them more suitable to smaller printers' requirements and less expensive.

The integration of many finishing processes with printing machinery has represented the greatest technological advancement in the book finishing area. Laminating equipment, binders, folders, collators and computerised guillotines have been improved and integrated. These new processes have resulted in a general reduction in the number of people employed in these activities.

G.3 The 1990s and beyond

As a general rule, the machinery used in Australian printing is quite new — the majority of machinery is less than 8 years old. The technological path being pursued by the printing industry emphasises flexibility, high quality and speed. The underlying trend is the continued application of computer technology to all aspects of printed product manufacturing.

³ A modem is an electronic device that allows information to be transmitted between computers anywhere in the world by using a telephone communication route.

G.3.1 Desk top publishing

Desk top publishing (also termed electronic publishing) substantially reduces the cost of typesetting and increases the speed and efficiency of the setting and proof reading process, enabling them to be undertaken in-house. Printing can be undertaken in-house using a high quality computer laser printer or by a printing house with text supplied by computer disk and converted electronically into type. The cost of conversion to typesetting using this method is a small proportion of the cost of typesetting without desk top publishing facilities. Publishers and others can undertake their own typesetting using desk top publishing techniques, thus extending book production beyond traditional producers.

Printing work can be prepared and formatted on a computer disk and then printed using a high quality laser printer. Once the original page has been printed it can be photocopied. High quality photocopiers have been developed that enable books to be produced cheaply and quickly on a basis that is competitive in terms of price and quality with an offset printer for runs of up to 3000 copies. Some firms are now specialising in this type of book production.

G.3.2 Computerised books

Compact disk read-only-memory (CD-ROM) computer disks can contain a number of books on the one computer disk (particularly reference books) thus reducing the need for printed books. While possibly reducing the total number of books produced, CD-ROM computer disks may also change the way in which books are produced. If bookstores were supplied with CD-ROM computer disks, they would be able to print copies of books stored on the disk provided they had a high speed and high quality printer.

In designing these electronic books many of the features of traditional books have been retained. The electronic page can be marked so that the novel opens to the page that was last read, and there is margin space for making notes. Added electronic features include sound and graphics, the capability of searching for a particular word or text, and the ability to enlarge the size of text for easier reading.

G.4 Labour

Employment growth is occurring in the computer area of the industry while some traditional trades are becoming obsolete due to technological change. Increased computerisation in the pre-press stages makes basic computer knowledge a necessity. This simplifies the work of some occupations while complicating the work of others. For example, the change to photo composition involving the replacement of the linotype machine by the computer keyboard has rendered obsolete many of the traditional craft skills of compositors. However, journalists and clerical workers can now be

involved in the printing typesetting process. For some tasks, a compositor with three to four years' training has been replaced by a typist with basic training on a computer keyboard. In other instances, highly skilled computer operators are required. Automation of printing presses has become increasingly common with an increased use of instrument engineers (and in some cases, of retrained tradespeople) to maintain the equipment.

APPENDIX H: PAPER RELATED ISSUES

Coated and non-coated papers are major inputs into book production. Paper accounts for between 30 and 60 per cent of the cost of production of most books. An important cost disadvantage flows from the assistance to the book paper producing industry by means of the imposition of duties on imports of some types of paper. These duties, currently 10 and 15 per cent, are to be reduced to 5 per cent by 1 July 1996. This will reduce the cost of producing books in Australia by between 1.5 and 3 per cent.

H.1 Background

Paper is an important input into book production. It represents between 30 and 60 per cent of the cost of production of most books. Its share of costs tends to be at the low end of the range for first editions, but for some large reprints of paperback books, paper may account for as much as 80 per cent of total costs. Associated Pulp and Paper Mills, Paper Division (APPM) said:

While paper costs are said to account for 40% to 80% of the total production costs of books, the actual figures are very much dependent on a range of factors, including the relative efficiency of the book production operation, type of book produced, and type/price of paper used. Taking these factors into consideration, the cost of paper in monocolour and/or paperback books can represent up to 80% of total costs while the cost of paper in higher quality hardback and/or colour printed books is said to be in the vicinity of 40%. (Submission No. 21, Summary, p. i)

H.2 Types of paper used in book production

According to APPM, the main types of paper used in book production are: coated woodfree paper; uncoated woodfree paper; coated mechanical paper; and uncoated mechanical paper.¹

Coated woodfree paper has good strength, colour, aging and printing properties for high quality books. Uncoated woodfree paper is generally comparable, but its printing properties are not as good as coated woodfree paper; it is usually used in the production of higher quality monocolour books.

Uncoated mechanical paper has less desirable properties in terms of strength, colour and aging than the woodfree papers, and is used extensively in the production of paperback books. Coated mechanical paper has better strength, colour and ageing properties than uncoated mechanical paper, and is mainly used for magazines, direct mail advertising, and books which will not be archived.

¹ Paper may be produced by a number of different processes. The main distinction made is between those papers produced from chemical wood-pulp (woodfree' papers) and those papers produced from mechanical wood-pulp ('mechanical' papers).

H.3 The market for book paper

According to APPM, some 33 500 tonnes of paper with a value of around \$50 million were used to produce bountiable books in Australia in 1990-91 (Submission No. 21, p. 10). Uncoated papers accounted for approximately two-thirds and coated papers one-third of this amount (Submission No. 21, p. 13).

This estimate does not include paperboard used in the production of book covers; book papers used by general printers² in the production of bountiable books; and paper used in the production of non-bountiable books.

APPM suggested that if these factors are taken into account, then closer to 40 000 tonnes of paper with a value of around \$60 million may have been used to produce bountiable books in Australia (Submission No. 21, p. 10). APPM stressed that all these figures were estimates.

The Commission received no other estimates of the present size, value or composition of the Australian book paper market.

H.4 Sources of paper

Uncoated paper used in book production in Australia is supplied by APPM, Australian Newsprint Mills (ANM) and Australian Paper Manufacturers (APM), or is imported, principally from developing countries.³ Most coated paper used in book production in Australia is imported -- principally from European and Japanese mills.

Book producers in Asia purchase uncoated paper from paper mills in Brazil, South Korea and Indonesia, and purchase most of their coated paper from paper mills in Japan. They also use some coated papers imported from Germany and Scandinavia.

In the course of its inquiry into the forestry and timber industries, the Resource Assessment Commission (RAC) examined the range of papers consumed in Australia and the scope for replacing imported papers with papers produced locally. In its Forest and Timber Inquiry Final Report, the RAC reported that the cost of certain inputs, labour and power, were in line with competing countries; capital costs of plant construction were higher than for other industrialised

² As opposed to specialist book producers.

³ Table C.5 shows ABS data on imports cleared for home consumption of those types of papers commonly used in book production. However, the Commission is unable to estimate what proportion of these imports was used in book production.

countries but marginally lower than less developed countries; wood prices were low but have now risen; and that the exchange rate was a crucial determinant of international competitiveness. The RAC concluded that on the basis of current levels of demand and current world-scale mill capacities:

domestic production for import replacement is currently feasible only for newsprint. However, import levels of light-weight coated paper approach the level of production required for a world-scale plant. (RAC 1992, p. 318)

The RAC added:

The potential competitiveness of many of the printing and writing papers is limited by the scale of production required or by the size of the Australian market. The exceptions to this are where existing mills can be expanded. The prospects of this being cost-effective are limited since many of Australia's existing plants are relatively old. (RAC 1992, p. 319)

The RAC also considered that problems of resource security, current project approval processes, and environmental regulations affecting pulp and paper mill effluents would have a major impact on the establishment of new pulp and paper mills over the longer term.

H.5 International paper price comparisons

The cost of paper can have a significant impact on the ability of Australian book producers to compete with book producers in Asia. Some participants suggested that book producers in Hong Kong and Singapore were able to purchase paper at prices below those prevailing in Australia, sometimes significantly lower.

Three factors which could raise the cost of paper in Australia relative to its cost in Asia are the limited quantities of paper bought by Australian book producers (meaning that Australian users do not obtain bulk discounts), the cost of transporting paper from foreign suppliers to Australia, and the price effects (on local and imported papers) of the duties imposed on certain types of paper when they are imported into Australia.

Bruce Tory (1987) examined the impact of these factors in 1987 and concluded that after allowing for each factor, the price of imported paper in Australia was very close to the price of imported paper in Hong Kong and Singapore.

This implies that if tariffs were removed, and if imported paper were purchased in Australia in sufficient quantities so as to obtain the bulk discounts obtained by purchasers in Asia, purchasers of paper in Australia would still be disadvantaged by higher freight costs. While in the case of book producers this disadvantage may be offset by freight costs on imports of books printed in Asia, those producing books in Australia for export markets may face a significant cost disadvantage.

H.5.1 Quantity discounts

In most cases, the cost of paper purchased directly from the mill varies with the quantity of paper ordered. According to Tory, discounts on list prices for bulk purchases have been up to 13 per cent (Tory 1987).

Most book producers in Asia purchase paper through paper brokers. They enter into an annual contract with a broker to supply on a daily, weekly, or monthly basis. Others purchase (in particular paper made in European mills) on a job-by-job basis. Some book producers in Asia take advantage of bulk discounts by purchasing directly from the paper mills.

In Australia, some book producers use newsprint to produce low value-added paperback books. ANM, Australia's major supplier of newsprint, does not offer quantity discounts on purchases of newsprint. However bulk discounts may be offered on newsprint sold by foreign paper mills.

H.5.2 Freight costs

According to Tory, book producers in Hong Kong and Singapore face lower freight costs for paper because they are closer to the major overseas suppliers (Japan and Europe), their ports and wharves are more efficient than those in Australia, and they are able to negotiate better freight rates than their Australian counterparts.

H.5.3 Tariffs

The general tariff on imports of most grades of dutiable paper used in book production is currently 15 per cent. Concessional rates of 5, 10 or 12.5 per cent may apply, depending on the country of origin.

Imports of some types of paper (such as newsprint) enter duty-free under substantive tariffs of zero; other types enter duty-free under by-law when used to produce newspapers, magazines and brochures, but not books. Some papers, such as 'bible paper' (very thin, uncoated woodfree paper) enter duty-free under commercial tariff concession orders (CTCOs).

According to APPM, these exceptions to the general rate reduce the weighted average tariff rate on imported printing and writing paper to around 8 per cent; 10 per cent on uncoated paper and 7 per cent on coated paper respectively (Submission No. 21, p. 6).

However, this does not mean that the average rate of duty paid on papers imported for use in book production is around 8 per cent. Many papers which enter duty free are not used in book production. For example, the by-laws which allow duty-free entry of coated papers apply only to papers used in the production of magazines, not books. Of those types of papers used in bountiable book production in 1990-91, the average rates of duty paid were: 9.8 per cent on uncoated

woodfree paper; 3.2 per cent on uncoated mechanical paper; 12.3 per cent on coated woodfree paper; and 4.7 per cent on coated mechanical paper (See Table C.5).

Under Australia's duty drawback scheme, any duties paid on imported goods are refundable when those goods (in whatever way, shape or form) are subsequently exported. Hence tariffs on paper should not affect the price of imported paper used to produce books for export (although they would have an effect when exported books are made from locally produced papers which are protected by, and make full use of, the available tariffs). As the book production bounty is paid on the 'cost' of paper to book producers, some producers may claim bounty on the value of the duty paid on imported paper, and may then claim back the duty paid on that paper when the paper is re-exported in the form of printed books.

H.6 The phasing down of the tariff on paper and its impact on book production

Following the Government's May 1988 Economic Statement, some tariffs on imported paper were phased down from rates of 20 and 25 per cent to rates of 15 and 10 per cent. Under the Government's March 1991 Statement, all tariffs on paper which currently exceed 5 per cent will be phased down over four years to 5 per cent (see Table 2.1). Based on unit cost information provided by participants, this will ultimately reduce the cost of producing a book in Australia by between 1.5 and 3 per cent.⁴

⁴ This assumes that local paper manufacturers are making full use of the currently available tariffs. These estimates were derived by calculating the amount of duty which would have been paid on the paper used in each type of book if that paper had been imported in 1990-91, calculating the amount of duty that would be paid if the same value of paper were imported in 1995-96, subtracting the latter from the former, and dividing the current cost of producing each type of book by the difference in the two amounts of duty.

**APPENDIX I: CURRENT ADMINISTRATIVE
ARRANGEMENTS FOR THE BOOK
BOUNTY**

Section 2(b) of the terms of reference requires the Commission to identify any administrative improvements which could be made to any assistance arrangements. This appendix outlines the administrative arrangements of the current book bounty scheme, as set out in the Bounty (Books) Act 1986.

I.1 Overview of present arrangements

The present administrative arrangements came into operation on 1 January 1987 under the Bounty (Books) Act 1986. To be eligible for bounty, a book must conform with the eligibility criteria contained in the Act and be produced by registered persons in Australia. Bounty is payable on typesetting and all subsequent processes including printing, binding and packaging operations undertaken in Australia. However, if typesetting, film preparation or colour separation is undertaken overseas, the other processes, if undertaken in Australia, remain eligible for bounty.

Bounty is paid to either the printer or the publisher of an eligible book on the basis of the cost to the publisher of producing the book (see Section I.4). Payments made under the scheme amounted to around \$21.5 million in 1991-92. The current legislation will terminate on 31 December 1993.

I.2 Administration

The Bounty (Books) Act 1986 is administered by the Australian Customs Service (the ACS) through the Central Office in Canberra and regional offices in each State capital city. Claims arising in the Northern Territory and the ACT are administered through the Adelaide and Sydney offices respectively.

The ACS is changing the way in which it administers the nine Bounty Acts still in operation. In future, different State offices will administer different bounty Acts. The administration of the Act will pass to its Brisbane office.

The ACS said that approximately ten full-time staff were involved in dealing with claims for book bounty. However, these officers are also currently involved in other work including administering the eight other bounty schemes, the current car plan, and the import credit scheme.

Any individual who is engaged in or who seeks to be engaged in the printing or publishing of bountiable books at premises in Australia may apply for registration under the Act.

Upon receiving a written application for registration, the ACS examines whether the applicant is capable of producing bountiable books. Where the Comptroller of Customs is satisfied that the applicant should be registered, a notice in writing is issued to that effect, setting out the Comptroller's decision to register the applicant. Where the Comptroller is not satisfied, the application may be rejected, or the applicant may be asked to supply more information before the application will be reassessed.

Claims for bounty are lodged, in writing, with the Collector of Customs in each State or with the Comptroller. Upon lodgement, the ACS registers each claim, registers the title and author/publisher of the work for which bounty is sought, and vets the claim form. Under the Comptroller's direction, each claim is then examined, and whatever inquiries the Comptroller or delegate considers fit are conducted.

Where the Comptroller of Customs considers that the amount of bounty payable differs from that sought by the applicant, the Comptroller may adjust the amount of bounty claimed, setting out in writing the reasons for varying the claim.

When satisfied that the claim is valid and accurate, the Comptroller then authorises payment of bounty to be made to the applicant. If unsatisfied, the Comptroller may refuse to approve payment of bounty to the applicant.

Field checks of claimants are conducted on an irregular basis to confirm certain claim data and to serve as a periodic check on registration details.

The ACS provided some data on the cost of administering the book bounty and other bounty schemes; see Table I.1.

Table I.1: Estimated cost to the Australian Customs Service of bounty administration: 1990-91

	<i>Books</i>	<i>All bounties</i>
Total administrative cost (\$) ^a	589 358	2 974 452
Average bounty paid per admin. dollar (\$)	41	84
Total number of claims	9 538	13 464
Average administrative cost per claim (\$)	62	217

^a Including overheads.

Source: ACS, Submission No. 19.

The table shows that in 1990-91 claims for book bounty accounted for nearly 71 per cent of all claims for bounty, and for just under 20 per cent of the cost incurred by the ACS in administering

bounty schemes. The low average bounty paid per administrative dollar spent indicates that book bounty claims are, on average, small relative to claims for other types of bounties.

I.3 Eligibility of books for bounty

To be eligible for bounty, a publication must satisfy a number of criteria. They are detailed in Appendix D.

Where there is any doubt about a book's eligibility, the ACS will give a provisional decision based on a mock-up or copy of the whole publication. This copy or mock-up is then retained by the ACS for comparison with the finished book.

I.4 Basis for assessing bounty

Under the current scheme bounty is payable to either the printer or the publisher of an eligible book at a percentage of the cost to the publisher of producing the book.

Where a book is produced by its publisher, the cost of producing a book is taken to be the actual costs incurred by the publisher in producing the book in Australia. The amount of bounty payable is presently 13.5 per cent (the current bounty rate) of this cost.

Where a book is produced by someone other than the publisher, the cost of producing a book is taken to be the net price (ie the gross price less bounty) paid or payable by the publisher to the printer for those production processes carried out within Australia.¹

However, the cost to the publisher of producing a book is taken not to include:

- the cost or value of any paper or binding materials supplied by the publisher to the printer;
- sales tax;
- discounts (other than for cash or prompt payment);
- charges for delivery between the manufacturer and the publisher; or- invoicing and freight
- costs where forwarding is undertaken on behalf of the publisher.

¹ This net price is calculated by reducing the gross price by an amount equal to the ratio of the bounty rate to the sum of 1 + the bounty rate. Hence, if the bounty rate is 13.5 per cent, then the gross cost paid by a publisher is reduced by $0.135/1.135$ or by 11.9 per cent before the amount of bounty payable is calculated.

If the publisher supplies paper and binding materials free to the printer, bounty is payable to the publisher at a rate of 11.9 per cent² of the cost of those materials.

Where the Comptroller considers that the costs for which bounty is claimed appear to be incorrect or over-estimated, the Comptroller may determine, with reference to sound accounting principles, what he considers to be the appropriate costs, and calculate the amount of bounty payable based on those costs.

I.5 Bountiable processes and local content provisions

The production of a book is taken to commence with typesetting and includes film preparation, colour separation, platemaking, printing, folding, binding, the manufacture of packaging to be sold with the book, and packaging the book for transport. If each of these processes is undertaken in Australia, the book is deemed to be locally produced, and hence is eligible for bounty.

If typesetting, film preparation and/or colour separation are undertaken outside Australia, but all subsequent processes are undertaken in Australia, the book is still deemed to have been produced in Australia, and bounty can be claimed for the cost of those processes undertaken in Australia. However, if any subsequent process (for example, platemaking) is undertaken outside Australia then the book is considered not to be eligible for bounty.

I.6 Eligibility to claim bounty and registration of persons

In order to be eligible to claim bounty, publishers and printers must be registered under the Bounty (Books) Act 1986. Persons may apply for registration if they:

carry out or propose to carry out, the printing of bountiable books at premises in Australia that are used solely or principally for industrial or commercial purposes; or

publish or propose to publish, bountiable books so printed. (Bounty (Books) Act 1986, s. 19 (2))

Claims may be lodged by either the publisher or any printer of a bountiable book, and to avoid the overpayment of bounty, the claimant must obtain waivers from the other potential claimants before the claim will be processed. However, the ACS said:

² The rate at which bounty is paid on paper and binding materials is lower if those materials are supplied by the publisher rather than the printer. If the bounty rate were the same, the publisher would receive more bounty (and hence more assistance) by supplying paper and materials free of charge to the printer, rather than allowing the printer to supply the materials himself. This lower rate is calculated by dividing the book bounty rate by the sum of (1 + the book bounty rate). Hence if the book bounty rate is 13.5 per cent, then the rate at which the bounty is paid on paper and materials supplied free by the publisher is 11.9 per cent.

under risk management principles, the ACS cannot always guarantee the integrity of this particular processing arrangement. (Submission No. 19, p. 11)

I.7 Minimum claim sizes

A minimum bounty claim of \$200 per title per production run was introduced for all claims for book bounty under the Bounty (Books) Act 1986. This was increased to \$500 by Section 4 of the Bounty and Subsidy Legislation Amendment Act 1988.

The Government indicated in March 1991 that it would increase this minimum threshold from \$500 to \$2000 from 1 July 1991, so as to eliminate the relatively small bounty payments which it saw as not contributing to the requirements of industry development. However, the Government was advised that there would be some unintended loss of bounty eligibility for medium to large printers and publishers as well as the small establishments, and withdrew the proposal.

I.8 Review procedures

An applicant for bounty who is dissatisfied with a decision made by the Comptroller may make application to the Administrative Appeals Tribunal (AAT) for a review of that decision. Decisions which are reviewable include:

- a decision approving the payment of bounty;
- a decision refusing to approve the payment of bounty;
- a demand for the repayment of bounty;
- a decision setting the day on which a person's registration under the Act takes effect;
- a decision refusing to register a person for the purposes of the Act (except where the refusal was made in response to a request from the Minister on the grounds of 'the orderly development of the industry');
- a decision cancelling a person's registration under the Act; and
- a decision requiring a person to lodge securities with the ACS before being entitled to bounty, or to an advance on account of bounty.

After reviewing a decision made by the Comptroller, the AAT may affirm the decision, or may set it aside. Where an applicant or the ACS is dissatisfied with the AAT's decision, either may make application to have the matter settled by the Federal Court.

In May 1992, the ACS provided information on book bounty claims reviewed by the AAT. Of the twenty-one cases mentioned, dating back to November 1979, seven decisions were affirmed, seven

decisions were set aside, three applications for review were dismissed without a hearing, one did not proceed, and two applications for review were with the AAT at the time. In one case, some of the books under consideration were deemed to be eligible for bounty, and some were not.

In its submission to the Commission, the ACS said:

AAT activity on book bounty decisions represents in excess of 95 per cent of all appeals under the nine bounty enactments.

Defending AAT complaints is resource intensive in terms of human and financial costs. It is estimated that the minimum cost to the ACS to finalise an issue is in excess of \$4000. Industry sources indicate their cost is in excess of \$5000. (Submission No. 19, p. 2)

APPENDIX J: BOOK PRODUCTION IN HONG KONG

During the course of this inquiry, the Commission visited book producers, publishers and print brokers in Hong Kong and Singapore. Some of the information obtained during these visits is contained in this appendix.

J.1 Introduction

Since the mid-1960s book producers in Hong Kong and Singapore have become a major source of direct competition for Australian book producers. Many of the larger producers were established by Japanese companies in the mid to late 1960s. They selected Hong Kong and Singapore because of their low labour and land costs, political stability, quality of infrastructure and other advantages over their Asian neighbours.

Book producers in Hong Kong and Singapore compete strongly with each other. This competition has encouraged each to find ways of reducing production costs. Some book producers in Singapore have tried to achieve this by establishing manufacturing operations in neighbouring Malaysia, and employing Malaysian guest workers in their plants. Some book producers in Hong Kong have responded in a similar manner by establishing manufacturing operations in mainland China.

The approach used in Chapter 3 to identify Australia's competitive advantages and disadvantages in book production can also be used to identify those of book producers in Hong Kong.

J.2 Inputs

The major inputs to book production are labour, paper, inks and binding materials and capital equipment.

Labour

Most employees are male. Females are employed in some pre-press areas (for example colour separation work) and in binding areas. All employees receive a minimum annual bonus of one month's wages at Chinese New Year.

The working week for book producers in Hong Kong is commonly 72 hours. Workers are paid at the standard rate for 48 hours and at the overtime rate (time and a half) for 24 hours. Workers are separated into machine chiefs (equivalent to printing machinists in Australia) and unskilled or semi-skilled workers.

In terms of an annual income (including overtime and bonuses), machine chiefs in Hong Kong earn between A\$25 000 and A\$36 000, their assistants earn between A\$18 000 and A\$27 000, and those in the binding areas earn between A\$11 500 and A\$13 500 (at exchange rates prevailing on 31 July 1992).

Translating these into average hourly rates of pay, machine chiefs in Hong Kong earn around A\$7.25 to A\$10.50 per hour; their assistants earn around A\$5.30 to A\$7.90 per hour; and binding workers earn around A\$3.30 to A\$4.00 per hour. These are not standard rates of pay, but actual average rates of pay.

Working conditions in modern plants are similar to working conditions in Australia. Working conditions in some older, and usually small, plants tend to be lower than those in Australia.

As a general rule, machine chiefs are trained at the Print Training Schools in Hong Kong and Kowloon. These schools provide a two year full-time training course which takes the students through every part of the printing and book production process. Other workers receive on-the-job training.

Paper and other materials

Paper accounts for around 40 to 50 per cent of the cost of producing a monocolour book in Hong Kong, and around 30 per cent of the cost of producing a four-colour book there. This is not dissimilar to the situation in Australia.

Most of the paper used to print books in Hong Kong is purchased from Japan. Some European papers (mainly from Scandinavia and Germany) are also used. European papers are usually purchased on a job-lot basis. At the cheaper end of the market, papers from Indonesia and the Republic of Korea are used.

Japanese paper is preferred because it is of consistently high quality, is uniform and can be indented more quickly than European papers.

Most paper is purchased through paper brokers. Smaller firms tend to purchase on a job-lot basis. Mid-range and larger firms purchase from the brokers on an annual contract basis. The larger firms also purchase some paper on a job-lot basis directly from the paper mills. Some of the larger firms purchase all their paper directly from the paper mills on the world spot paper market. This offers them a significant cost saving compared with their competitors, although it also requires them to transport and store the paper until it can be used.

Those producing books in China tend to import their paper through Hong Kong. Some firms, however, import paper directly into China and after cutting/sheeting it, transport it to Hong Kong to be used for book production there.

Inks are imported from Germany and Japan. Binding materials are generally imported from Japan.

Equipment

Work performed in the pre-press area is becoming increasingly capital-intensive. Only the larger book producing firms have in-house colour separation facilities, but they are used mostly for magazines and magazine inserts.

Many of the printing presses operating in Hong Kong are modern four-colour machines, although one- and two-colour presses are used. In the larger firms, most presses are less than five years old, but older presses (to at least ten years in age) are not uncommon.

Some firms have begun to relocate their one- and two-colour presses and older four-colour presses to mainland China. The average age of four-colour presses relocated to China may be closer to 15 or 20 years.

Collating and folding machines and binding lines tend to be older than the other equipment. Some firms are using equipment up to 30 years old. Binding lines were the first part of the book production process to be relocated to mainland China. Binding is one of the more labour-intensive activities in book production and require more space than compact presses.

J.3 Demand

The Hong Kong industry is essentially export oriented. Around 90 per cent of all books produced in Hong Kong are exported¹. The principal export markets are the UK, Australia and the US. This export orientation reflects, in part, the impact Japanese firms had on the industry when they established book production subsidiaries in Hong Kong. The firms found that as labour costs and factory rents rose in Japan, they were no longer able to compete on price with book producers in other countries, and so sought to establish manufacturing facilities in countries which would enable them to retain their competitive advantage.

These firms began producing monocolour and two-colour textbooks and children's books in Hong Kong for markets in the UK, Australia and other countries. Over time, as labour and other costs in Hong Kong have risen, Hong Kong's advantage has been eroded, and producers have moved into the production of different types of books. While some monocolour and two-colour books are still being produced in Hong Kong, very few are being produced for export. Some of these less expensive types of books are increasingly being produced in mainland China and are being exported through Hong Kong.

Most of the books now being produced for export are casebound four-colour books. Run sizes vary, but book producers in Hong Kong are generally competitive in supplying between 5000 and

¹ This includes books produced in main land China which are exported through Hong Kong.

100 000 copies of these types of books. The fixed costs associated with producing a book are a very high proportion of total costs for runs of up to 5000 copies, and so most book producers in Hong Kong do not offer discounts for orders of less than 5000 copies. In many cases, these small runs can be produced at the same price or lower in other countries.

While book producers in Hong Kong are capable of producing books in large runs, orders from UK and US publishers for very large runs commonly go to other countries, such as the Republic of Korea.

Some orders for very large quantities of high quality books still go to Japan. This business is retained through close cooperation between the Japanese book producers and Japanese paper mills and printing machinery manufacturers.

J.4 Related and supporting industries

Book production requires the support of, and in turn supports, associated industries and activities. The main supporting industries are paper making, chemicals (inks and solvents), light and heavy engineering (production of printing presses, binding equipment), electronics (production of pre-press equipment, colour separation equipment) and other printing (skilled labour).

Hong Kong has several of these attributes. It is also close to Japan, where it has access to high quality paper, inks, and equipment.

Book production involves a number of separate processes, each of which can be performed within the one firm, or can be provided by firms which specialise in one or more activities. In Hong Kong, book producers generally prefer to undertake as much work as possible in-house. Specialist firms are most often employed in colour separation and film production, and book binding (including casebinding).

There are around 300 to 400 firms in Hong Kong which specialise in colour separation and film production. They receive the manuscript and illustrations from the publisher, and then proceed to make the film from which the book will be printed. The prepared film will usually then go to the printer. Where the book's production is being negotiated through a print broker, the film may be returned to the broker.

If an Australian publisher sends a book to Hong Kong for typesetting and colour separation, the book will usually be printed in Hong Kong as well. UK publishers tend to have their typesetting and colour separation work done in the UK, and have the film sent to Hong Kong for printing.

Very few firms have established film preparation and colour separation facilities in mainland China because the activity is highly capital-intensive and requires skilled labour. Quality, accuracy and speed of delivery are critical factors affecting the success or failure of specialist colour separators,

and delays or mistakes can be costly to a firm's reputation. Mainland China has limited access to international communication systems and courier services, and long delays may be incurred when equipment has to be repaired.

In book binding the situation is different. There are only 20 or 30 specialist book binders in Hong Kong. They rely for their work on a lack of binding capacity among book producers and requests for unusual types of binding. Most of the value added in the production of a book occurs in the pre-press and binding stages, so book producers in Hong Kong are often reluctant to just print and not bind a book. However, some of the smaller commercial printers in Hong Kong will do so, and several of the larger publishing houses use them for that purpose.

Book binding was the first book production process relocated to mainland China. This is because binding is labour intensive and the equipment is old and can be operated by a largely unskilled workforce. The considerably lower wage rates in mainland China also made it profitable for Hong Kong book producers to have books hand-bound. Hand-binding reduces wastage compared with mechanical binding methods.

J.5 Firm strategy

Competition among book printers in Hong Kong is very strong. Firms of all sizes can be found who are willing to produce any number of books, from as few as 500 copies up to 100,000 copies or more. In terms of the export market, most book producers are only competitive in production runs of between 5000 and 50,000 copies.

There are several large book producing firms in Hong Kong, many medium sized firms, and several hundred smaller book producers and commercial printers who are willing to produce or print books.

Work is obtained by direct contact with publishers and authors overseas, or through one of the 10 print broking firms operating in Hong Kong. The larger firms tend to obtain most work through their offices in the UK, the US and Australia. Some of the medium sized and smaller firms have also established sales offices in some countries, however most of their work is arranged through print brokers.

The main competition for book producers in Hong Kong is from book producers in Singapore. Labour costs in Singapore are higher than those in Hong Kong. A binding worker in Singapore earns around S\$24,000 (A\$20,000) a year (at exchange rates prevailing on 31 July 1992). Translating this into an hourly rate of pay, binding workers in Singapore earn around A\$6.00 per hour. In Hong Kong, the rate is around A\$3.30 to A\$4.00 per hour.

In order to become more competitive, book producers in Singapore have begun establishing factories in Malaysia and using Malaysian labour. Average wages in the manufacturing sector in Malaysia in the first quarter of 1992 were S\$525 (A\$440 at exchange rates prevailing on 31 July 1992) a month, equivalent to around A\$1.70 an hour.

This pressure from book producers in Singapore is encouraging book producers in Hong Kong to relocate their manufacturing operations to countries with a similar wage cost differential. Most movement so far has been into mainland China, where wages were said to be around 15 per cent of those in Hong Kong, but worker productivity was said to be much lower (around one-third of that in Hong Kong). Hence the labour cost differential between Hong Kong and mainland China was said to be around 55 per cent.

There are certain additional costs associated with producing books in mainland China. All goods entering and leaving the special economic zones must do so in sealed containers. Freightling the containers costs around A\$525 (at exchange rates prevailing on 31 July 1992) each way. China Customs also requires checks of customs records every two weeks.

Most operations are established as joint ventures with the Chinese. Some are established without any Chinese ownership, however the Chinese authorities can demand that their share of the firm be increased at any time. If such a demand were made it would probably deter future investment by Hong Kong firms in mainland China.

J.6 Conclusions

The principal influences on book production in Hong Kong are listed in Box J.1.

Some book producers in Hong Kong are investing in manufacturing facilities in mainland China. Some have relocated all their manufacturing there, leaving a head office and sales representatives in Hong Kong. Others have established binding lines and some of their one- and two-colour presses there.

Others are looking at countries in north and south east Asia as possible alternative locations for their activities. At present many of those countries lack one or more of the attributes considered desirable -- political stability, suitably developed infrastructure, a suitably skilled workforce -- but the Republic of Korea already has a well established book producing industry.

Relative labour costs in the special economic zones of mainland China may be expected to rise in the future as they have in the recent past. In terms of labour costs in the book production industry, however, mainland China still offers firms around a 55 per cent saving compared with Hong Kong. As wages rise in the special economic zones, wages in the bordering provinces are also beginning to rise.

Rents in the special economic zones are reported to be around one-fifth of those in Hong Kong. This disparity enables firms to rent a larger area in mainland China than they could afford to rent in Hong Kong, and to lay-out their factories so that their production efficiency is maximised. The general shortage of factory space in Hong Kong and the high rents there mean that apart from the larger firms who own their premises, most book producers in Hong Kong must be content with being able to locate their equipment within the one factory building or building complex. Smaller firms especially are often located on several different floors of a building.

Box J.1: Influences on book production in Hong Kong

Advantages

- Proximity to material and equipment suppliers in Japan
- Low international freight costs and low port and handling charges
- Well educated, highly skilled local workforce
- Proximity to low labour cost countries (such as mainland China)

Disadvantages

- Rising internal labour costs
- Distance from European paper suppliers
- Distance from major markets
- Competition from other countries nearby, such as the Republic of Korea, and Singapore

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