



RANDOM HOUSE INDIA

Submission to Productivity Commission
Parallel Importing of Books

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I wish to make a submission against any change to the current parallel importation law.

I bring to the conversation a unique perspective, having worked in publishing in New Zealand (Managing Director, Random House New Zealand) for 20 years where the market is open, and India (as Managing Director, Random House India) where there are rules but they are largely or expediently ignored, and will soon take up a position as CEO of Harper Collins Australia.

The principal difficulty with any alteration to the law as it stands, is that once the genie is out of the box it is impossible to send it back.

The primary risk taken is that by pursuing the notion of opening the market to provide cheaper books in Australia the resultant change in the law will seriously undermine the existing infrastructure and lead to much less choice of books whilst making little or no difference to the price.

The current proposition is one of balance and interdependency.

As the market stands currently, the Australian publishing industry is a mixture of Australian originating publishers, importers/distributors and a combination of originating publisher and distributor businesses.

Taking as an example the multinational publisher/distributor model, that I am most familiar with, the importance of the current territorial arrangements and this interdependence becomes obvious.

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The multinational companies invest in Australian infrastructure (warehouses, sales teams, marketing staff and budgets, publicity teams, author tours, training, finance people, cars, printing, etc etc, not to mention local Australian publishing) on the basis that the money they pay in London or New York for territorial rights grants them a chance to make some of that back.

This infrastructure in and of itself has a value to the Australian economy but more importantly it supports other parts of the publishing framework.

The multinationals:

- Train and employ many of the staff that then go on to work for local Australian publishers and sometimes start their own Australian publishing companies, enhancing the range of books available.
- Distribute the books that are the output of local Australian publishers, who currently receive a superior distribution service as a result of multinational investment. They could not, by themselves, afford such a cost effective solution and so without multinational distribution centres costs would rise.
- Provide inventory, IT and financial back office support for Australian publishers.
- Publish/sell/market/promote and distribute local authors of their own, not only enhancing the range of books published but also increasing the market overall.

This support for the framework is of unquestionable value to the industry overall. Without territorial confidence the international companies will at best slow their investment in Australia and at worse begin reducing it. Why would they bother to invest when they could not guarantee that that investment would not be undermined?

If there is an alteration to the current law and multinational companies reduce their investment we risk:

- A reduction in Australian publishing by the multinational companies. This is a high risk business and cutting back here would be obvious.
- A reduction in distribution investment leading to less effective distribution networks and slower delivery.
- This reduction will also lead to higher prices as the distribution component of the price becomes more expensive.
- A significantly reduced range of imported books available and stocked in Australia. Multinational companies would not commit to inventory when they could not guarantee that they would not be undermined. This would lead to less choice for the consumer unless they ordered through the internet.
- Significant reductions in marketing budgets on imported and local books.

If the argument is that allowing Australian retailers' access to books internationally will reduce the retail price then the reality is that:

- They will have to order the books directly and suffer the swings and round about of exchange and freight cost risk that is currently borne by publishers. This will affect the price.

- There is no way that they will stock the range of books currently offered by publishers, reducing choice to the public.
- They will not bring international authors to Australia to tour them. If one chain did it for example, they would be promoting a book for all their competitors as well. An unlikely scenario.
- They will not publish the Australian authors who multinationals no longer choose to publish.
- Australian retailers may offer cheaper books in the market but they are likely to be the sort of books that have not sold in other countries and are being dumped cheaply.
- Independent and smaller book retail businesses would find it incredibly difficult to compete with large retail groups and would either go out of business or need to raise the retail price of books in order to fund the infrastructure (promotion etc) currently provided by multinational investment.

This is quite without the damage done to the public awareness of books as a result of seriously reduced promotional concentration.

I paint a picture of doom and gloom, but as I mentioned, this industry is based on a finely balanced interdependence and the multinational component of it is vital.

My experience in India reinforces for me the need to insist on proper respect for copyright. In this market, the rights of intellectual property holders are flouted constantly and as a result the value of the legitimate market is significantly reduced. Piracy is rife, as without any guarantees that, in this case government will support the rule of law, pirates do what they choose and it is difficult, costly and time consuming to file a case. This lack of certainty has meant that, with few exceptions and up until recently (which has coincided with a crack down on piracy) no multinationals (apart from Penguin) have really invested in the market. This has meant that infrastructure is weak and the range and depth of publishing available in English is nowhere near as significant as it could be, given the size of the market, the amount of people reading in English and the potential disposable income that exists amongst the emerging middle class. This has reduced the options for the Indian consumer, both in terms of imported books and local authors.

What would be to stop pirates identifying Australia as a significant market and shipping books in? If the editions were sophisticated enough (and they are) then it could be quite difficult to work out where they came from. Even if this were not to happen, uncertainty in territorial rights and the subsequent reduction in multinational investment and commitment to the Australian market can easily lead to a situation as in India where the options for the consumer are undermined.

My experience in New Zealand has been that an opening of the market has not lead to cheaper prices or more choice for the consumer.

Recent publicity has pointed toward two major chains (which are sister companies to A&R in Australia) selling titles anywhere between 10 and 20% higher than publisher rtps suggest this has not been a success.

It is unquestionably true that there has been a reduction in investment by multinational companies and in fact retrenchment in the shape of distribution centres moving offshore has been the result.

This has reduced employment and is part of the overall reduction of infrastructure within the industry reducing distribution options for New Zealand local publishers. Local NZ authors have seen the re-importation of their books into the market reducing the royalty paid to them.

By any significant measure there has been no value added to the market by opening it and in fact the buying public have lost choice, are paying no less for books and employment within the industry has reduced.

This has not been a positive for the industry or the buying public.

Conclusion.

In order to take such a chance with an industry, particularly one at the heart of the nations cultural centre, there should be as much burden of proof required that a change in the law will definitely deliver the outcomes desired as there is to prove they will not. Books, writing and authors are vital to the way any nation hears their stories and talks to themselves and the world.

Without books many Australian films, TV and Radio would have no starting point. Books have helped to highlight all the major social and political events in the nation's history.

They educate, entertain and enhance the lives of millions of Australians every year. To tamper with this without absolute certainty of the outcome would be at best irresponsible.

What I know is at risk, is continued multinational investment. Any business needs to believe that the investment they make will provide a pay back. This is just logical. The business reality is that if anyone can import the book you have invested in you will be more cautious. You will spend less. You will deliver reduced service. You will take fewer risks. This is a guarantee.

The outcome for the industry will be:

- Fewer people employed.
- A considerably fewer number of Australian authors published.
- Less investment in distribution options made resulting in higher prices which will be passed on the consumer.
- Reduced service to retail customer base.
- Few options for distribution available to local Australian publishers increasing their costs.
- Current economy of scale benefits enjoyed by the industry undermined as a number of players all import the same book in smaller quantities.
- Choice of imported books left to players who only see the profit made rather than in supporting a range of books.
- Significant reduction in the profile of books as shrinking infrastructure allows for less promotion and marketing.
- Smaller and independent retailers finding it increasingly difficult to make a business without the support of a bigger infrastructure and cannot compete with the buying power of large retailers.

The point of this submission is to reinforce the fact that a change in the law is unlikely to lead to the desired outcome anyway, but that by the time this has been discovered the erosion in the infrastructure will be irreversible and the opposite outcome will be the result.

I argue strongly that there should be no change to the current law.

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