



8 January 2008

The Commissioner
Parallel Importation of Books Study
Productivity Commission
GPO Box 1428
Canberra ACT 2601

Dear Commissioner,

Re: Productivity Commission Review of Copyright Restrictions on the Parallel Importation of Books

HarperCollins Publishers would like to make a submission to the inquiry into the Parallel Importation of Books. We are submitting a number of issues and suggestions for your consideration which we believe will assist you with the preparation of your draft report.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Jim Demetriou". The signature is fluid and cursive, with a large loop at the end.

JIM DEMETRIOU
ACTING CHIEF EXECUTIVE OFFICER

About HarperCollins Publishers Australia

HarperCollins Australia was founded in 1989 with the amalgamation of three publishing houses: Harper and Row (USA), William Collins (UK) and Angus & Robertson Publishers (Australia).

HarperCollins Publishers Australia is the third largest trade publishing house in Australia and is a wholly owned subsidiary of News Corporation. HarperCollins is a broad-based publisher with strengths in Australian literary fiction, having won the 2008 Miles Franklin Award (*The Time We Have Taken* – Steven Carroll), Australian Booksellers Association Book of the Year 2008 (*People of the Book* – Geraldine Brooks) and the Prime Minister's Award for Fiction 2008 (*The Zoo Keeper's War* – Steven Conte), and publishing leading Australian non-fiction such as Paul Ham's award winning book *Vietnam*. HarperCollins is strong in local sports publishing, Australian memoir (e.g. the bestselling Chris O'Brien's memoir *Never Say Die*), and also has an impressive local children's publishing heritage, which includes Jackie French, Bruce Whatley, Duncan Ball and May Gibbs.

Parallel Importation – Executive Summary

HarperCollins Publishers strongly supports the current 30/90 rule in the Copyright Act and believes that allowing parallel importation of books:

1. Will not reduce the price of books to the Australian consumer
2. Will reduce availability of books into Australia
3. Will lead to job losses
4. Will reduce the volume of books printed in Australia, which will directly affect Australian book printers
5. Will lead to an increase in the transportation of books from overseas, which will have detrimental environmental impact
6. Will see a decline in overall book sales after a period of steady growth over the last 10 years, particularly in locally published titles
7. Will jeopardise the vibrant local publishing business
8. Will lead to reduced distribution options for local publishers

The following submission will demonstrate why we at HarperCollins Publishers believe that allowing parallel importation of books will lead to the consequences as stated.

1. Open Market Will Lead to More Expensive Books

Australia enjoys a vibrant and highly competitive bookselling environment. There are over 2,500 outlets in which people can purchase a book. This competition has meant that the price of books can vary dramatically as retailers attempt to capture market share. The end result is that Australian consumers have the choice of buying books from full-service independent booksellers who stock a vast range of books sold at near recommended retail price (RRP) or from limited-range and -service discount department stores at substantial discounts (up to 35%) off RRP.

Allowing parallel importation will benefit only a few retailers (mainly large chain booksellers) who would have the buying power and warehousing facilities to take advantage of any potential cost saving from an overseas supplier. Smaller independent retailers will be disadvantaged, as an open market will provide the larger chain stores an unfair advantage and will jeopardise their business.

Currently independent booksellers represent 34% of HarperCollins turnover. The introduction of parallel importing of books could mean there would be fewer independent booksellers, which would lead to less choice for Australian consumers in terms of retailer choice, book-range choice, service, and ultimately price when large chain retailers exercise their market dominance by raising prices. It is already noted that some chain retailers are already using their market dominance by pricing above RRP while simultaneously suggesting that the open market will lead to cheaper books. The open market will give them greater dominance, which in turn will allow them greater opportunity to dictate the price at which books are sold.

2. Open Market Will Force HarperCollins to Reduce Title Availability

Since the introduction of the current 30/90 rule in 1991, the trade book market has thrived in Australia. In the last 8 years there has been a steady 6% compound growth in book sales, according to Nielsen Bookscan data. The current rules have allowed HarperCollins to be confident that booksellers will buy books and therefore HarperCollins could offer a full range of books to be readily available to Australian booksellers. In 2008, HarperCollins supplied over 16,000 different titles to Australian booksellers. Every book published by HarperCollins worldwide in which HarperCollins held Australian rights was available to be purchased from HarperCollins Australia. If there were to be an open market, then HarperCollins will review its stock-holding policy which will ultimately lead to a reduction in the number of books it makes available to Australian booksellers – at best this number would be reduced to 8,000 titles. This will mean booksellers will need to source more titles from overseas distributors/wholesalers, which will lead to longer delays and usually higher prices once air-freight charges are taken into consideration.

3. Open Market Will Jeopardise the Employment of Staff Involved in the Production of Australian Books

HarperCollins has seen Australian publishing as the best opportunity to grow its business, and in the last five years Australian publishing has grown as a percentage of its total business.

Book Source	2003	2008
Australian-originated	30%	35%
International	70%	65%

To drive this growth has required employment of publishing staff directly related to the production of Australian books. Staff employed has steadily increased in line with the growth of sales of books originated by HarperCollins Australia:

	2003	2008
Australian publishing staff	28	35

Underpinning the investment in our Australian publishing is the income generated from sales of international books. An open market will directly jeopardise the sales of these titles, which will lead to a reduced investment in Australian publishing, which will directly lead to a decline in our Australian publishing staff numbers. At best, I would envisage a 10% reduction, at worst, depending on the magnitude of titles being imported by local booksellers, there could be a 50% reduction.

Additionally, staff employed in the distribution, sales, marketing, publicity and administration of international titles will be affected if sales of these books decline. At present HarperCollins employs 213 full-time staff who are involved in the selling, promotion, distribution and administration within our business. Again, an open market will inevitably lead to lower sales of international books – which represent 65% of our total sales – therefore, this will directly affect the employment of staff.

4. Open Market Will Lead to a Reduction of Printing Books in Australia

To fulfil the current 30/90 day rule, HarperCollins prints 70% of its overall volume in Australia. An open market will definitely lead to fewer books being printed locally for the following reasons:

- We will not be assured of ongoing orders by booksellers, and therefore we will be reluctant to print large quantities
- At present we are able to print a minimum of 4,000 copies of a new title in Australia. An open market will marginalise many of the titles that fall into this minimum category. This means we will not print them in Australia and we will left with the following choices:
 - Air-freight stock from our sister companies in UK or USA in order to meet the international publication dates. This will increase the cost of books, and these costs will be passed to consumers in the form of higher retail prices.

- o Sea-freight stock from our sister companies in UK or USA, which will mean books will not reach the market in line with international publication dates. Australian consumers will therefore be disadvantaged in that consumers in other countries will have ready access to new books weeks earlier. The current rules have meant that books have successfully been available to Australian readers in line with the rest of the world.

As HarperCollins is one of the largest publishers in Australia, a reduction in local printing will have a significant impact on the local printing industry. This will directly lead to less output from local printers used by HarperCollins as the reduction of HarperCollins business will not be taken up by other publishers who will also be reducing their local printing. This will lead to a contraction of local printing output and inevitably a reduction of staff in book printing and associated businesses.

5. Increased use of Air-freight and Sea-freight will have a Negative Environmental Impact

An open market will force HarperCollins to review our inventory policy – the number of titles we choose to represent, the way in which we wish to supply the books to the market and the amount of stock we want to physically hold in our warehouse in Moss Vale. There is no doubt that, without the guarantee of the current rules, fewer titles will be stocked in our Moss Vale warehouse and we will physically hold less stock, preferring to draw stock from our sister companies in UK and USA.

To compensate for the reduced local stock holding, reduced local printing (as already mentioned), and to maintain a reasonable level of customer service, we will have to engage in far greater use of air-freight and sea-freight – bigger volumes and much higher frequency. We estimate a four-fold increase in the use of air-freight alone.

HarperCollins worldwide is at the forefront at launching initiatives to reduce greenhouse gas emissions across the business, and as part of NewsCorp's One Degree program many steps have been taken to raise the awareness of climate change within the company, industry and the broader community. Unnecessarily increasing our carbon footprint through the greater reliance of air- and sea-freight is a huge backward step not only for HarperCollins and the publishing industry but the community as a whole.

6. Overall Book Sales Decline

Since the introduction of Nielsen Bookscan in 2000, the book industry has been able to monitor its performance in the general trade. Bookscan data has shown there has been a steady compound growth of 3% in volume since 2000. This has been achieved within the context of a hugely competitive entertainment category which has seen significant growth in DVD and computer games sales along with the explosion of internet use. All in all, an excellent result for such a mature industry which is thriving within the current copyright legislation.

Industry growth will slow down or indeed decline under an open market. The compounding effect of fewer books readily available from the major publishers, lighter stock holding, reduced investment in local publishing, and less investment in promotional activity – due to the uncertainty of the whether bookseller will buy stock from local publishers or bring books in from overseas wholesalers – will lead to fewer books being purchased by Australian consumers. We can also draw this conclusion from the New Zealand experience that has seen industry growth slow down (Colmar Brunton Survey of NZ Publishing – 2007).

7. Local Publishing will be Jeopardised

As part of a global organisation HarperCollins has the ability to invest in many different areas and countries. It is clear that an open market is going to negatively impact on the Australian business and will provide HarperCollins worldwide with a less compelling reason to invest in Australia. The area most vulnerable is the publishing of Australian books, as it carries the largest local investment and carries the greatest risk.

A reduced investment in local publishing will mean fewer books and less resource to produce them. The flow-on effect is that fewer authors will be published, fewer staff (editors, designers and production personnel) will be required to produce the books, and less Australian content will be available for consumers.

8. Decline in Distribution Options for Independent Local Publishers

HarperCollins is a major investor in distribution services. We run a book-distribution facility in Moss Vale (regional NSW) and employ up to 140 people (a mixture of full-time and casual staff). As well as the distribution of HarperCollins-originated books, we offer distribution services to independent local publishers such as Little Hare and Pease Publishing – this is a common practice amongst all major publishers including Penguin, Random, Pan MacMillan and Hachette who all offer third-party distribution. Under an open market we would review our distribution strategies in line with a reduction of overall volume passing through our warehouse. We would cease to invest in the warehouse and we would review offering distribution service to independent publishers – something that all major publishers would be considering. The end result will be a reduction in distribution options for local publishers.

Conclusion

The current 30/90 rule has created an environment that has seen the book industry flourish. Since its introduction, we have seen the industry grow, with greater availability of books, more Australian authors published, far greater retailer choice and highly competitive pricing. To change the current rules would threaten all of this and not deliver the outcomes an open market believes it can.

HarperCollins is a global company that can decide in which areas and countries it wishes to invest its resources, and over the last 10 years it has invested strongly in the Australian business with confidence. An open market would increase the business risk in Australia and would therefore jeopardise the on-going investment of HarperCollins in the Australian business.

HarperCollins therefore strongly supports the retention of the current copyright laws.

Jim Demetriou

Acting Chief Executive Officer
HarperCollins Publishers