



**Competition Policy Review Secretariat
The Treasury
Langton Crescent
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Submission Focus: Parallel Importation Restrictions (PIR's) and their Effect on Product Supply and Competition

Submission from: The Co-op (University Co-operative Bookshop Ltd)

Submission by: Peter Knock – Chief Executive Officer

Submission basis: Public Redacted Copy

About The Co-op

The Co-op (formally known as the University Co-operative Bookshop Ltd) operates 54 book stores on half of Australia's Universities. We are Australia's largest Co-operative measured by members and owned by our 1.8 million members. As a Not For Profit, our sole purpose is to support students, providing student support services while delivering cost effective learning materials.

Summary of Key Points from: Productivity Commission Research Report – June 2009

- Parallel Import Restrictions (PIRs) provide territorial protection for the publication of many books in Australia, preventing booksellers from sourcing cheaper or better value-for-money editions of those titles from world markets.
- From the available quantitative and qualitative evidence, the Commission has concluded that the PIRs place upward pressure on book prices and that, at times, the price effect is likely to be substantial. The magnitude of the effect will vary over time and across book genres.
- Most of the benefits of PIR protection accrue to publishers and authors, with demand for local printing also increased.
- Most of the costs are met by general consumers and students, who fund these benefits in a non-transparent manner through higher book prices
- Some of the effects represent transfers from book purchasers to local copyright holders, but the restrictions also cause economic inefficiencies and a significant transfer of income from Australian consumers to overseas authors and publishers
- Consumers of culturally significant books directly benefit from their cultural value. At the same time, the PIRs make a contribution to the 'cultural externalities' of books that benefit the broader community.
- PIRs are a poor means of promoting culturally significant Australian works.
- They do not differentiate between books of high and low cultural value. The bulk of the assistance leaks offshore, and some flows to the printing industry.



- Reform of the current arrangements is necessary, to place downward pressure on book prices, remove constraints on the commercial activities of campus and general booksellers and overcome the poor targeting of assistance to the cultural externalities.

Why Parallel Importation Restrictions Reform is Needed

I believe our Co-operative and campus bookselling industry is constantly fighting with one hand tied behind our backs. While we believe in copyright protections, I do not believe these rules, as they relate to tertiary text books are conducive to providing a healthy retail economy in Australia. Further, they are now encouraging multinational publishers to unilaterally and actively undermine local campus and general retail bookstores.

Parallel Importation Restrictions are effectively an anachronism of a pre digital age, this has created what I believe is one of the last closed and regulated markets on our planet. We are an enterprising business, started by student entrepreneurs 55 years ago. We operate 54 stores on half of the Universities in Australia.

Our just completed Future Leaders Index survey has confirmed this spirit is still alive and well with 40% of the current tertiary student population wanting to start their own business.

We are now working with and encouraging student groups to help create pathways to get started as entrepreneurs.

Our Co-op is quite happy to compete on value with any competitor. However the playing field is not level.

The Basic Issue

Our competitors can buy from whomever they want, the same as our customers, generally avoiding GST as well.

However as an Australian bookseller we have to buy from the local arm of a multinational publisher and pay any price they set. In many cases this is effectively above the price the market will bear.

PIR's Net Effects on Competition

The student of course believes their Co-op is overcharging and buys the book from the cheapest source, depriving the store of income, ability to continue to employ students and or pay their rent. The publisher's international division still gets the sale. Which allows them to continue to pay their rent and salaries.

Local Australian employers and employees are the losers.

Further Competitive Inequity Behaviours Created



Having PIR's in place has also created a misuse of market power situation that is allowing one part of our industry to adjust to the digital age, at the expense of the other. This is a win lose situation and not the purpose of the creation or justifiable continued use of PIR legislation I believe.

While we have a number of Preferred Supplier agreements in place, unfortunately now this anachronism is allowing (), a major multinational publisher that controls 10% of our text book market, to manipulate our wholesale and retail pricing to suit their own aims. Because of PIR's we have no other option but to buy from them, so they reduced our wholesale discount over a year ago. We buy at the maximum wholesale price and they are now actively selling to our customer base at a minimum wholesale price to undercut our co-operative and the entire campus book selling industry.

As we are restricted from buying from anyone other than the local branch of (), this of course creates a serious competitive issue, of which we are unable to do anything about because of PIR's.

Further consequences are that we are left holding circa \$2million in () stock that they sold to us while they were also planning to attempt to remove us from the supply chain, undercut us and sell directly. They have refused to take this stock back and we now fear that we may be liable to significant markdowns that will further impact our ability to trade effectively.

All multinational publishers have now also opened their own local supplier platforms and websites (eg, bookworld.com.au) to sell directly to consumers at whatever price they set, some significantly below their RRP, other times at cost, while controlling the wholesale price booksellers have to pay.

While suppliers are legally able to set whatever selling prices they desire, I believe the above actions are also not in the best interests of Australian retailers and question whether this would be possible without Parallel Importation Restrictions.



Competitive Impacts

I think this is highly relevant from the perspective that the predatory pricing practices of the multinationals negatively impact our member owned Australian entity, which by virtue of its non-profit remit reinvests in educational futures rather than repatriating surpluses to foreign shareholders.

I believe this is a classic example of how the removal of the co-operative player in the market could have deleterious effects for Australian competition, since the competitors could then possibly price collude to increase prices having captured the market through undercutting, protected by parallel importation restrictions imposed on Australian retailers.

Desired Outcome

I am seeking an exemption from or removal of PIR's as they relate to campus booksellers to enable us to buy from the same markets as our competitors and our customers do every day. I believe this is a reasonable request.

Every day we do not have an exception, or these rules stay in place, we are less competitive and at the mercy of the whims of our multinational suppliers.

I look forward to providing any further information that may be desired in helping with gaining an appropriate outcome for our Co-op and the campus book retailing industry.

Peter Knock
Chief Executive Officer
The Co-op