

NHH



INDUSTRYWIDE LAWS VS. VOLUNTARY AGREEMENTS: THE NORWEGIAN BOOK AGREEMENT

WORKSHOP ON THE ECONOMICS OF FIXED BOOK PRICE SYSTEMS,
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Outline

- The Norwegian book agreement
- Lessons from the recent literature on the agency model

The Norwegian book agreement

- Obligatory for members of the publishers' association and the book stores' association to use fixed prices
- Voluntary to be a member or not; non-members may or may not use fixed prices (or a mix)
- Recent years, non-members have strengthened their position
- Members obligated to use a fixed price until May 1 the year after publication
- Most favoured nation clauses (MFNs), «one price» at all book stores
- Exemption from the competition law (the Norwegian competition law = the EU law)

Pros and cons of the fixed price system

Pros: The market players

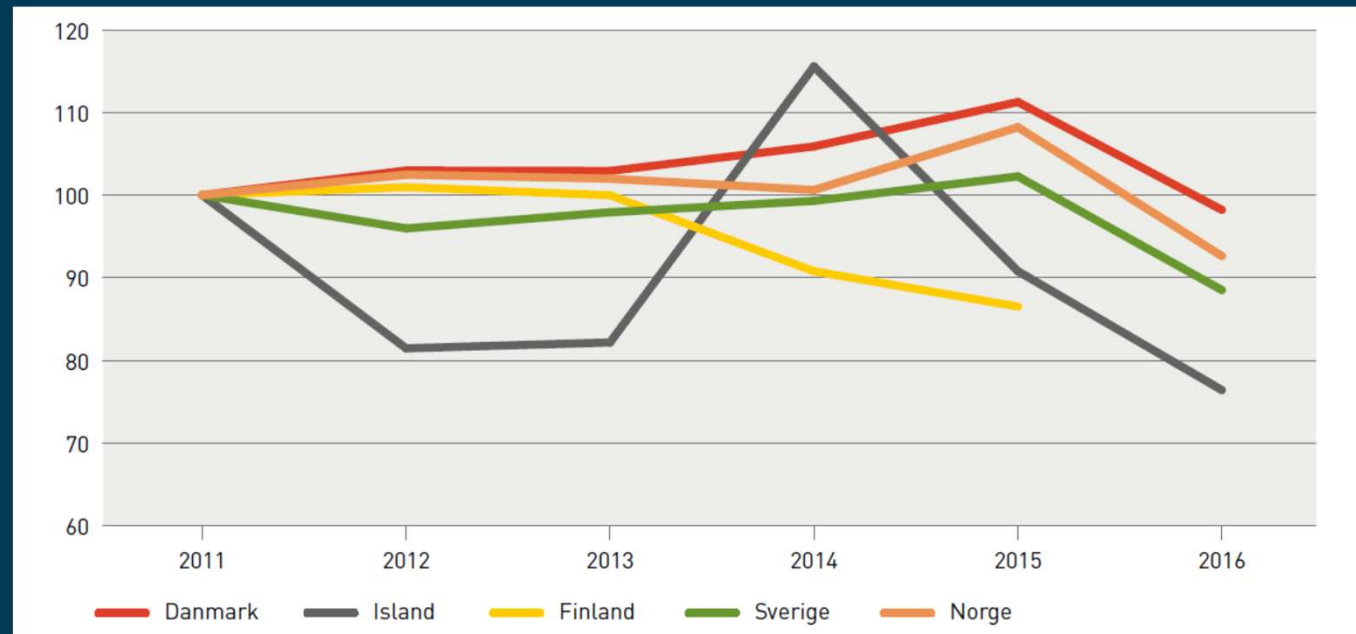
- Classical efficiency defence for RPM:
 - Reduce free-riding on presale services (Telser, 1960, J Law & Ec)
 - Foster demand-enhancing activities (Mathewson and Winter, 1984, RAND; Winter, 1993, Quarterly J Ec)
- Cross-subsidization
 - Publishers use the additional profit from bestsellers (like Jo Nesbø) on to publish poems and unknown authors

Cons: The Competition Authority

- Conjecture: Prices increase under a fixed price system
- No empirical support for the efficiency effects (reduce free-riding on presale services and foster demand-enhancing activities).
- Dismiss the theoretical and empirical support for the cross-subsidization argument.
- Books are durable goods
 - The fixed price system provides an escape from the Coase conjecture

Number of titles: Denmark ended the fixed price system in 2011

Bog og litteraturpanels årsrapport 2017



Lessons from the agency model (ebooks, app stores, online hotel booking etc.)

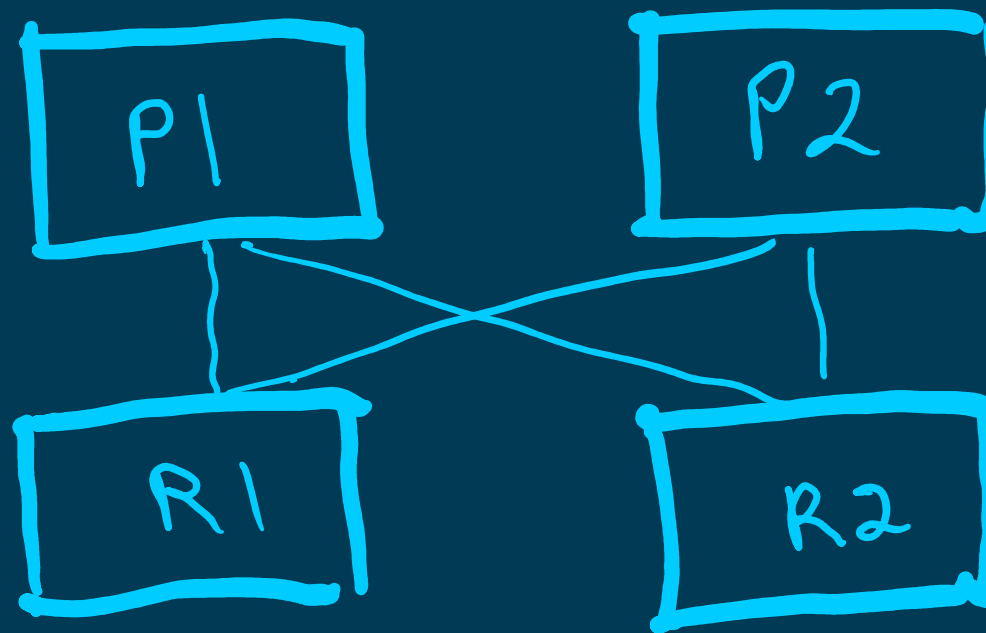
- The Norwegian book agreement resembles the agency model + MFN
- Competitive pricing
- Deviation incentives
 - The ability to deviate: The main difference between a law and a voluntary agreement

Does it matter who set the price?

- Delegate to the one that could collect the largest total pie (revenue)
 - i. Who know most about consumers (market information)
 - ii. Who face most aggressive competition

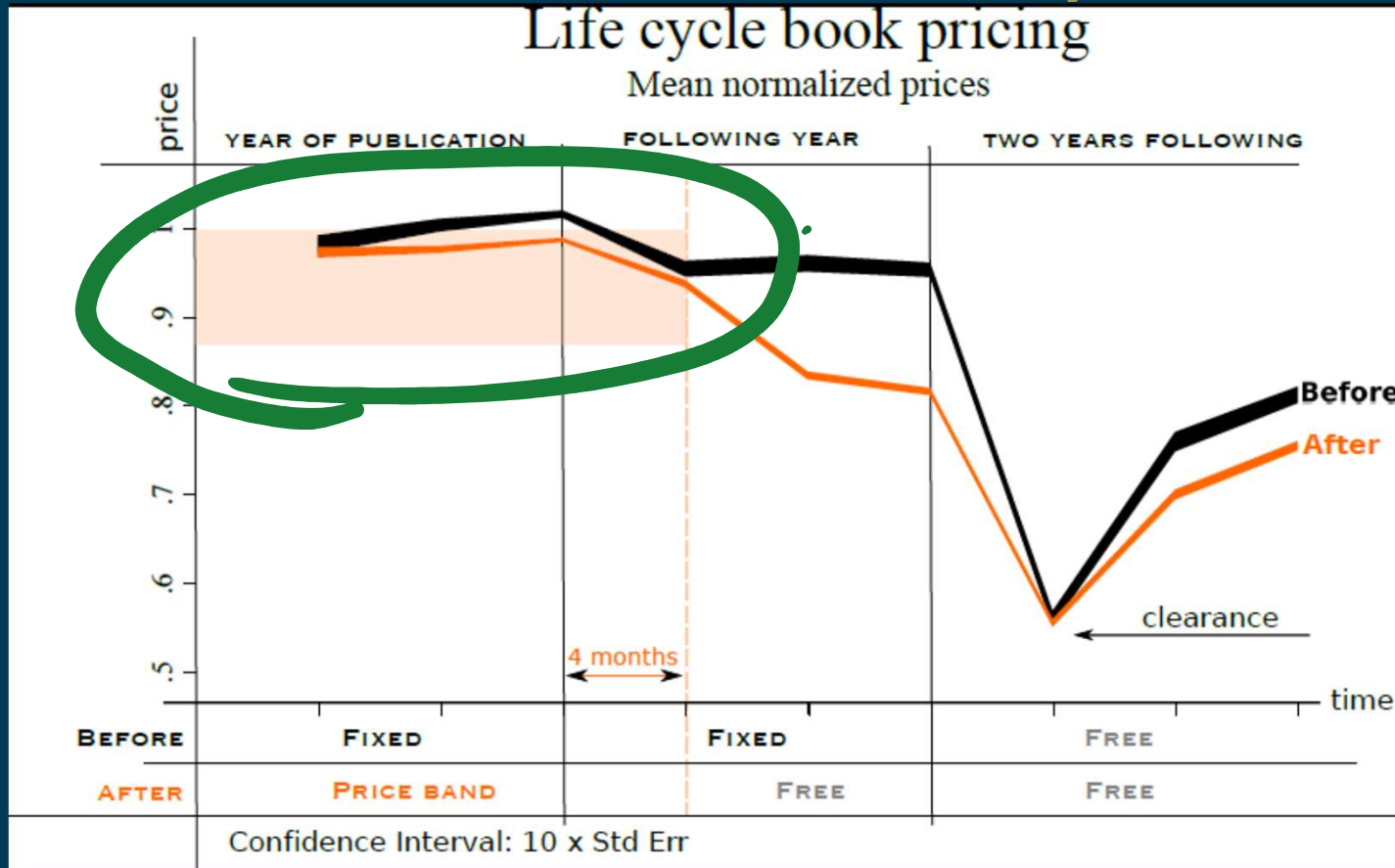
Competitive pricing

- All other things others, delegation of pricing to publishers increase prices if the degree of competition is higher at the retail level than the publisher level (Foros, Kind & Shaffer, 2017, RAND)



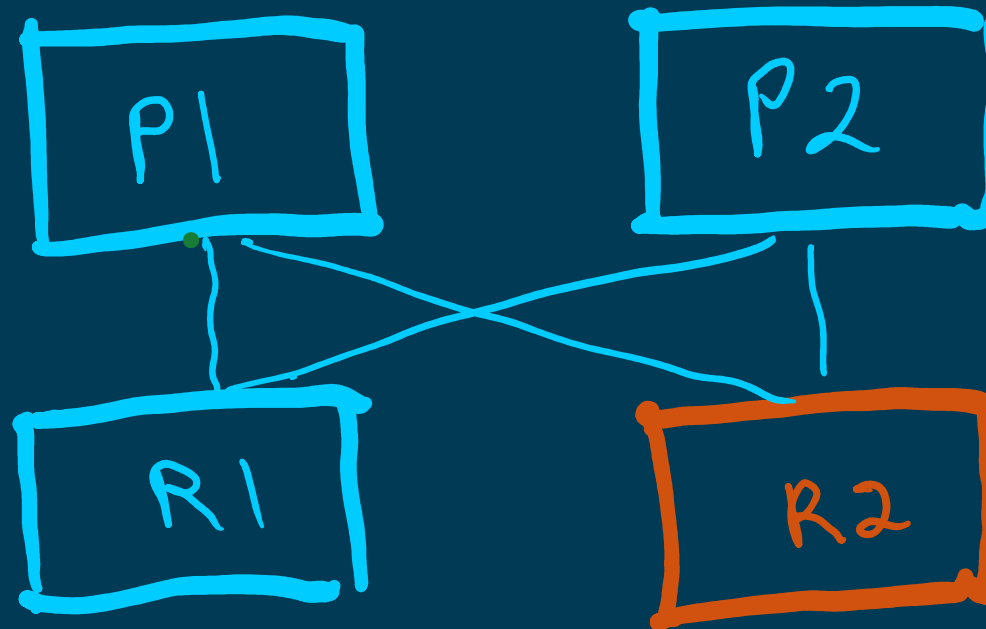
All are members

2005: Retailers did not use the ability to decrease prices



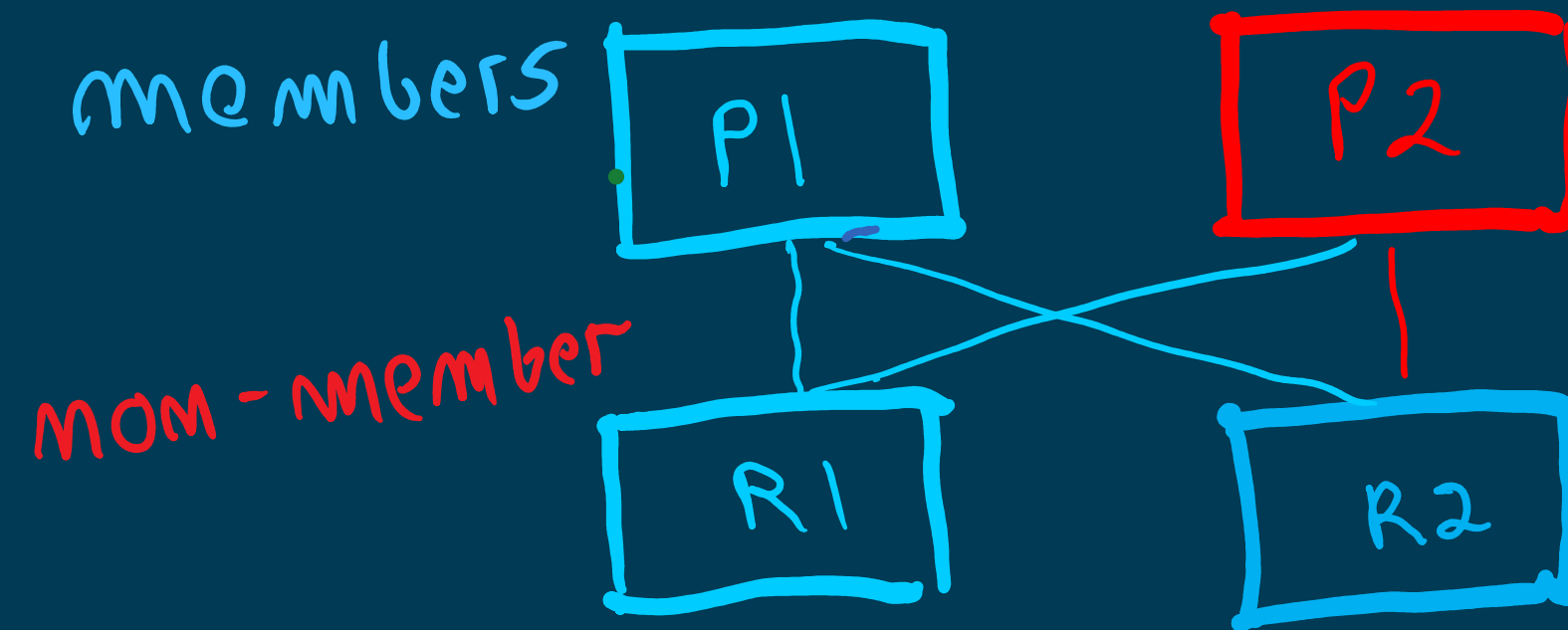
Deviation incentives?

- From the agency model literature: MFN a device to prevent deviation (Foros, Kind & Shaffer, 2018, RAND; see also Bork & Corts, 2016; J Law & Ec; Johnson, 2018, Rev Ec Stud). The focus on retailers' incentives to deviate (=no delegate pricing)



Deviation incentives?

- The Norwegian book agreement: A non-member publisher may agree on a bilateral deviation from the voluntary fixed price





PRISDUMPING: I Norli butikker kan man nå kjøpe førsteutgaven av Jojo Moyes' «Jenta som ble igjen», som utkom for fire måneder siden, for bare 129 kroner. I konkurrerende kjeder koster den opptil 200 kroner mer.

Av Thomas Espevik

• Over 200 kroner i prisforskjell på bestselgerroman • Bastions prispolitikk gir Petter Stordalen et dilemma

Jojo-priser på Moyes-bok

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FAKTA

Fastpris på bøker:

Norli Libris har satt ned prisen på «ny» roman fra 379 til 129 kroner. – Dette reduserer inntektene til

Conclusion

- A voluntary agreement entail a safety valve: deviation incentives increase as the fixed price model become more anticompetitive
- If the industry/the government «push» the agreement (more anti-competitive), they may induce deviations – and thereby destroy the fixed price system
- On the other hand: If an industrywide fixed price system is needed to capture efficiency gains (due to horizontal externalities), an voluntary agreement may be insufficient

2019

- A new book agreement?
- Increasing the length of the fixed price period; reversing the 2005 change
- Increasing the deviation incentives?
- May destroy the fixed price system

