

minimum content will intensify the bargaining power of petrol stations, which is the intention of the policy maker. However, the pricing method should be left for the parties to negotiate so that there is more flexibility to choose which is most suitable for their commercial policy rather than imposing two particular alternatives.

### **2.7.3 *Logistics issues for ventures and associations of petrol stations***

Law 3054/2002 article 7, par. 10 states that ventures and associations of petrol stations may not possess tanker trucks other than those that are used by their member petrol stations. The same provision stands for acquiring dedicated storage space. The objective of this provision could not be found in the recitals of the law. It is our understanding though, that ventures and associations have been proposed by the law in order to give the right to independent petrol stations to collaborate and achieve economies of scale that otherwise would be impossible.

This provision violates the economic freedom of ventures and associations of independent stations while no reason of public interest justifies the restriction it proposes. These particular restrictions hinder the direct access of independent petrol stations to the refining companies, which should be seamless, while introducing barriers to entry and expansion in the development of their business activities by achieving economies of scale and efficiencies in the supply process, either directly or indirectly by raising transportation and logistics costs.

**Recommendation: to explicitly repeal the provision.** The benefit focuses on the freedom of economic activity and lower logistics costs through economies of scale.

## **2.8 Books**

### **2.8.1 *Description of the book market***

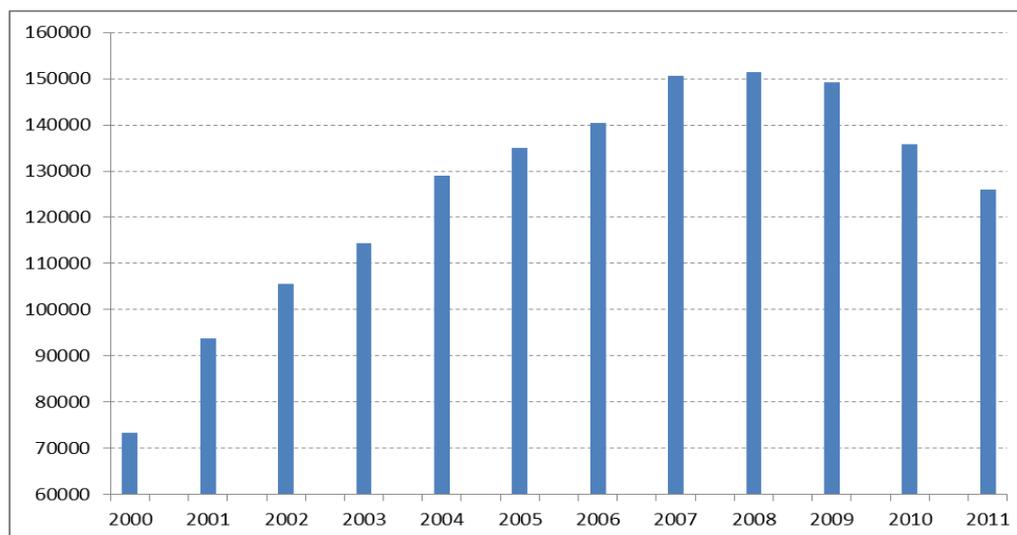
Book production in Greece grew by over 10 000 new titles a year for the first time in 2006. However, since 2008 it has slowed down considerably, resulting in 8 333 new titles in 2011. The number of publishers has followed a similar trend, growing to over 1 000 publishers in 2006; only 927 publishing houses remained active in 2011.<sup>46</sup>

The Greek publishing industry is rather concentrated, with 18% of the publishers producing 77% of the total number of titles. Three publishers produce more than 200 titles in all subjects, accounting for 8.8% of total book titles. The industry is also highly centralised with 82% of publishing houses located in Athens, 11% in Thessalonica and only 7% in the rest of Greece.

In the retail part of the market, there are approximately 1 500 bookshops of different sizes and more than 3 500 points of sale, including press agencies and supermarkets. Small mixed book and stationery shops account for 90% of bookshops. The downturn in private consumption after 2008 has had a negative impact on both small independent shops and on larger book chain retailers. Greek wholesale distribution is not very developed, so many publishers retain their own independent distribution networks.

Publishers' revenues peaked at EUR 151 million in 2008 and then gradually decreased in step with the economic recession.

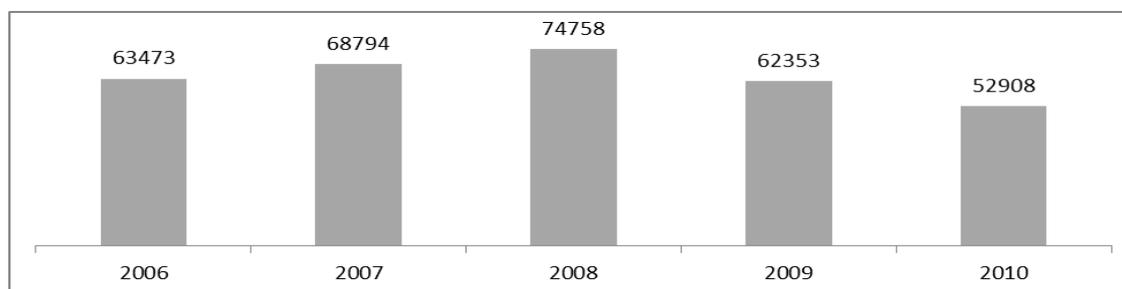
**Figure 2.11: Publishers' revenues (EUR '000s)**



Source: National Book Centre of Greece (Εθνικό Κέντρο Βιβλίου ΕΚΕΒΙ) database.

The retail sector has followed a similar pattern. Revenues peaked in 2008 and then decreased gradually reaching EUR 52.9 m in 2010.

**Figure 2.12: Booksellers' revenues (EUR '000s)**



Source: National Book Centre of Greece (Εθνικό Κέντρο Βιβλίου ΕΚΕΒΙ) database.

The book market is characterised by three key elements: uncertain demand for new books, short periods of profitability for each title and extreme differentiation.<sup>47</sup> To this end, questions about the scope and the role of the government in the book market must be considered.

The market for books has a traditional supply chain, with production, wholesale, distribution and retail, and is characterised by high fixed and low marginal costs. Moreover, there is substantial product differentiation in each part of the supply chain, which generates niche markets with close (but imperfect) substitutes. As a result, most parts of the supply chain are characterised by a fairly large number of players and by easy entry and exit. In essence, the supply side of the book market can be characterised as a typical monopolistic competition environment where firms face investment risk and demand uncertainty. From a policy perspective, this observation suggests that the book market is not different from many other markets, which implies that it should not be subject to any special regulation.

However, book production and consumption have the nature of a public good. Creating and circulating a new book not only creates value for the people who are going to read it, but also shapes ideas and values in wider society (or in exceptional cases in the whole world). Book consumption and production can help create values of national identity, social cohesion, and helps the development of criticism and experimentation. It is this unique cultural value of a book that perhaps calls for its special treatment by government regulation.

### 2.8.2 *Regulatory restrictions identified in the Greek book market*

Law 2557/1997 on Provisions and measures for cultural development regulates the Greek book market. In particular, it stipulates that the retail price of books is set, not by the retailer, but by the publisher of the book, *i.e.* the law describes a very specific retail price maintenance mechanism that governs the retail market for Greek books.

This means that Law 2557/1997 gives a market-maker role to Greek publishers and leaves very little discretion on pricing to retailers. Publishers determine the wholesale prices and set the retail prices of their published titles which cannot be changed for two years. Retailers can only discount up to a maximum of 10% of the proposed retail price. Retailers in remote areas may charge a higher price than the given retail price, up to a maximum of 5%.<sup>48</sup>

These price restrictions apply not only to new publications but also to reprints and re-editions. The same restrictive retail price mechanism is extended, by Law 3905/2010, to include e-books.

Regulating book prices is a widely used practice in the EU.<sup>49</sup> Countries with book price regulations include France, Germany, Spain, Italy and Denmark. Typically there are two types of regulatory regimes: in countries that regulate book prices by law and countries that enforce fixed book prices by trade agreements. However, there is considerable heterogeneity among these price regulations. The most common differences are identified as a) the range of books covered, b) the time period the fixed price must be maintained, c) the trade terms negotiated between publishers and booksellers, d) the way authors' royalties are related to the fixed price system and e) the VAT. On the other hand, a few countries have already liberalised their book market. Countries without any regulation of book prices are the US, the UK, Sweden and Finland.

### 2.8.3 *Objective of the legislation*

The key aims of book price regulation are:

1. to promote the production of different book titles;
2. to create an extensive network of booksellers; and
3. to promote reading in society.

The regulation is built on the understanding that books are not just a commodity, but have a special value to society as a cultural good. From this point of view, the development of a rich production infrastructure and the sustainability of a dense retail network offering a rich and varied programme of books are viewed as of vital cultural importance. In particular, book price regulation aims at enabling publishers to publish works for smaller markets or specialised readers or audiences which do not accumulate sufficient purchasing power to make the publication of a book commercially viable. It could be argued that, in the absence of fixed book prices, authors addressing only a selective group of readers would face difficulties finding a publisher willing to run the economic risk posed by a

potentially small readership; publishers would be forced, by intense price competition, to publish only works with mass-market appeal. Moreover, *fixed* book prices are meant to enable small, independent bookshops to offer books even in remote locations, where transport costs are high and the reader density rather low, without the threat of being undercut by supermarkets or larger retail chain bookstores.

#### **2.8.4 Harm to competition from the restrictions identified**

Book price regulation aims to enhance the publication of a variety of book titles. In fact, by giving publishers full control over the retail price, book price regulation allows publishers and booksellers to use their monopoly power strategically, set high retail prices and enjoy high profits on bestsellers and, as a result, finance, by cross-subsidisation, the losses of producing and distributing slow-moving, less popular books. However, this cross-subsidisation mechanism comes with some unintended consequences for the workings of the market, both at the upstream level of production and at the downstream retail level.

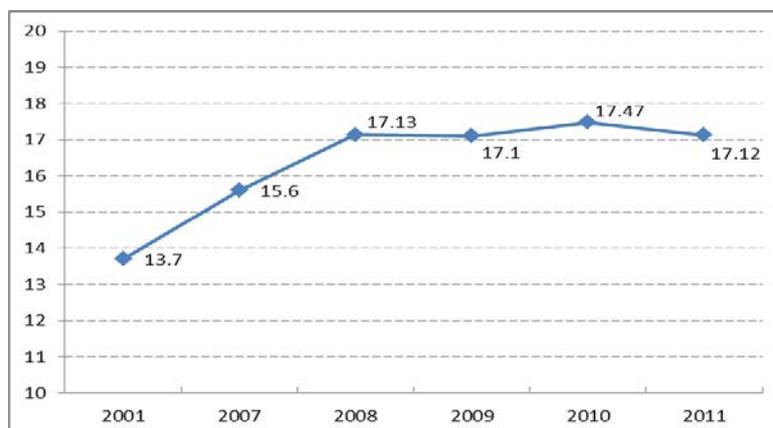
In particular, while book price regulation ensures that publishers enjoy high margins, it provides no guarantee that such profits will be used to subsidise less popular cultural books. At the same time, it provides no guarantee that booksellers will use their profits from bestsellers to distribute and market less popular cultural books. In other words, book price regulation as it is applied is not combined with any commitment mechanism, either for publishers or for booksellers, that the abnormal profits they both enjoy should be used to meet the cultural objectives of the legislator.

Moreover, the regulation gives discretion to the publishers on how the market surplus is split. In fact, since publishers determine both wholesale and retail prices, they determine the retail margins of all the booksellers in the market. This in turn implies that the remaining competition at the retail level, *i.e.* non-price competition among the booksellers, is significantly distorted as long as booksellers' strategic possibilities crucially depend on publishers' will. For instance, publishers can use the retail margin as an instrument to increase sales of specific book titles (a higher retail margin and lower wholesale price implies greater incentives for the bookseller to promote the specific title to consumers).

In addition, the fixed retail price regulation can be used strategically by publishers to keep the prices of specific book titles constantly high. By reprinting and re-editing – with minor changes – one could artificially extend the period of protected high prices.

Finally, one should note that book price regulation gives publishers no incentive to change the price charged during the two years period due to significant menu costs (altering price lists, invoicing back the price difference, etc.). This price stickiness is extremely harmful for economic efficiency in situations where aggregate demand fluctuates. In particular, lower demand and sticky prices imply suboptimal market equilibrium with too high prices and too low sales. This case may particularly apply in the Greek book market now, where the shrinking of disposable income has decreased demand but retail prices have not decreased concurrently.

**Figure 2.13: Average retail price of an average paperback (approx. 250 pages)**



Source: National Book Centre of Greece (Εθνικό Κέντρο Βιβλίου ΕΚΕΒΙ) database.

As shown in Figure 2.11, book sales have continuously fallen since 2008; however prices in Figure 2.13 seem to remain stable. Hence, as a result of the absence of any price competition, books in 2011 are relatively more expensive compare to four or five years before, which means that fewer consumers can buy books. In other words, the regulation under consideration may have the exact opposite result to the objective of the policy maker.

The maintained retail price regulation significantly limits the marketing strategies of booksellers and, as a result, reduces their potential revenues. In particular, fixing retail prices prevents retailers from introducing any price discrimination mechanism that would better match products and services to their location, the season or the consumer type they serve. This inability to price differentiate, in combination with the standard free-riding problem of quality competition at the retail level, significantly distorts booksellers' incentives to offer any quality services.

The inability of Greek booksellers to set their own prices carries the risk that they have to operate with a very inefficient inventory management system. Under the current legislation, Greek book retailers cannot offer discounts on unpopular books and as such have no stock liquidation possibility, which in turn implies that their total stock management costs increase.

In particular, the existence of book price regulation acts as a barrier for market participants to fully adopt new technological developments such as e-books, print-on-demand techniques and internet sales channels.

### Box 2.8: Evidence from book market deregulation in the UK

A report prepared for the UK Office of Fair Trading (OFT) identifies two important conflicting effects on aggregate book retailing productivity after the abolishment of book price regulation. On the one hand, as expected, deregulation has made a positive contribution to industry productivity through the reallocation of market shares from low productivity firms (independent booksellers) to higher productivity firms (large bookstores) and to new entrants (supermarkets and internet-retailers). On the other hand, there has been no long-run improvement in the within-firm productivity of the incumbent retailers. In fact, the UK experience showed that it is not just the small independents retailers, but also the larger chains (such as Waterstone's) that have been unable to counter the challenge of new entrants. In the years immediately after abolition of the fixed book price regulation, the larger book retailers posted quite impressive improvements in their within-firm productivity. However, the problems started to emerge as their turnover subsequently began to fall as a consequence of the growth of the entrants. In general, the OFT report suggests that the positive effects on sector productivity arise in the long run, partly because of continuing increasing competition (e.g. as supermarkets and internet sellers advance further) and partly because remaining incumbent retailers eventually achieve the increases in within-firm productivity (e.g. through mergers).

Fishwick (2008) discusses and evaluates the UK book retail market since the abandonment of fixed prices. His evidence suggests that the dominant internet bookseller (Amazon) and the supermarkets gain significant retail market share against traditional booksellers and specialist bookshops. On the publishing side of the market, he documents that UK publishers gained from the expansion of the total market, but some of those focusing on minority-interest titles have lost. After deregulation, all publishers faced a concentrated retail market with much greater buying power and, at least for some, this resulted in lower profits. With respect to consumer welfare, Fishwick argues that consumers who read bestselling titles are probably paying less after deregulation but readers of other minority-interest titles are almost certainly paying more.

#### Sources:

Office for Fair Trading (2008), "An evaluation of the impact upon productivity of ending resale price maintenance on books", full report at [http://www.offt.gov.uk/shared\\_offt/economic\\_research/oft981.pdf](http://www.offt.gov.uk/shared_offt/economic_research/oft981.pdf).

Fishwick, F. (2008), "Book retailing in the UK since the abandonment of fixed prices", mimeo.

### 2.8.5 Recommendations and benefits

The immediate effect of existing book price regulation in Greece is to effectively prevent any competition at the retail level, which implies inefficient market equilibrium. **We recommend that any book price restriction should be lifted.**

The cost of printing and distributing a book title has significantly decreased during the last two decades, which implies that the trade-off that publishers face between investment costs and undertaking risks is now totally different. The variety of new published titles is unlikely to be significantly affected. Relaxing the competitive distortions that accompany fixed book prices will boost innovation and facilitate operational efficiency across the sector without affecting the variety of new published titles. In fact, publishers will be pushed, by the increased competition, to adopt new innovative technologies and more efficient processes.

On the retail side, we expect that, following deregulation, the older, smaller and more inefficient bookshops will need to become more efficient to remain in the market, ultimately benefiting readers from an enhanced offer.

A new retail business model, based on innovative new retail channels, such as the Internet, will become more widespread, allowing access to new published books from anywhere in Greece.<sup>50</sup> In addition, the growth of other distribution channels such as large supermarkets and other retail outlets changes the structure of the retail market. As a result, the regulation appears outdated and increasingly

difficult to enforce. These market trends may change book distribution channels but that will not affect book production, in the same way that there are not many record stores left in the high street, but people continue to write, record and listen to music.

Following the changes in book publishing and in the book retail segments, it is expected that book prices in a deregulated market will eventually boost the demand for books and, as a result, will enhance reading in Greece. Finally, we observe that among cultural goods (such as books, music, paintings and sculpture) only books are price regulated.

## **2.9 Maximum pricing, detergents and other issues related to retail trade**

### **2.9.1 Registration of detergents**

#### *2.9.1.1 Description of the provision*

According to the Ministerial Decisions 1233/1991 and 172/1992,<sup>51</sup> article 4, the producer or importer of detergents and cleaning products should register the product with the competent authority of the General Chemical Laboratory of the State (GCSL). The registration is completed within a month, starting with placement of the product on the market, and requires a registration dossier including the commercial brand, use, composition (qualitative and quantitative composition, chemical name of substances), labelling and classification of the product, as well as the details of the person responsible for its circulation. The authority issues a unique code number that should be indicated on each package of the product. If the product is imported, a period of six months is recognised during which the product can be placed on the market without the code number.

#### *2.9.1.2 Objective of the provision*

The objective of the provision is not officially described. However, article 6 (par. 8d) of Law 4328/1929 authorises the Supreme Chemistry Council to issue decisions that determine the terms and conditions which should be met regarding the production and circulation of food, food formulations, drinks, water, chemicals and preparations, raw materials, industrial products and, in general, products that are being offered for consumption, in order to protect public health and the environment and to avoid consumer deception.

#### *2.9.1.3 Harm to competition*

Even if the provision describes a registration procedure (and not an authorisation procedure), in the guidelines provided on the relevant website,<sup>52</sup> the competent authority describes the procedure as follows: “The dossiers shall be submitted to our Authority by the person responsible against the Law himself and the chemist who prepared the classification and labelling study, in order to make any final corrections and/or additions to the dossiers, if needed, and thus facilitate the registration procedure” and “Whether the registration dossier complies with the legal requirements, the product is assigned a registration number, within the same day, provided that the registration fees have been deposited”. It must be concluded that the procedure is an actual approval procedure rather than a simple notification.

The provision increases the costs and administrative burden of a supplier. The additional cost derives both from the registration fee (approximately EUR 125 for each registration) and from the obligation of adding the code number to the label of each product; the latter requires re-labelling of products imported into the internal market, which is the case in Greece. This obligation represents a barrier to entry for new suppliers wishing to enter or launch new products in the Greek market.