



A House of Representatives committee is trying to find out why Australian consumers have to pay more for their IT and what can be done about it. [Story: Andrew Dawson](#)

If you are thinking about buying some computer software, maybe you should also think about an overseas holiday. In some instances it would be cheaper to hop on a plane to the United States and buy it there than download it from a computer in Australia.

Research by consumer group Choice, undertaken for its submission to a parliamentary inquiry into information technology pricing, found an average 50 per cent price increase for what Australians pay for a range of software, hardware, games and music downloads compared to what US consumers pay for identical products.

“We looked at music downloads from iTunes, PC games, software, console games and computer hardware,” Choice’s head of campaigns Matt Levey told the House of Representatives Infrastructure and Communications Committee.

“Some of the starkest figures coming out of that were that, compared to US consumers, Australians pay around 52 per cent more on iTunes for the equivalent top 50 songs; we pay 88 per cent more for Nintendo Wii console games – that was a selection of the 20 most recently released games; and there was a difference of about 34 per cent across a selection of 44 popular home and business software titles.

“We also looked at hardware, and a selection of 12 Dell computers, showing a price difference of about 41 per cent between what Australians and consumers in the US would pay. So we think these are significant price differences and we do not think they can be fully explained, let alone justified.”

One niche product’s price difference stood out. According to Choice, for Microsoft’s Visual Studio 2010 with MSDN there was a staggering \$8,665 price difference between Australia and the US.



PAT CAMPBELL

“To illustrate the price difference, we suggested that you could employ someone, pay their wages to fly to the US and back twice and buy the product once when they are there, and you would still come out slightly ahead. So that was certainly the starkest individual price difference that we identified,” Mr Levey says.

“The cost of doing business in Australia has a direct impact on prices recommended by Microsoft and ultimately charged to customers.”

Scores of other submissions from the public to the committee inquiry lament the significant extra costs

Australians are paying for all manner of IT-related products, from a 'Call of duty' computer game to a wireless router. Tech-savvy local consumers say they are fed up with having to pay anywhere from 50 to 400 per cent more for everyday products.

With the Australian dollar now at parity with the US dollar, Queensland consumer Dane Weber blames "flat-out greed" for IT products costing more than one and a half times more in Australia.

"For example, the US store lists the full version of Windows 7 Ultimate at \$US 319.99 whereas the Australian store lists the full version of Windows 7 Ultimate at \$AU 469.00. In both cases, this is a digital download: there is no extra costs associated whatsoever," he says.

But the Australian Information Industry Association, which represents more than 400 information technology companies including Microsoft, Apple, Adobe, IBM, Google and Dell, denies there is any price gouging in a supposedly cashed-up Australian market.

AIIA chief executive Suzanne Campbell points to local factors such as the GST, higher wages and commercial rents, plus more comprehensive warranties to explain the higher prices paid online by Australian consumers compared to American consumers for identical software or music downloads.

"There seems to be a misapprehension that online equals somehow free," she says.

Ms Campbell explains there are two different key drivers to price differentials for online products.

"The first is online, just as for bricks and mortar, has its own costs, so product development, product management, sales and marketing, are costs which are all related to a specific geography like Australia, that's one part of it," she says.

"The other is the rights owners, the content owners, who have their own regime of distribution and costing."

Mr Levey disagrees: "It's not an explanation, and it's certainly not a justification.

"We've had a look at a lot of those costs and we think that even cumulatively those factors that are unique to doing business in Australia can go no way to explaining what is an average 50 per cent price increase in IT hardware and software that we've identified, between what an Australian and a US consumer will pay for identical products."

Choice labels it international price discrimination when overseas manufacturers, suppliers and copyright holders deliberately decide Australians can afford to pay more. They then use technological protection measures (TPMs) to identify Australian internet service providers and 'geo-block' any Australians from accessing or downloading products from overseas websites at the cheaper prices.

"Essentially Australian consumers are identified, whether through technological means, or whether through controlling the physical supply chain, and charged more," Mr Levey says.

"There's a view that Australian consumers are willing to pay a higher price, we have done so for many years, and will continue doing so, until we see pressure on some of these international businesses to actually reduce their Australian prices."

Choice believes the use of geo-blocking is enabling global IT companies to price discriminate against Australians and it doesn't believe consumers should face potential criminal or civil liability for simply trying to get a better



deal on legitimate goods and services. Choice considers these measures to be anti-competitive, especially when they result in significant price differentials for Australian consumers. It is calling upon the government to fully investigate whether technological measures such as region-coding or the identifying of IP addresses should continue to be allowed.

In its submission to the inquiry, Microsoft is unapologetic for higher prices, pointing to a range of factors that impact on its pricing in the Australian market including the high cost of labour and rent, supply chain costs, exchange rates and Australia's regulatory regime.

"Like any other company in any other industry, Microsoft seeks a rate of return on its investment in the Australian ICT market to enable it to market and support its products with a presence in Australia," Microsoft says.

"The cost of doing business in Australia has a direct impact on prices recommended by Microsoft and ultimately charged to customers.

"Software that is delivered via an online portal offers the potential for reduced transaction costs for vendors in the way of distribution costs. Nevertheless the costs of providing the services... needs to be recovered and a profit from those operations derived."

On the thorny issue of more expensive music downloads, Australian Recording Industry Association chief executive officer Dan Rosen warned against further regulation, telling MPs there is an ever increasing range of more affordable options for Australians wanting to download music.

"First, Australian consumers have very considerable choice," he says. "In the digital sector of the retail segment of the market there are over 30 services that supply legitimate recorded music in a range of methods from downloads to streaming services. Some of these, including Spotify, a major multinational corporation that supplies streaming services, offer a very wide range of music free of charge to consumers."

ARIA also believes the choice for Australian consumers is likely to increase as more international services, including Amazon and Google, enter the Australian market.

"Given this situation and given also the abundance of free or near-free services, there is no policy justification for governmental intervention by price regulation or by trying to prohibit national differential pricing," Mr Rosen says.

ARIA notes that piracy is a major issue for the Australian music industry and indicates it is one of the reasons why



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it supports the use of geo-blocking and other TPMs by music businesses.

“Australian consumers have access to a plethora of unchecked and unregulated web-based suppliers that offer a very wide range of pirated music at no charge,” Mr Rosen says.

“Digitisation has enabled piracy on a massive scale, so much so that the wholesale revenues for record companies have been almost halved over the past 11 years, from \$648 million in 2001 to \$383 million in 2011.”

While John Stanton from the Communications Alliance agrees piracy is an issue for the entertainment industry, he told MPs the industry’s claims of financial losses up to \$1.3 billion from piracy are a “bit questionable”.

Mr Stanton believes one of the most obvious reasons for online piracy is the unavailability of legal and affordable online content. The increasing use of regional windows and staggered releases means consumers outside the US simply do not have a timely legal way of buying the content they want.

“In those circumstances, the unauthorised methods of downloading files for free are not just a tempting alternative but often the only alternative,” he says.

“Similarly it can be argued that, if Australian consumers see that they are being asked to pay a higher price to receive content, be that music, video, software or whatever, than consumers in the rest of the world are paying, then the temptation to use unauthorised channels to access those files also increases.”

Mr Stanton highlights how an American videogame developer Valve Software dramatically increased its sales and revenues for a game by 1,470 per cent after decreasing the game’s price by 75 per cent.

“My hypothesis is: what if we were to reduce IT prices in Australia and the result was that Australian consumers

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got a better deal, the companies selling the IT became more profitable and greatly expanded their revenues and, thirdly, online copyright infringement were reduced, which would bring economic benefits to the rights holders themselves?”

However ARIA cites research by the International Federation of the Phonographic Industry estimating that piracy accounts for a staggering 19 out of every 20 digital musical downloads.

Like the AIIA, ARIA also cautions against the “incorrect assumption” that the sale of digital goods online in Australia imposes no physical or hard costs saying its members have significant marketing, labour and overhead costs.

“The contention made by some commentators that digitally-delivered content by a local company with an international parent is identical and should therefore cost consumers the same in Australia as in the US or some other country is unfounded and misleading,” Mr Rosen says.

“Each national affiliate is managed and staffed by Australians conducting business in Australia under the particular national market conditions that exist in Australia. They invest substantially in Australian music creation and culture and provide the risk capital and operating costs out of their local revenues.

“Record companies are essentially marketing and talent finding enterprises, engaged in the highly skilled and complex task of finding, nurturing, investing in and subsequently developing high-risk talent activities. A success factor of one-in-10 or two-in-10 releases is standard. It is to an extent the success of those one or two out of 10 releases that provides the revenue to cover the significant losses on all the others.”

Treasury’s submission shows the government is aware of the issue but believes these costs may change as more Australian consumers gain greater access to the global marketplace. As a result, Treasury is also cautioning against any interventionist measures that risk stifling competition.

“While in many instances Australian consumers may be able to access internationally-competitive pricing, there are cases where Australian prices are higher than those available overseas,” Treasury says.

“Such differentials are not a new phenomenon, nor are they unique to Australia or the IT sector in particular. However, Australian consumers have become more aware of international price differences, as the internet – and with it, the international marketplace – has become increasingly accessible to Australian consumers.”

Committee chair, Nick Champion (Wakefield, SA) believes the issue is about fairness. “Obviously there are going to be some differences in costs, and it’s not a crime to make a decent profit, and it’s not a crime to make a profit if you’ve made some innovation, or you’ve got a product that people want to buy,” he says. •

For more information on the House of Representatives Infrastructure and Communications Committee inquiry into IT pricing visit www.aph.gov.au/ic or email ic.reps@aph.gov.au or phone (02) 6277 2352