



Inquiry into IT pricing

Submission of Brendan Sherrin

**(a) Whether a difference in prices exists between IT hardware and software products, including computer games and consoles, e-books and music and videos sold in Australia over the internet or in retail outlets as compared to markets in the US, UK and economies in the Asia-Pacific**

A definite price difference exists over and above the ordinary price difference due to exchange rate differences. Digitally delivered goods have the same distribution cost everywhere, the cost of transport is born by the consumer through the download allowance on their internet plan.

The price difference has been recognized by independent experts such as the productivity commission:  
<http://www.zdnet.com.au/kill-the-australia-tax-commission-339319910.htm>

An example I have seen is the case of 2K Games & the computer game it published called "Borderlands":  
<http://www.kotaku.com.au/2009/11/borderlands-now-more-expensive-on-steam/>

In this example, the game was released to be sold through the digital distribution network Steam (store.steampowered.com). It was initially released for \$50 US, a month later the game was re-priced for Australians to be \$80. Australians are sealed to this this exorbitant mark up through both regional IP geo-location & regional credit card checks (you cannot use a credit card with an Australian address to bypass IP geo-location & access the cheaper pricing overseas).

Further to this case, a 2K games employee (2K Elizabeth – the head of customer service at the time) advised the following in response to many customer complaints on the re-pricing for Australians:

<http://forums.2kgames.com/forums/showthread.php?t=49990> - posts 4 & 16:

Post 4:

*"I'm the head of customer service, so you are at the exact right place. Feel free to email me (or support) if you ever want to get in touch directly.*

*I'm going to look into this - I don't know why it was mis-priced, and I'm sorry for that."*

Post 16:

*"Hey guys,*

*Sorry about the delays in responding. The pricing is correct and is (from my research) relatively standard for like games in Australia.*

*If you have any further questions, please let me know, and I'll try not to take too long in replying this time. I wanted to make sure I had all the information about Australian pricing before I replied to you guys."*

This appears to state that that a markup of 60% is "relatively standard" from her research & presumably from the computer game publisher (2K games) that she works for.

**(b) Establish what those differences are**

Research already carried demonstrates price difference of 60-100%+ overcharging for the Australian market for digitally distributed goods.

1. <http://www.cnet.com.au/getting-steamed-digital-distribution-for-games-isn-t-there-yet-339288255.htm>

Table at the bottom of the article:

***Overpriced games in Australia***

<b><i>Publisher</i></b>	<b><i>Title</i></b>	<b><i>Price in US (US\$)</i></b>	<b><i>Price in AU (US\$)</i></b>
<i>2k Games</i>	<i>Bioshock</i>	<i>\$29.95</i>	<i>\$49.95</i>
<i>Activision</i>	<i>Call of Duty 4: Modern Warfare</i>	<i>\$49.95</i>	<i>\$88.50</i>
<i>Activision</i>	<i>Enemy Territory: Quake Wars</i>	<i>\$39.95</i>	<i>\$47.50</i>
<i>Eidos Interactive</i>	<i>Conflict: Denied Ops</i>	<i>\$39.95</i>	<i>\$59.95</i>
<i>Pendulo Studios</i>	<i>Runaway: The Dream of the Turtle</i>	<i>\$29.95</i>	<i>\$49.95</i>
<i>SimBin</i>	<i>RACE 07</i>	<i>\$29.95</i>	<i>\$39.95</i>



2. Entire websites have been devoted to this issue by consumers aggrieved by the price markups:

<http://www.steamprices.com/au/topripoffs> for example shows the below and **many** other examples:

### Call of Duty

*Release:* 11<sup>th</sup> November 2009

 [\\$ 89.99](#)

 [\\$ 19.99](#) »  \$ 19.99 (-77.79%)

 [£ 19.99](#) »  \$ 30.67 (-65.92%)

(I have also confirmed by the manual method below that the above price differential mentioned above is current as at 06/06/12 – 10:22pm)

The price differences can be verified manually by loading the following links and selected the same product on each.

<http://store.steampowered.com/?cc=au> for Australian marked up prices

<http://store.steampowered.com/?cc=us> for the cheaper pricing overseas

Note: that even though you can browse & see the game at a different price in the above, you cannot purchase the game in US dollars due to the regional IP geo-location & regional credit card address verification in use by these companies.

### **(c) Determine why those differences exist**

I work as an IT Systems Engineer for a large Web Hosting company, I cannot see any technical or other reasons for such pricing discrepancies

Reasons:

1. The cost of downloading the data is borne by the consumer of the content through their internet service provider plan/download quote
2. Large ISP's offer local mirrors of this content free to the digital distributor, as it saves them money in international bandwidth to host a local copy of this data for customers & other local consumers. Two examples of companies that do this are Telstra Bigpond & iiNet:

<http://www.gamearena.com.au/help/faq/steam.php>

[http://www.internode.on.net/residential/entertainment/unmetered\\_content/steam\\_content\\_faq/](http://www.internode.on.net/residential/entertainment/unmetered_content/steam_content_faq/)

**(d) Establish what the impacts of these differences might be on Australian businesses, governments and households**

For myself personally, the largest effect is the much higher cost of entertainment, adding up the millions of Australians consuming the same good at the same mark up leads to millions of dollars being lost overseas from the Australian economy by this "Australia Tax". As a specific example, my steam account shows 166 purchased games. Around half would be bought on release at full cost, the usual cost of AA games for Australians is \$80 on <http://store.steampowered.com/?cc=au> while the US price is \$50. That's an estimated difference of ~\$2,400 that I've paid for the games on my account, over what a US purchaser would pay.

Add that up with an estimated 1,200,000 other steam users in Australia given by the below:

<http://sapi.techieanalyst.net/> - Users by country - ~3.08% of steam users are Australian

[http://en.wikipedia.org/wiki/Steam\\_%28software%29](http://en.wikipedia.org/wiki/Steam_%28software%29) – 40 million steam users

and that becomes a lot of dollars lost from the Australian economy overseas. My submission is only about my direct effect of computer games prices, I haven't touched on the cost of business software such as Microsoft Windows, Office & Adobe Photoshop which are direct extra costs to Australian businesses of all sizes.

**(e) Determine what actions might be taken to help address any differences that operate to the disadvantage to Australian consumers**

Enforced competition is the only way I can see to eliminate this price differential. Laws are required to enable "parallel importing" of digitally distributed products just as physical products are able to source from multiple sources to ensure lower pricing.

This should take the form of either:

Prohibiting companies that do business in Australia & sell to Australian consumers from price discrimination (due to location or other reasons). This would prohibit geo-locational technologies from displaying different pricing, but still allow geo-location for regionalised branding and other purposes. Purchase & pricing discrimination based on credit card address information should also be prohibited by law. This would push companies to use a global price, just as the internet itself is global.

The 2<sup>nd</sup> option would be to allow by law, consumer bypassing of geo-location protections protected by law. This would enable consumers to use proxy & VPN services to bypass IP geo-location technologies & allow banks to offer credit cards with US based addresses to purchase goods online. Exceptions would be updated over time by a statutory authority, much like the Library of Congress in the US declares exceptions to allow the us DCMA: <http://www.copyright.gov/1201/>