



Mr Andrius Kubilius
Prime Minister of the Republic of Lithuania
Gedimino ave. 11
LT-01103 Vilnius
LITHUANIA

Sent by fax: +370 5 266 3895
and E-mail: kanceliarija@lrvk.lt

5 February 2009

Dear Prime Minister,

**Planned changes to VAT and Social Security Laws in Lithuania:
Concerns of the international publishing community**

The International Publishers Association (IPA) is the global federation of trade associations representing book and journal publishers. Established in Paris in 1896, IPA counts more than 60 national, regional and specialised publishers associations from more than 50 countries among its members, including the Lietuvos Leidėjų Asociacija (LLA). Publishing remains one of the largest creative industries with world-wide sales exceeding USD 90 billion (approx. LTL 241 billion).

IPA is an accredited non-governmental organisation enjoying observer status to the United Nations, the World Intellectual Property Organisation WIPO and UNESCO. IPA's main goals are the promotion of literacy and reading, and the development and protection of copyright.

IPA has become aware of legislative changes introduced by your Government, one concerning value added tax (VAT) for books, the other taxation of royalty agreements. We are deeply alarmed by the changes as both risk jeopardising the local/Lithuanian language publishing and book industry, as well as the international exchange with Lithuanian book culture generally, for the reasons we set out below.

We urge your Government to revoke the relevant legislative changes, so as to safeguard and possibly further strengthen the Lithuanian publishing industry and book culture which has so impressively grown since your country regained independence. - We know that our Lithuanian member LLA as well as the Federation of European Publishers FEP have made submissions on these issues, and we commend them to your attention.

We attach a brief note outlining our core concerns regarding the two issues from the perspective of the international publishing community.

Yours faithfully,


Jens Bammel
Secretary General

The ratio behind reduced VAT rates for books

A 2009 publication of the European Commission¹ shows that **25 out of the 27 Member States of the European Union apply reduced or zero VAT rates to books** - this includes, for the moment, Lithuania. According to the same publication, the average standard VAT rate within the EU is 19.5%, whereas the **average VAT rate for books is 7.0%**. Poland, the UK and Ireland tax books at 0%.

The trend is clear: governments are prepared to tax books at reduced, or even zero rates.

Governments have taken this policy decision for the following reasons:

- **Books as goods satisfying basic needs:** Literary reading and hence the availability of books, has been recognised internationally as an issue of national consequence². Books are the fundamental tools to acquire numeracy, literacy, including computer literacy, and maintain a functionally literate society.

Experience in Sweden³ shows that the book market will shrink proportionally with the increase of VAT. Higher book prices discourage the public to purchase books and to invest in their education and literacy enhancement. Higher book prices hit in particular low-income readers, such as students, but also those not being able to acquire and/or read (cheaper) books in a different language, e.g. English, from (internet) bookshops based in that language market, e.g. UK (with a zero rate VAT). However, it is exactly the low-income readership that would benefit most from affordable books published locally and in the local language.

- **Risks to the local book culture:** Publishing and book selling are low-margin businesses. Experience has shown that higher prices commensurate lower books sales. Lower books sales will impact directly on the number of books sold, the number of book shops, and the range of books published. In the long term, as the number of bookshops shrinks, publishing will be forced to focus on “safe bets”, that can possibly be sold through supermarkets and other alternative channels. Publishers will reduce their publishing breadth, thereby impacting directly on every other link in the book chain: paper manufacturers, printers, booksellers etc.
- **Unnecessary inflation of subsidies:** Where large quantities of books are purchased by state-funded institutions, e.g. schools, universities, libraries, a high VAT rate essentially means that the government essentially takes away with one hand what it gave with the other.

In short, governments recognise that higher VAT rates may help them gain additional revenue in the short term; but that in the long term this cannot be offset against the losses to society at large because a large variety of books is no longer readily available. It is highly unusual for a country that takes pride in its unique cultural heritage and language not to take great care to support the local book culture, a cornerstone of national identity.

IPA therefore appeals to the Lithuanian Government to reconsider submitting books to the standard VAT rate, and to return to the 5% VAT rate applicable to books until 31 December 2008.

¹ See European Commission – DG Taxation and Customs Union publication DOC.2401/2009 of 1 January 2009, available here: http://ec.europa.eu/taxation_customs/resources/documents/taxation/vat/how_vat_works/rates/vat_rates_en.pdf
² US study: To Read or not to Read: a question of national consequence" <http://www.nea.gov/research/ToRead.pdf>
³ <http://www.ebf-eu.org/papers/VAT%20REPORT%202005%20Sweden.pdf>

Publisher contributions to book authors' social security and health insurance

Book authors are different from newspaper journalists. A solution for a problem with the latter should not affect the former.

Imposing an obligation on a book publisher to make significant contributions to an author's social security or health insurance ignores the traditionally independent status of both publisher and author, thereby indirectly impacting on the notion of "freedom of expression" and "freedom to publish". It will force publishers to pass increased book production costs on to booksellers and ultimately the reader. As described in the outline above regarding VAT rates, this will affect the delicate cost balance of book publishing and ultimately affect the entire book value chain.

Independent status of both author and publisher: The traditionally independent status of both authors and publishers is, until today, evidenced through the following elements:

- Royalties reward the author for her or his creative efforts; it is thanks to royalties that, back in the early 18th century, authors started to free themselves from their dependency on kings and counts who used to pay for the author's living, and to write and publish works as they saw fit – and not necessarily in line with their master's views.
- Author-publisher contracts usually provide that the author participates financially in the success of a book. Authors share the reward of bestseller sales. Bestseller authors can make more money than their publishers.
- Successful book authors typically contract with a number of publishers, both domestically and abroad, often using agents to secure the best deals.
- Also, authors work independently from their home or own office, with the publisher not providing any infrastructure or equipment.

Negative impact of higher book prices: We would like to reiterate the long term negative consequences of higher book prices on:

- society (book consumption, literacy, and education levels)
- the book industry and related industries generally (employment, investment etc)
- cultural diversity (avoidance of risky business ventures, and focus on guaranteed international bestsellers)

IPA therefore appeals to the Lithuanian government to stop imposing an obligation on licensors to make compulsory social security and health insurance payments for their licensees.

[END OF SUBMISSION]