

EU in antitrust probe of Apple, e-book publishers (Update)

December 6 2011



A man looks at e-book products on display at a booth during the five-day Computex Taipei computer fair, June 2010. European antitrust officials launched a probe on Tuesday to determine whether iPad maker Apple and five international publishers engaged in anti-competitive deals in the sale of e-books.

The European Union's antitrust watchdog is probing whether Apple helped five major publishing houses illegally raise prices for e-books when it launched its iPad tablet and iBookstore in 2010.

The probe, announced Tuesday by the European Commission, offers a glimpse into the fierce competition in the growing e-book market, especially as Apple has tried to take on Amazon and its Kindle e-book reader.

In particular, the Commission is investigating a significant shift in the way the price of e-books is determined that occurred in 2010, just as Cupertino, Calif., based Apple introduced the iPad and its own online book store, iBookstore.

Apple was the first retailer that allowed publishers to move to so-called agency agreements, in which publishers get to set the price at which online bookshops sell e-books to consumers. Until then, publishers were able to set the wholesale price of e-books, while the retailers decided at what price to sell them on.

"The Commission has concerns that these practices may breach EU antitrust rules that prohibit cartels and restrictive business practices," the regulator said in a statement.

Giving publishers the power to set retail prices could effectively restrict competition between online bookshops, since it takes away the power from individual retailers to set lower prices. Since Apple's deal with the publishers, several other online retailers have also shifted to the agency model, possibly in an attempt to secure the rights to sell popular e-books.

The investigation targets publishers Hachette Livre, a unit of France's Lagardere Publishing; Harper Collins, owned by Rupert Murdoch's U.S.-based News Corp.; CBS Corp.'s Simon & Schuster; Penguin, which is owned by U.K. publishing house Pearson Group; and Germany's Verlagsgruppe Georg von Holtzbrinck, which owns Macmillan.

The Commission stressed the probe was in its early stages and did not mean the companies actually broke EU competition law. It follows a similar investigation by the Office of Fair Trading in the U.K. and a class action lawsuit against the same five publishers and Apple filed this summer in the U.S. District Court for the Northern District of California.

The U.K. OFT on Tuesday closed its own probe, since the Commission has taken over the case, but said it was cooperating closely with the EU investigation. It said in a statement that its investigation was triggered by several complaints, without naming the complainants.

Apple representatives did not immediately respond to messages seeking comment.

Pearson said the fact that the Commission has opened an probe did not prejudice the outcome of the probe.

"Pearson does not believe it has breached any laws, and will continue to fully and openly cooperate with the Commission," it said.

Holtzbrinck echoed that statement, saying it found the Commission's case "without reason."

The e-book market has been dominated by Amazon.com Inc. and the Kindle.

In a summary of its complaint, U.S. law firm Hagens Berman, which filed the U.S. class-action suit, claims that "Apple believed that it needed to neutralize the Kindle when it entered the e-book market with its own e-reader, the iPad, and feared that one day the Kindle might challenge the iPad by digitally distributing other media like music and movies."

It also alleges that following the deal with Apple, Amazon was forced to abandon its discount pricing model and move to the agency model.

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Citation: EU in antitrust probe of Apple, e-book publishers (Update) (2011, December 6)

retrieved 3 May 2024 from

<https://phys.org/news/2011-12-eu-antitrust-probe-e-book-publishers.html>

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