

Reed Elsevier

Overview of controversial business practices in 2008

Roeline Knottnerus

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Colophon

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Introduction

This company report has been prepared by SOMO (Centre for Research on Multinational Corporations). It provides an overview of business practices that could be regarded as unsustainable or irresponsible which occurred (or might have been addressed) in 2008.

The overview below describes only controversial practices and not the positive achievements of a company in the same year. Information on positive achievements can usually be found in a company's annual and/or sustainability report and on the company's website. The purpose of this report is to provide additional information to shareholders and other stakeholders of a company on controversies that might or might not be detected and reported by the company itself.

This report does not contain an analysis of a company's corporate responsibility policies, operational aspects of corporate responsibility management, implementation systems, reporting and transparency, or total performance on any issue. For some controversies, it is indicated which standards or policies may have been violated and a brief analysis is presented. Apart from this, the report is mainly descriptive.

The range of sustainability and corporate responsibility issues eligible for inclusion in this overview is relatively broad and mainly based on the OECD Guidelines for Multinational Enterprises. These Guidelines are used as a general frame of reference in addition to the company-specific standards.

Sources of information are mentioned in footnotes throughout the report. The main sources were obtained through SOMO's global network of civil society organisations, including reports, other documents, and unpublished information. Media and company information databases and information available via the Internet are used as secondary sources where necessary. Reed Elsevier has been informed about the research project in advance and was given two weeks to review the report and provide corrections of any factual errors in the draft version.

The overview of controversial practices in this report is not intended to be exhaustive. Instead, it focuses on a limited number of issues and cases that might merit further attention or reflection. Where information about the latest developments, either positive or negative, was unavailable, it is possible that situations described in the overview have recently changed. Taking into account these limitations, SOMO believes that the report can be used for improvement and for a more informed assessment of a company's corporate responsibility performance.

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Reed Elsevier: Moving from print to online services

Reed Elsevier is one of the world's leading publisher and information provider. In July 2008, Publishers Weekly listed Reed Elsevier as 2007's fourth largest publisher by sales.¹

The company's principal operations are in North America and Europe, where it serves the science, medical, legal, risk information and analytics and business sectors. Based in over 200 locations worldwide, the group employs over 35,000 people.

Reed Elsevier is currently engaged in "implementing an important reshaping of the business, with the strategic goal of moving more assets away from slower growth, more cyclical advertising/print based sectors, and more towards faster growth, less cyclical online based sectors."²

¹ 'Publishing's Top Guns' in: Publishers Weekly, 14 July 2008. <<http://www.publishersweekly.com/article/CA6577730.html>> Accessed: 22 March 2009.

² Reed Elsevier – Group Strategy. <<http://www.reed-elsevier.com/INVESTORCENTRE/STRATEGY/Pages/Home.aspx>>. Accessed: 23 March 2009.

Divestments and acquisitions

In January 2008, the company concluded the sale of its Harcourt Education division. It also completed its divestment of the Latin American branch of LexisNexis.

In February 2008, Reed Elsevier announced the planned divestment of Reed Business Information (RBI), which, in the absence of suitable buyers due to the present global economic downturn, was withdrawn towards the end of 2008.³ A merger with the online risk analytics business ChoicePoint Inc. was completed in the second half of the year.

³ 'Reed Elsevier announces termination of discussions to sell Reed Business Information', Reed Elsevier press release, 10 December 2008. <<http://www.reed-elsevier.com/mediacentre/pressreleases/2008/Pages/ReedElsevierannounceterminatioofdiscussionstosellReedBusinessIn formation.aspx>>. Accessed: 23 March 2009.

Issues

Restructuring

In 2008, Reed Elsevier announced a major restructuring programme to deliver £245m of cost savings over the next four years, which is to capitalise on the reshaping of the company's portfolio and earlier cost initiatives and includes further outsourcing and offshoring of production.⁴

On its website, Reed Elsevier indicates that in relation to the reshaping of its business, improving cost efficiency is fundamental for the company, with substantial cost savings having been made over the last five years, and further opportunities across the supply chain and in technology and infrastructure to continue this progress identified.⁵

Reed Elsevier had planned to use the proceeds from its divestment of Reed Business Information (RBI) to pay for its acquisition of ChoicePoint. However, the failed auction of RBI forced the company to secure bank credits to the value of \$2 billion, triggering the announcement of additional restructuring efforts to the amount of \$220 million, \$160 million of which is to be contributed by RBI.⁶

Reed Elsevier's initial cost-cutting programme was already expected to cost over 1,000 jobs.⁷ The expansion of the company's restructuring plans may significantly add to that number. RBI has already announced a hiring and salary freeze for 2009, as well as a reduction of its workforce by 7 percent.⁸ As part of its cost-cutting drive, Reed Elsevier has reportedly been outsourcing jobs to India.⁹

The Dutch union of journalists NVJ has criticised Reed Elsevier's restructuring plans as unsound.¹⁰

Meanwhile, Reed Elsevier's CEO Crispin Davis takes third place on a list compiled by *De Volkskrant*, a leading Dutch newspaper, on the remuneration of board members of AEX-listed companies. *De Volkskrant* notes an annual income for Mr Davis of €8.3 million.¹¹

⁴ Reed Elsevier 2008 Interim Results - 31 July 2008 - <<http://www.reed-elsevier.com/mediacentre/pressreleases/Documents/2008/Reed%20Elsevier%20Interim%20Announcement%20FINAL%201july08.pdf>>

⁵ Reed Elsevier – Group Strategy. <<http://www.reed-elsevier.com/INVESTORCENTRE/STRATEGY/Pages/Home.aspx>>. Accessed: 23 March 2009.

⁶ 'Earnings: Reed Elsevier Sharpens The Axe; \$220 Million Extra Annuals Savings Targeted', paidcontent.org, 19 February 2009. <<http://www.paidcontent.org/entry/419-earnings-reed-elsevier-sharpens-the-axe-220-million-extra-annuals-savin/>>. Accessed: 22 March 2009. Preliminary Results 2008 – Press Release 19 Feb 2009 -

<<http://www.reed-elsevier.com/mediacentre/pressreleases/2009/Pages/ReedElsevier2008PreliminaryResults.aspx>>

⁷ 'Reed Elsevier cost cuts to claim 1,000 jobs', The Telegraph, 20 February 2008. <<http://www.telegraph.co.uk/finance/markets/2784538/Reed-Elsevier-cost-cuts-to-claim-1,000-jobs.html>>. Accessed: 22 March 2009.

⁸ 'RBI Freezes Salaries, Cuts 7 Percent of Workforce', Folio Magazine, 26 January 2009. <<http://www.foliomag.com/2009/rbi-freezes-salaries-reduces-workforce-7-percent-0>>. Accessed: 22 March 2009.

⁹ 'Reed Elsevier cutting jobs, shifting work to India', Dayton Business Journal, 28 May 2008.

<<http://www.bizjournals.com/dayton/stories/2008/05/26/daily13.html?surround=fn>>. Accessed: 22 March 2009.

¹⁰ 'Onzorgvuldig bezuinigingsplan Reed', press release Nederlandse Vereniging van Journalisten, 10 February 2009. <<http://www.nvj.nl/nieuws/bericht/onzorgvuldig-bezuinigingsplan-reed/>>. Accessed: 22 March 2009.

¹¹ 'Topbestuurders verdienen weer meer', ANP via Nu.nl, 4 January 2008. <<http://www.fiscalistenonline.nl/?q=node/3461>>. Accessed: 22 March 2009.

Market dominance

In 2008, Reed Elsevier completed the €2.7bn acquisition of ChoicePoint. On its website, Reed Elsevier writes: "Combination of ChoicePoint and very successful LexisNexis Risk Information and Analytics Group ('RIAG') creates for Reed Elsevier a position as a world leading provider of risk information and analytics by adding a major presence in the insurance segment and complementary products and new capabilities in the screening, authentication and public records areas."¹²

However, the Federal Trade Commission (FTC) – the US watchdog for consumer protection and prevention of anti-competitive business practices – initially blocked the merger because of its potential anticompetitive effects: the two companies together would control over 80 percent of the market for public records search services sold to law enforcement customers. The FTC made the merger plans conditional on the divestment of two of ChoicePoint's public records services: AutoTrackXP and CLEAR.¹³

The FTC did not comment on the merger's effect on the market for the collecting, selling and analysing of personal consumer information.

Pricing strategies and access to information

Over the years, Reed Elsevier has come under repeated criticism for abuse of market power and blocking access to (scientific) information through inhibitive pricing.

A report published in April 2006 and compiled by economists from Toulouse University and the Free University of Brussels for the European Commission, showed that in the 20 years to 1995 the price of scientific journals rose 300% more than the rate of inflation over the period. The researchers further noted that in the 10 years since then, price increases slowed but still significantly outpaced inflation.¹⁴ The Library Journal's Periodicals Price Survey 2008 says that prices of subscription-based journals increased nine to ten percent in 2008.¹⁵

The link <http://en.wikipedia.org/wiki/Elsevier#Criticism> provides a list of editorial boards of leading scientific journals that have resigned over the years out of dissatisfaction with Reed Elsevier's exorbitant subscription prices.

The aforementioned report recommended that scientific research funded by the European taxpayer should be freely available to everyone over the internet.

¹² Reed Elsevier 2008 Interim Results - 31 July 2008 - <<http://www.reed-elsevier.com/mediacentre/pressreleases/Documents/2008/Reed%20Elsevier%20Interim%20Announcement%20FINAL%2031july08.pdf>>

¹³ 'FTC Challenges Proposed Merger Between Public Records Publishers', Squire Sanders, 22 October 2008. <<http://www.mondaq.com/article.asp?articleid=68344>>. Accessed: 22 March 2009.

¹⁴ 'Brussels delivers blow to Reed Elsevier', The Guardian, 19 April 2006. <<http://www.guardian.co.uk/technology/2006/apr/19/news.science>>. Accessed: 22 March 2009.

¹⁵ 'Periodicals Price Survey 2008: Embracing Openness', Library Journal, 15 April 2008. <http://www.libraryjournal.com/article/CA6547086.html> . Accessed: 23 March 2009.

It has been suggested that the growing support for open source policies in the EU and US political arenas is a big motivating factor in Reed Elsevier's cost-cutting and proposed divestment of Reed Business Information.¹⁶

US lobby against open source

In the US, Reed Elsevier has been engaged in extensive lobbying against "open source" policies.

In December 2007, President George W. Bush signed a bill that included a provision for the National Institutes of Health (NIH) to provide the public with open online access to its funded research no later than 12 months after publication.

The American Association of Publishers – of which Reed Elsevier business operations Elsevier Science Inc. and Reed Reference Publishing are members – immediately announced it would continue its lobby against implementation of this bill.¹⁷

In the first quarter of 2008, the US unit of Reed Elsevier reportedly spent \$790,000, not only on public access/NIH, but also on issues including patent reform legislation, Internet crime and spyware issues, identity authentication, and various homeland security matters.¹⁸ Reed Elsevier also lobbied on issues related to its acquisition of ChoicePoint Inc., which collects and sells access to and analyzes the personal information of consumers.

The website www.opensecrets.org reports a total US lobbying budget for Reed Elsevier of \$3,070,000 in 2008, plus lobbying expenses amounting to \$36,000 for its subsidiary Lexis-Nexis.¹⁹

In March 2008, Reed Elsevier reached a settlement with the Federal Trade Commission (FTC) on charges that its data broker business Lexis-Nexis had failed to provide reasonable and appropriate security for sensitive consumer information, leading to identity theft.²⁰

Lobbying in Europe through the EPC

In Europe, Reed Elsevier has been lobbying through the European Publishers Council, which in 1999 opposed legislation at the European level to regulate media concentration and pluralism, and in 2007 applauded an EC Working Paper on Media Pluralism, for stating that the EU has no legal competence to intervene in that area.²¹ The EPC also rallied against the proposed introduction of an eco-label for

¹⁶ Ibid.

¹⁷ Publishers Say Enactment of NIH Mandate on Journal Articles Undermines Intellectual Property Rights Essential to Science Publishing, AAP press release, 3 January 2008.
<<http://publishers.org/main/PressCenter/Archives/NIHMandatoryPolicy.htm>>. Accessed: 23 March 2009.

¹⁸ 'Reed Elsevier 1Q lobbying reached \$790,000'. Source: AP (4 June 2008) via International Business Times.
<<http://www.ibtimes.com/articles/20080604/reed-elsevier-1q-lobbying-reached-790-000.htm>>. Accessed: 23 March 2009.

¹⁹ <<http://www.opensecrets.org/lobby/clientsum.php?lname=Reed+Elsevier+Inc&year=2008>>. Accessed: 23 March 2009.

²⁰ 'FTC settles breach case with Reed Elsevier and Seisint', SC Magazine, 28 March 2008.
<<http://www.scmagazineus.com/FTC-settles-breach-case-with-Reed-Elsevier-and-Seisint/article/108400/>>. Accessed: 23 March 2009.

²¹ 'Europe's publishers welcome Commission working paper on media pluralism', European Publishers Council news release, 16 January 2007.
<http://www.epceurope.org/presscentre/archive/Europes_publishers_welcome_Commission_media_pluralism_paper.shtml>. Accessed: 22 March 2009.

editorial products, such as magazines and newspapers.²² The EPC is currently resisting advertising restrictions as an impingement on the freedom of the press.²³ The European Parliament has been considering proposals to regulate car advertisements in relation to CO₂ emissions and climate change.

The EPC prides itself in having contributed to legislative developments “by recognizing that advertising performs an essential role in providing consumers with information about goods and services and so guarantees competition in a free market economy’ and ‘by securing the freedom of commercial communication so that advertising income, crucial to media businesses, is not jeopardized by intrusive legislation”.²⁴

Issue solved in 2008 – Reed Elsevier’s involvement in the organisation of arms exhibitions

Between 2005 and 2007, Reed Elsevier was the target of a public campaign protesting the company’s involvement in the organisation of arms exhibitions.²⁵ The campaign was initiated by medical journal The Lancet, which deemed an involvement of its parent company in the arms trade to be in direct conflict with the Hippocratic Oath governing the medical profession. Through its subsidiary, Reed Exhibitions, Reed Elsevier ran arms fairs in Great Britain, the United States, the Middle East, Brazil, Germany and Taiwan.²⁶ In response to public pressure, Reed Elsevier announced in 2007 its intention to divest itself of its arms exhibitions. Reed Elsevier’s interim results for 2008 show that the sale of the defence sector was completed in May 2008.²⁷

²² European Publishers Council, Joint letter to Commissioner Dimas: Ecolabel for Printed Paper Products (EU Commission’s impact assessment), 15 March 2007.

<http://www.epceurope.org/issues/Ecolabel_Commissioner_Dimas_final_15.03.2007.pdf>. Accessed: 22 March 2009.

²³ ‘Publishers pledge to fight on against advertising restrictions - EP votes today on emissions’, European Publishers Council news release, 25 September 2008.

<http://www.epceurope.org/presscentre/archive/Publishers_pledge_to_fight_on_against_advertising_restrictions.shtml>, accessed on 22 March 2009.

²⁴ ‘A message from EPC Chairman Francisco Balsemão’ at <<http://www.epceurope.org/index.shtml>>, accessed on 22 March 2009.

²⁵ Richard Norton-Taylor, Lancet calls for publisher to cut ties with international arms trade, <<http://www.guardian.co.uk/media/2005/sep/09/pressandpublishing.arms>>, accessed: 26 march 2009.

²⁶ Richard Smith, ‘Reed Elsevier’s hypocrisy in selling arms and health’, in the *Journal of the Royal Society of Medicine*, <<http://jrsm.rsmjournals.com/cgi/content/full/100/3/114>>, accessed on 26 March 2009.

²⁷ Ibid.

Response from Reed Elsevier

Reed Elsevier responded to the issues of pricing, access and market power as raised in this report by stating that the company “supports all innovations that can extend access in a cost-effective manner while sustaining today’s extremely high standards of quality control, preservation and researcher efficiency”. Reed Elsevier notes that annual usage of its ScienceDirect database has grown from around 40 million downloads in 2001 to almost 500 million in 2008, with usage still growing by well over 20% annually. According to Reed Elsevier, the effective price paid per Elsevier article downloaded on average globally (total articles downloaded divided by total subscription revenues) has fallen by over 60% from 2001 to 2007, from around \$7 to about \$2.50 (an average annual drop of 15%). The company also notes that these figures include all customer types, including corporate and government institutions, and goes on to say that on average, the effective price paid per full text article downloaded by academic institutions globally is lower, and is closer to \$2 per article downloaded. This is, says Reed Elsevier, because effective price paid differs from list price due to volume discounts. According to the company, the average effective price paid per journal accessed across all publishers has also continued to fall as publishers have moderated annual price increases and have provided more volume discount license options. A spokesperson for the company quoted a 2006 UK study, which was said to show that the effective average price paid per journal accessed fell by 24% from 1999 to 2005, from £105.26 to £80.09 (an average annual drop of 4%). For the US figures, the company referred to data from the Association of Research Libraries, according to which the effective average price paid per journal accessed in 2006 (\$244) was in fact lower than in 1997 (\$249). Overall, Reed Elsevier quotes an average list price for 2009 of \$1841, and an average list price per article (2007) of \$11.14, while stating that the effective price paid per title accessed is approximately 40% or less of the list price. According to the company, the average list price for US academic institutions is \$1,800, while the effective price amounts to \$695. The figures quoted per article are \$10 and \$4 respectively. For UK universities, the figures quoted by Reed Elsevier amount to EUR 1,600 (list price) versus EUR 286 (effective price), and EUR 9 (list price per article) versus EUR 2 (effective price per article).

With regard to access, the company’s comments referred to internal analysis, which would indicate that 97% of UK researchers have unlimited access to around 90% of Elsevier journals under license of their host institution. According to the company spokesperson, the reason the number is not 100% is that many institutions choose not to access titles outside their immediate research focus. According to Reed Elsevier, the subscription system, as a result of the e-revolution since 1999, is now delivering near universal access at ever-falling per unit costs to customers, while maintaining very high levels of quality and preservation standards and improving researchers’ efficiency: again according to a company spokesperson, researchers apparently now say access to journal articles is number 12 on their list of concerns, with access to funding and too much paperwork taking precedence.

Reed Elsevier concluded its response by writing: “There is always room for improvement, and we are relentlessly working to close remaining access gaps where they exist. We’re more likely to do that by starting from the current system, which in the UK, for example, already has 90%+ access levels. We are seeking to close remaining gaps by identifying and then targeting them systematically: for example, we allow free walk-in access to Science Direct for the general public in all Science Direct library contracts; we enable online ordering of medical articles for patients in need through Patient Research (article is free, nominal - \$4.95 -processing fee); we provide free access to researchers in developing countries via the UN’s Research4Life programmes; and we enable low cost access to

emerging markets via GDP-based pricing (emerging markets accounted for 25% of all Science Direct usage in 2007, up from 14% in 2004).”

None of the other issues raised in this report solicited comments from Reed Elsevier.