COMPANIES

Elsevier forced to begin new chapter

Mutinous librarians help drive change in the $20bn academic publishing market's funding model

ALEX BARKER AND PATRICIA NILSSON
LONDON

A quiet revolution is sweeping the $20bn academic publishing market and Elsevier, its main operator, partly driven by an unlikely group of rebels: cash-strapped librarians.

When Florida State University cancelled its "big deal" contract for Elsevier's 2,500 journals last March to save money, the publisher said the library would pay $1m extra in pay-per-view fees.

But even to the surprise of Gale Etschmaier, dean of FSU's library, the charges after eight months were less than $20,000. "Elsevier has not come back to us about 'the big deal'," she said, noting it had made up a quarter of her content budget before the terms were changed.

Librarians such as Ms Etschmaier are in a minority but are one of a host of pressures bearing down on the subscription business of the 140-year-old publisher that produces titles including The Lancet, the oldest medical journal.

Elsevier is facing a profound shift in the way it does business as customers reject traditional charging structures.

Open access publishing — the move to break down paywalls and make scientific research free to read — is upending the funding model for journals, at the behest of regulators and some big research funders, while online tools and Sci-Hub, the pirate site, take readers.

> 'It was giving them bad publicity that we were managing without access to Elsevier journals'

Even Donald Trump's administration in December began consulting on an executive order to "liberate" publicly funded research, say people briefed on the process.

At risk is the profit powerhouse of Elsevier's parent, UK-listed Relx, Europe's biggest media company by market capitalisation, which reports its annual results tomorrow. The academic division's £2.5bn revenues are just a third of turnover and grew at about 2 per cent in 2018. But margins of about 37 per cent mean it accounted for 40 per cent of Relx's operating profit.

So far Elsevier has defied doomsayers who have said it is a structurally compromised business.

But it has been increasingly willing to experiment since Kumsal Bayazit took over as chief executive last year. Admitting the transition to open access was too slow, she is stepping up one of the big evolutions of the company's history.

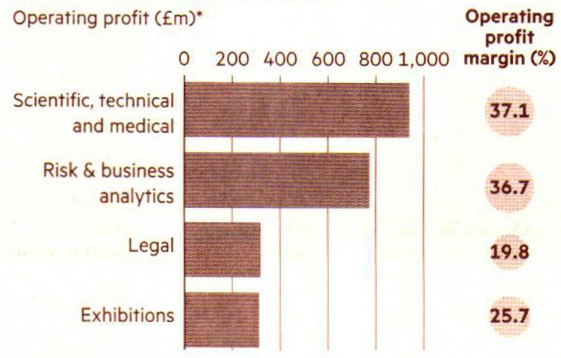
Negotiations over access to journals have been unblocked, not least with Sweden's Bibsam consortium of higher education and research institutions in November. One Bibsam member said "negotiations were dead" until Elsevier's team "received new directives from above". "We understand the game — it was giving them bad publicity that we were managing without access to Elsevier journals," the member said.

Rivals such as German-owned Springer Nature and Informa's Taylor Francis were quicker than Elsevier to try different pay-to-publish models — the funding mechanism for open access papers. More than 75 per cent of Springer Nature authors in Britain, Sweden and the Netherlands now publish via free-to-read journals.

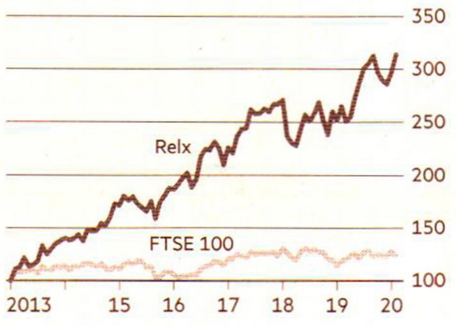
While Elsevier supported open access — for an additional article processing fee — it held out against demands from research institutions to bundle publishing rights with journal subscriptions for roughly the same overall contract price.

Seat of learning: librarians at universities such as Leeds were upset about price rises in the 1980s and 1990s
Piranha Photography

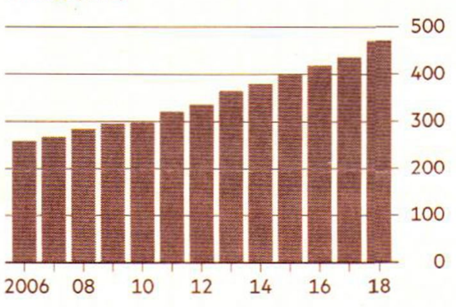
Relx's divisional performance
Operating profit (£m)*



Relx's strong run
Share price and index (rebased)



Growth in number of journal articles published by Elsevier
Articles ('000)



* Figures for year ended Dec 2018
Sources: Relx; Refinitiv

Jean-Claude Burgelman, EU open access envoy, has noted "real U-turns" at big publishers. Recent draft deals, notably Elsevier's with Dutch institutions in December, show how commercial value is moving from selling the end-product — the journal — to other services, such as data tools, offered to scientists during the research cycle.

"But only bad news, like cancelling the deals, seems to induce change," he said at a conference last month.

Elsevier's previous foot-dragging may be no surprise given the blessed commercial model of academic publishing. Typically scholars have submitted their research for free to publishers, who use volunteers to vet it, before selling the edited journals back, at a premium price, to the universities that footed the bill for the original scholarship.

While funders such as the Wellcome Trust and the Bill & Melinda Gates Foundation back open access publishing, some academics worry it could prevent their work appearing in the most prestigious journals, an important factor in career assessment.

One of the old system's weak points was university libraries. Elsevier executives note their content budgets simply failed to keep up with the 3 to 4 per cent increases in research funding, or the even bigger increases in Elsevier's workload and output: it received 1.8m submissions last year for 470,000 articles.

"Tensions resulting from these issues have eroded trust between scholarly publishers and the research community that we serve," said Ms Bayazit. She even offered an extraordinary apology to librarians still angry over double-digit price rises in the 1980s and 1990s.

Ivy Anderson, co-chair of the University of California's publishing negotiations team, which cancelled its $11m contract with Elsevier in March, said academics were "getting fed up with high prices and paywall journals, they're standing up and saying we are willing to bear the inconvenience [of not having journal access]".

Ms Etschmaier's "big deal" contract at FSU was neither the largest of the 6,000 negotiated by Elsevier nor the hardest; disputes with the University of California and with a consortium of 700 German institutions are more significant.

> 'Only bad news, like cancelling the deals, seems to induce change'
> Jean-Claude Burgelman, EU open access envoy

But FSU's ability to cope shows how the market is changing, and eroding Elsevier's pricing power. A study by Our Research, a non-profit supporter of open access publishing, found 31 per cent of all journal articles in 2019 were outside the traditional paywall.

Elsevier also tested a new approach in a draft deal with Dutch institutions, which could provide unlimited publishing rights and covers its analytics services and data tools for the first time.

This could create a path for the company to recreate its indispensable position as a journal publisher in the business of providing academic research, from idea generation and funding to data collection and publication.

Thomas Singlehurst, an analyst at Citi, who recently upgraded Relx's shares to a buy, said the big question was whether Elsevier's conciliatory tone would extend to accepting cut-price offers on its journal business to encourage use of tools and services. "In short we think it might be necessary to concede defeat on some battles to win the bigger longer-term war," he added.

Travel & leisure

Tui investors threaten to pull out over cruise liner emissions

ALICE HANCOCK — LONDON

Tui, the world's largest tour operator, has come under fire from investors for not doing enough to cut its cruise ship emissions and meet standards set out in the Paris climate agreement.

The shareholders have threatened to withdraw their investment "if climate and environmental protection is not observed", they said in statement, issued as part of an umbrella group called The Association of Ethical Shareholders Germany.

The comments came ahead of Tui's annual meeting yesterday, the same day that it reported first-quarter numbers and record bookings in January as it benefited from the collapse of its main rival Thomas Cook.

"I cannot remember any start in the year where that has happened," said Friedrich Joussen, Tui's chief executive, commenting on a 14 per cent increase in summer bookings compared with the same date last year.

Tui said that it now expected high single-digit revenue growth for the full year due to the strength of the booking patterns, helping its shares climb 12.5 per cent.

Performance of its cruise business, however, has been hit by a switch to more expensive lower-sulphur fuels, as required by new regulations. Despite that underlying earnings in the cruise division in the quarter to the end of December were €48.7m at constant currencies, up 3.6 per cent on the same period last year. It launched three new liners in 2019.

> Performance of its cruise business has been hit by a switch to more expensive lower-sulphur fuels

Ships release pollutants including sulphur and nitrogen oxides. This year, measures put in place by the International Maritime Organization, a UN agency, limit sulphur content with the aim of meeting the Paris climate accord's goal to keep the global temperature rise below 2 degrees Celsius.

The shareholders, alongside the German environmental organisation NABU, said that London-listed Tui's use of scrubbers to remove sulphur from exhaust gases showed that it was still using more noxious fuels.

Tui "continues to rely predominantly on heavy fuel oil, which is harmful to health and the environment, and does without effective exhaust gas technology," said Daniel Rieger, head of transport policy at NABU.

In their statement, the investors said: "In addition to the untimely environmental pollution caused by heavy oil, the fleet's greenhouse gas emissions are also increasing significantly, contrary to the industry-wide obligation."

Tui said that it operated "the most modern cruise fleets" and continued to "modernise", adding that it planned to launch a new sustainability strategy this year with "additional carbon and climate related initiatives".

Last week, the Anglo-German tour group sold half of its interest in Hapag-Lloyd Cruises to Tui Cruises, the company that is run as a joint venture with Royal Caribbean.

Tui will use the €700m cash proceeds from the deal to pay down its rising debt.

Financials

China opens door to Mastercard after 17 years

TOM MITCHELL — SINGAPORE

Mastercard has secured approval to enter China's electronic payment services market — some 17 years after the sector was theoretically first opened to foreign investors.

China's central bank and banking regulator said yesterday that the US card company's application to launch a joint venture with a local business had been approved.

Long-delayed China market access for Mastercard, Visa and American Express was a key objective for Trump administration officials during the two countries' "phase one" trade talks, which resulted in a preliminary agreement last month.

Accelerating approvals for US card companies was one of the provisions of the 90-page agreement.

Under the terms of the agreement, China said it would rule on US card companies' applications within one month of their submission. Mastercard, Visa and American Express are cited specifically in the text of the agreement.

American executives had long complained that the People's Bank of China would refuse to accept their applications to begin operations in the country.

In 2012, the World Trade Organization ruled in favour of a US suit challenging China's de facto ban on foreign payment providers, saying the market should have been opened when the country acceded to the WTO in 2001. Beijing, however, ignored the ruling.

Early last year the Financial Times reported that the People's Bank of China had refused to acknowledge applications submitted by Mastercard and Visa more than a year previously.

Visa is still waiting for a ruling on its application. But Chinese financial regulators recently confirmed that they are reviewing an application by American Express, which is likely to be approved.

In its statement yesterday, the PBoC said it would be "open, fair and impartial" as it continues to open the bank card market.

In private, Chinese officials said they were prepared to grant US card companies market access in late 2017. But, they added, US President Donald Trump's move to impose punitive tariffs on Chinese imports in 2018 made it politically impossible for Beijing to do so.

Most of the US tariffs — and counter-tariffs imposed by Beijing — remain in place pending a round of negotiations expected this year or in 2021.

Foreign card companies will face an entrenched state-owned monopoly, China Unionpay, that was established after China's WTO entry.

Credit and debit cards also now account for less than 15 per cent of all online payments. The sector is instead dominated by e-wallet services provided by Alibaba and WeChat, the tech groups, which hold more than 60 per cent of the market.

Financials

Russian ministry to buy control of Sberbank

MAX SEDDON — MOSCOW

Russia's central bank is selling its controlling stake in Sberbank to the finance ministry in a move aimed at streamlining state control of the country's largest lender and funding Vladimir Putin's promises to raise living standards.

The central bank said it would sell 50 per cent plus one share of Sberbank to the ministry at a "market price" near the stake's current value of Rbs2.8tn ($44bn) on the Moscow exchange.

As much as 75 per cent of the sale proceeds will be paid straight back into state coffers, helping pay for Rbs4tn in spending that Mr Putin pledged last month while announcing constitutional changes that could result in him ruling indefinitely.

The finance ministry will tap Russia's $125bn national wealth fund of surplus oil and gas revenue to purchase Sberbank. The sale will go through in instalments and be completed before 2022.

"Revenue from the deal could . . . be brought back to the budget eventually [and add up to] Rbs2.8tn into budget revenues — more than enough to finance additional social stimulus for four to five years," said Sofya Donets, chief economist at Renaissance Capital.

The Kremlin wants to use as much as Rbs300bn a year from the national wealth fund for infrastructure spending to boost moribund economic growth and stagnating living standards — on orders from Mr Putin, whose approval ratings hit record lows last year.

The move is ostensibly aimed at righting an anomaly dating back to Sberbank's role as the monopoly Soviet savings bank. The central bank retained its controlling stake in Sberbank after the USSR collapsed, despite regulating it.

"The decision to sell the stake will remove an issue of potential conflicts of interest," finance minister Anton Siluanov said.

Transferring control will help the central bank and finance ministry strengthen oversight of Sberbank and its powerful chief executive Herman Gref, a confidant of Mr Putin since the 1990s, according to people familiar with the plans.

Mr Gref has been widely praised for adopting western-style governance and technological change at Sberbank, which was seen as a dinosaur when he left the cabinet to take it over in 2007.

The bank's enormous funding base — it holds nearly half of all Russian retail deposits — has boosted Mr Gref's efforts to build a successful tech-focused company — while consistently delivering enormous profits, which hit a record Rbs831.7bn in 2018.

Last month, Mr Gref said he was "more positive than negative" about the planned change in ownership but threatened to quit if the government pushed him to change Sberbank's strategy.