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Ms Judi Dawton  
A/g Manager  
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Department of Broadband,  
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GPO Box 2154  
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Dear Judi,

## Re: Digital Economy Future Directions – Consultation Paper

Thank you for the invitation to comment on the draft Consultation Paper.

We enjoyed participating in the workshops last year and the opportunities that this presented to talk with Departmental officers and the Minister during the process and since. We hope to continue to be able to contribute and to support the work that you are doing.

Our company is actively involved in the digital economy: we have an interest in emerging high speed broadband technologies; digital technology devices; intellectual property, privacy and on-line security. We also provide advice to industry and governments relating to the digital economy and on line services.

One of our directors, Suzanne Roche, is the Chair of the Australian Industry Group's Digital Technologies Forum and, as such, we have contributed to the Ai Group's response to this Consultation Paper at a broad industry level.

However we believe that what you are doing – engaging with industry and thought leaders – is really excellent and we wanted to make sure that we also provided you with our own company's perspectives and thoughts more directly.

While there will undoubtedly be a bit of overlap with contributions we have made to the Ai group and AIIA responses, we appreciate the invitation to make our own comments directly. In this way we can underline a number of broad

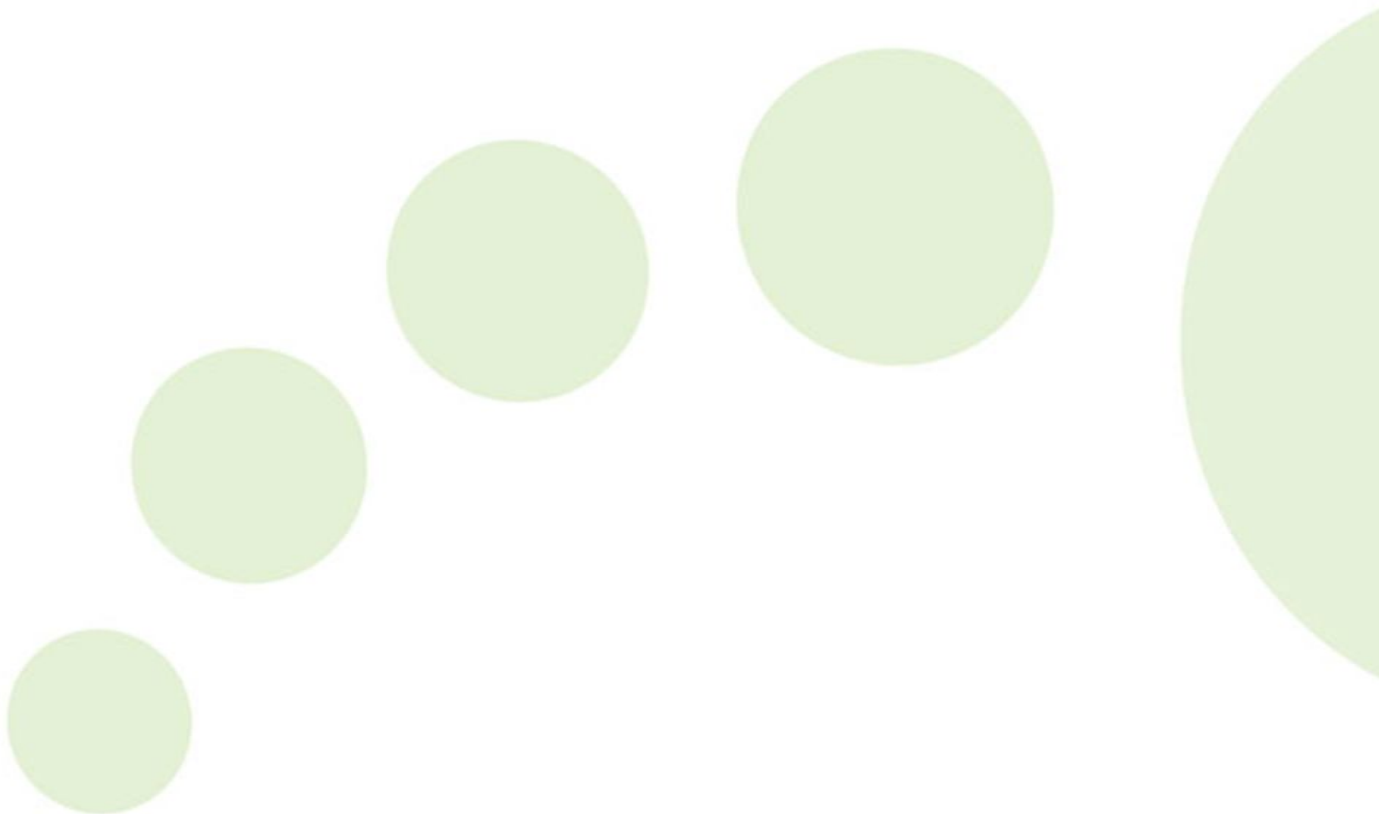
industry points as well as highlight areas that we regard as important, even if they are a little more specific to our views and experience.

We hope that you find our attached comments useful and we look forward to continuing to work with you, the Department, the Minister and the industry.

Yours sincerely,

James Kelaher

Director



## **Digital Economy Future Directions – Consultation Paper Comments, 11 February 2009**

The emergence of the digital economy – the ‘Digital Revolution’ – has the same potential for social and economic impact as the Industrial Revolution. The underlying economics of business sectors and, in fact, nations was altered by the Industrial Revolution; producing profound changes in societies and stimulating a level of innovation and globalisation that resulted in extraordinary growth in human capital.

Bearing this in mind, we consider that the draft of the Digital Economy Future Directions paper, issued for comment on 18 December 2008, does not provide enough strategic vision and therefore does not create the right springboard for dialogue with stakeholders in government, industry or the community.

That said, one has to start somewhere and we applaud the Government and the Department for initiating this process – and, of course, for including us in this process. The following comments do not seek to criticise: our desire is to assist in ensuring that this consultation process, and the resulting policy processes, achieve their full potential.

The structure of our comments on the draft paper is in three parts:

- Suggestions regarding scope and strategy
- Suggestions regarding priorities
- Comments in relation to the questions posed in the draft paper, where we have something relevant to offer.

### **Scope and Strategy**

At present, the paper tends to read like a general survey of interesting contemporary developments. The paper does not position Australia globally, examine initiatives taken by other governments to address digital economy issues and opportunities, or examine whether Australia could use the digital economy proactively to improve national competitiveness and global market share.

It might be said, with some justification, that Australia’s abundance of pastoral and extractive assets has masked an underlying failure to get the most out of the Industrial Revolution and that this has been one of the main reasons for our slide in global economic rankings throughout the Twentieth Century. We should not risk this situation continuing, or accelerating. The ‘Digital Revolution’ represents a chance to start making some corrections that will have long-term economic and social benefits to Australia and its global positioning.

We are all aware from both research and media commentary that in Asia, Europe and the USA, governments have identified the potential of the digital economy as a catalyst for new industries and new innovations that will improve domestic services as well as provide new global opportunities.

In the century before us, we already know that changing demographics will reduce Australia's labour base and that skilled young people will be increasingly hard to retain. Unless we can find ways to redress this, we will find that Australia's people and industries will suffer as they become more 'remote' from other economies and opportunities. Areas such as manufacturing and services, which together make up nearly 95% of our economy, will be at increased competitive risk.

The challenge facing Australia in relation to the digital economy is not about ICT or even the use of technology generally, the real challenge facing us is to identify and exploit competitive advantages at a time when unstoppable global change is occurring. The current economic situation should not be used as an excuse to delay what must be done to ensure we are on the front foot of this massive change agenda.

We also believe that a well-developed digital economy strategy has the capacity to stimulate change in a number of sectoral areas, including government and services. In our view Australia has the opportunity to be proactive and we should take it.

We believe that the discussion paper needs to take a similar, pro-active view. This is not to say that we expect Australian governments to go beyond what is appropriate in providing direction and support; however we do think that government needs to play a very active policy role in the period ahead. Taking a passive or reactive position, or failing to ensure follow through at state level, will result in Australia being left in the wake of nations that move faster and with greater purpose. We only have to look at some of our Asian neighbours and the fast moving European nations to see that this is already the case. It is therefore imperative that Government take a position of leadership and vision in moving this agenda forward.

Smartnet has identified the digital economy as a central economic, industry and government issue in the period ahead. There are a number of groups that represent industry, technology and ICT interests, with whom we work closely, particularly the Australian Industry Group. Suzanne Roche, one of Smartnet's directors, chairs the Ai Group's Digital Technology Forum and in this capacity we have assisted both the Ai Group and the AIIA in framing their responses on this Consultation Paper.

However, there are certain issues that we consider it would be beneficial to address quite specifically, in our own right, to complement and perhaps underline points that we do not want to be overlooked.

## **Establishing Priorities and Areas of Focus**

In our view there is an important piece of work that should be done regarding opportunities for Australia to become a regional or global 'node' in the digital economy. In principle, this could be in one of the following three general areas:

- Global internet connectivity – Australia is dependent on submarine cables for the overwhelming majority of internet traffic. These cables also

provide links and back-up for global intercontinental traffic. We would like to see a greater government focus on this critical infrastructure and its current and projected capacity. There may be legitimate opportunities for Australia and Australian business to play a role in this area that ensures very high performance, low cost access to high bandwidths and which establishes Australia as a key player in the 'trade routes' of the digital economy. There are a number of services and other opportunities that could flow from Australia being a key node in global connectivity.

Some of these issues should have surfaced in the recent reviews of Australia's critical infrastructure and e-security overseen by the Attorney General's Department and the Department of Broadband, Communications and the Digital Economy. We would like to see the results of reviews such as these considered in a larger strategic context and we believe that if this were to occur the likelihood of better policy and economic outcomes would be strengthened.

- Digital Economy Business Centre – Australia has excellent (conventional) business and regulatory infrastructure. However its attractiveness to global business organisations is limited, even as a regional head office. We would like to see an examination of what can be done to make Australia the preferred digital economy base for businesses in the region. The current review of Australia's taxation system, as well as recent reviews of Australia's privacy regime (by the ALRC) and of innovation (the Cutler Review), both of which we have made contributions to, provide a unique opportunity to draw together issues that might otherwise be overlooked or remain unconnected.

We believe that that a more pro-active approach to identifying and consolidating opportunities such as these, to leverage Australia's role in the digital economy will result in better policy and economic outcomes and avoid risks such as fragmentation and ad hocery.

- Digital Content and Services - The discussion paper alludes to the importance of content. Content and services are both outcomes in their own right and enablers of many potential downstream benefits. This is discussed in more detail in the next section, but essentially is about Australia leveraging traditional strengths in knowledge intensive product development and services, to gain global competitive ground in the economy of the future.

Compared to other OECD countries, Australia's share of knowledge intensive service exports have changed little since the 1990s. In fact, as indicated later in this paper, we are losing ground as a result of growth achieved by other nations. This is notwithstanding that we have a relatively strong track record of innovation, a well educated population and a stable political and economic platform.

The opportunity to position ourselves as a regional, if not global innovator of digital services and service delivery, is there for the taking. To achieve

this however, necessarily requires that we foster and support innovation and that we fundamentally reassess how business is done to achieve the real gains offered by new, modern digital technologies. Technology is simply a means to the end.

We note the example offered by the Australian Institute of Sport, which was created when Australia realised that its standing as a world sporting power has slipped drastically. The AIS has not only reversed this trend, but now attracts international sports stars to Australia for training as well as creating opportunities for our coaches and athletes overseas. It is a good example of how it is possible to draw together a range of once un-coordinated strategies to provide focus and drive.

In a similar vein, pro-active government strategy has enabled the resurgence of the Australian film industry and of organisations such as NIDA, enabling Australia to punch well above its weight, drawing international finance and human capital to our shores as well as propelling our own people and products to global success.

The stakes in the Digital revolution are much greater and we would like see a similar holistic and pro-active approach to digital economy strategy and policy in Australia.

## **Comments in Relation to Questions Posed In the Draft Paper**

We do not propose to respond to all the groups of issues or questions raised in the paper. Rather, our response focuses on three general issues that are relevant to the paper overall. These are:

- What constitutes the digital economy and how this relates to the scope of the current draft paper and the issues it raises
- Opportunity for innovation borne from the transition to the digital economy
- The digital economy and the service industry

### **What constitutes the digital economy and how this relates to the scope of the current draft paper and the issues it raises?**

The internet, both as an infrastructure and service enabler, is fundamental to the existence of a digital economy. However, describing what the digital economy is in terms of the scope of things you can do online or the breadth and speed of content/information you can access or share using the internet, is limiting. Perhaps unconsciously, the paper tends to focus on the digital economy

translating to having an online presence – whether it be the consumer accessing information or the service provider extending delivery of their business online.

Our comments on this issue are reflected in greater detail in the Ai Group's comments on the Consultation Paper and it is not necessary to repeat them here. However we do feel that the 'model' of the digital economy that underpins a lot of what is presently contained in the Consultation Paper, represents a 'client-server' view of information flows. We think that, conceptually, the increasing use of peer-to-peer modes for communications traffic will result in new challenges - and opportunities - in the digital economy.

Peer-to-peer services are a major and growing area of content innovation and the ownership and origins of data as well as protection of privacy and intellectual property take on new dimensions in peer-to-peer environments. Interestingly, Australia has some world leading expertise in this area, presently being applied in areas such as copyright protection and content validation (eg filtering and virus protection) and it would be valuable for the Department to allow for (and gain exposure to) these emerging developments.

In a similar vein, we think that there is perhaps not enough recognition that content and application hosting is likely to take over from consumers purchasing and managing applications on PC's; this will change the ways in which people address and respond to issues like piracy, security, privacy and so forth. It will also change the type of regulatory and policy responses and preferences that need to be considered. This would be an example of an area where it will be important to avoid policy settings that are not future-proof.

### **Opportunity for innovation borne from the transition to the digital economy**

As mentioned earlier, a well-developed digital economy strategy has the capacity to facilitate structural adjustment in sectors that will need to change in order to survive and grow in the future. While some industries and businesses will struggle to retain relevance in a digital world, others will fail simply because they are unable to adapt. At one level this is a necessary and predictable structural correction. At another level however, this can be used as a trigger for initiative and opportunity for innovation. It is therefore important that in framing the roadmap moving forward, there is a clear, strong and practical focus on driving and supporting business innovation. As the saying goes – 'necessity is the mother of invention'.

Generally speaking innovation is often assumed to be about scientific and technological research and progress. In transitioning to the digital economy innovation is, and must be, much broader in scope. Business innovation – how business is done, processes reengineered and relationships managed in a digital environment – will dictate the success or failure of industries and businesses as much as (if not more than) the technology they use. It will be the ability to make the necessary business adjustments, driven by new digital technologies that will ultimately deliver business productivity gains and competitive advantage. It is imperative that the Roadmap draw out the theme of innovation

and encourage industry and business to rise to the challenge of our imminent digital future.

## **The digital economy and the service industry**

Globally, the services economy constitutes some 75% of the GDP of major industrialised countries. In Australia, services generate almost 80% of Australia's GDP, represent nearly 85% of employment and contribute over \$40billion (about 21%) of total exports. In short the services sector has rapidly become the greatest contributor to our economic activity and well being. Comparatively however, Australia's growth in services has slowed relative to developing nations such as India and China and our share of global services exports has dropped from some 1.45% in 1996 to 1.15% in 2005. It is no surprise that advanced economies around the world are increasingly realising that their competitive future lies in services.

Historically Australia has been strong in knowledge intensive services such as health care, finance and education and in human capital intensive services such as human services and welfare delivery, and government administration in general. But current methods and approaches are ageing and, in some cases, outdated. In some other areas we are simply struggling to adopt and adapt to, new digital ways of doing business. This is particularly evident in our ability to transition to more citizen centric approaches enabled by modern digital technologies in areas such as healthcare and human service delivery. Information continues, in most cases, to be collected manually; forms, letters and correspondence remain largely paper based; physical presentation is still required to authenticate identity; common information is still not shared, even where the citizen wants and expects it to be; and the onus remains on citizens to seek out assistance and entitlements etc, etc. There is nothing that could be regarded as innovative or efficient in these practices.

There is enormous potential for reform of government services (which touch all business, states, and individuals) to lead in the transition to digital services.

Why doesn't government specifically commit to doing the majority of its business electronically? And to identifying and removing barriers to adoption throughout the community? As the Consultation Paper itself points out, it will be considerably less expensive and, as overseas studies have revealed, 'digital divide' issues must be confronted and resolved if nations and their people are to fully benefit from the digital revolution.

All this is to say that governments, at all levels, need to lead by example by rising to the challenge of changing the way business is done and services are delivered in a digital environment.

Indeed, the fact that the economies of some of our near neighbours have been reinvented through a focus on the digital age is testament to the inevitability (and proximity) of change. Without a clear and collaborative strategy for our digital economy moving forward, particularly in our service industries, we risk exacerbating rather than abating current downward performance trends. This is

an area in which government, which represents over 30% of our total economy, can – and must – lead.

## The Roadmap moving forward

In summing up, the Roadmap proposed by the Department must be strategic and dynamic - it must have a clear and focussed view of what the end point is but be sufficiently dynamic to adapt to emerging requirements, new priorities and opportunities as they emerge. In terms of focus and content, we believe that the Roadmap:

- must encompass a broader view of the digital economy than is described in the consultation paper and, to this end, stake out an ambitious agenda for Australia's future positioning in it;
- needs to have a strong focus on encouraging and supporting business innovation to assist the transition process and ensure industry and business benefits are maximised;
- is driven by and has is focussed on, achieving productivity improvement and competitive advantage – at a local, national and international level;
- recognises that fundamental business process, practice and cultural reform is a necessary and underlying pre-requisite for effective transitioning to a digital economy;
- must include a strategy to reassert Australia's competitiveness in the services industries;
- include a greater government focus on the upgrading of enabling critical infrastructure. This must include assessment of Australia's capacity and capability to access global bandwidth;
- have regard to the issues and recommendations raised in contemporary reviews into e-security, innovation, privacy and climate change; and
- ensure Government assumes a leadership and as required, facilitative role, in progressing the digital economy. This includes leading by example in the development and delivery of Government services in a new age digital environment;
- must be developed in collaboration with industry and business. Collaboration needs to be active and ongoing and recognise the role of industry, business and other stakeholders in executing the Roadmap.

**Smartnet** Pty Ltd  
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