

Cost Recovery Inquiry
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SUBMISSION TO THE PRODUCTIVITY COMMISSION INQUIRY INTO COST RECOVERY

Introduction

This submission relates to the experience of Environmental Research and Information Consortium Pty Ltd (ERIC) over the past 8 years in attempting to exploit new technological innovations in the application of spatial information for resource and environmental assessment. The two key factors that have stifled business growth are:

- Unfair competition from government agencies who are engaged in delivery of resource information and knowledge. These agencies are placed in a competitive situation with private industry due to a Commonwealth government requirement to obtain 30% funding from external sources. Consequently, they can compete unfairly because they not only have ready access to public data and IP at no cost but protect these data and IP through minimising public access and imposing licence restrictions and high costs for public access. In most cases, these limitations don't exist in inter/intra agency business relations or where they form consortia for service delivery.
- The high cost and limited public access for public data from information agencies such as ABS, AGSO, CSIRO, Bureau of Meteorology and BRS. In many cases, ERIC needs these datasets for Australia wide coverage for R&D and product innovation initiatives. In the case of ERIC, the annual data purchase (transaction) costs are higher than information production costs. This stifles business growth and our capacity for R&D and innovation.

There are a number of cost recovery activities within Commonwealth agencies that impact adversely on small to medium enterprises (sme). This situation is increasing with the emergence and competition between *new economy* sme's within the information technology sector and the increasing competition from the Commonwealth government's R&D and information agencies (eg. ABS, BRS and CSIRO) who compete with industry within the *information and knowledge business sectors*.

The current cost recovery arrangements need to be recast by the Commonwealth government to ensure that public data are readily available to *new economy* sme's. There is increasing evidence that the large transaction cost incurred by sme's in buying public data (particularly digital spatial data) and public intellectual property (IP) are stifling innovation, business and employment growth, development of e-commerce in spatial data and the positioning of sme's for export of knowledge services.

There is also evidence that rural communities and businesses are unable to engage in resource assessment projects to build economic or regional development activity within their regions due to the high cost of spatial data. Generally, the largest local government areas are in rural areas and they have the least money to buy the large spatial data sets to cover their areas). Consequently, economic and environmental analyses are neglected due to high public data costs.

Prior to the 1990's, access to digital public data (eg. geophysical data from AGSO and economic and social data from the ABS) was largely confined to large companies (eg. the use of geophysical

data by mining companies) and government agencies. However, the emergence of new economy companies in the resources mapping and management, regional development, environmental management sectors, etc. and the ready availability of remotely sensed data from satellite technology has significantly changed the manner in which the data or information are used for services delivered within Australia. Australia's sme's now compete with government agencies for delivery of R&D, information and knowledge services and these sme's need ready access to public datasets on an equal basis with government agencies and large multi-national companies to maintain a competitive edge.

Apart from the cost of data the major factor that limits sme access to public data and public IP is the requirement by the Department of Finance and Administration for some public R&D agencies, eg. CSIRO, BRS and ABS to obtain 30% of funds from other than their direct treasury funds (eg. from other public R&D funds or commercial sources). This requirement places these public agencies in direct competition with industry for access to the same external funds, public data and public IP. In most cases, CSIRO and BRS, uses external funds (public and private) to *top-up* treasury funds rather than competing on a full cost recovery basis (usually 3.1 times the public salary costs for the project). Also, they invariably gain access to public data and other infrastructure at no cost whereas these data would be subject to cost recovery from private companies (eg. the AGSO using its own geophysical data to provide consultancy services to other government agencies or the Bureau of Meteorology using its own climate data to provide services in competition with sme's).

Consequently, Commonwealth agencies can use data pricing to restrict trade, particularly where they use their own data or can link with other agencies to form a cartel to either bulk buy data (particularly satellite data) or share public data for consultancy purposes. For example, the Australian Marine Science and Technology Ltd (a consortium of Commonwealth agencies) can access public IP and data that would be near impossible for any sme as these data and IP products are not made to be accessible to the public at large.

In summary, the Commonwealth government requirement for agencies to earn 30% external income, combined with high data access prices, restrictive access arrangements to public IP and subsequent unfair competition by Commonwealth government agencies with the private sector are severely limiting sme growth in the new economy sectors of information and knowledge services. That is, the price of public data, access to public IP and unfair competition by Commonwealth government agencies against the private sector are inextricably linked and need to be addressed collectively by the Productivity Commission as a *whole of government* issue.

Areas for Review by the Productivity Commission

There are a number of areas that need to be reviewed by the Productivity Commission, eg;

- The most insidious impact on sme's with emerging technologies in the information and knowledge technology sectors is the requirement by the Department of Finance and Administration for some public R&D agencies, eg. CSIRO, BRS and ABS to obtain 30% of funds from other than their direct treasury funds (eg. from other public R&D funds or commercial sources). This requirement places these public agencies in direct competition with the new economy sme's for access to the same business activity funds, public data and public IP. This policy creates competition between government agencies and sme's and destroys collaboration at the very level that is needed to create new opportunities in Australia's information and knowledge economy.
- The cost of the census and other economic data from the ABS in digital form is far too high for sme's to access for R&D, service innovation or service delivery purposes.

Consequently, many sme's would not bother to use these data in analyses for clients when its use would add considerable value to economic or social decision making.

- The cost of geophysical from the AGSO is far too high for an sme to access for R&D, service innovation or service delivery purposes. While current prices for geophysical data were probably set at a level commensurate with the paying capacity of large mining companies, these data are now used in the new economy by smes' for a wide range of resource assessment purposes (eg. soil mapping, hydrology assessment, etc.) and where the client's budget is very low, eg. Landcare groups. The Victorian and Northern Territory governments make geophysical data for their jurisdictions available at no cost to encourage regional development and enterprise site analysis and to attract investment. Access to these data at no cost encourages sme's to use these data initially for speculative resource risk assessment and R&D to create marketing products and hence create or capture new services.
- The cost of climate data from the Bureau of Meteorology is far too high for sme's to access. Many new economy companies in the information or knowledge technology sector would use these datasets in combination with other public datasets (eg. geophysical data from AGSO) for regional development or enterprise site analysis projects.
- The maintenance of data acquisition support to such agencies as the Australian Centre for Remote Sensing (ACRES) and the Bureau of Meteorology is critical to providing the fundamental data (infrastructure) that underpins resource and risk assessment. The quality and accessibility of spatial data are critical to sustainable development. Accessibility to these data by sme's is fundamental to product and service innovation, particularly in delivery of services to rural communities where business transaction costs can be high and the impost of high data costs often militates against effective service delivery.

Benefits for an Open and Free Access Data Policy

There is ample evidence to demonstrate that countries that have freedom of information policies (eg. the USA) have the most advanced economies through growth in the *new economy* companies that provide information and knowledge services.

An open and free access policy should achieve the following benefits to the Australian economy:

- Increases productivity in the delivery of information and knowledge services, particularly to economic and social development, and environmental management clients.
- Increases the flow of public data, information and knowledge from the public agencies to industry for R&D and innovation purposes.
- Removes a capability an incentive for government agencies to leverage unfair competition against private companies in the information and knowledge services sector.
- Improves collaboration between the Commonwealth information and R&D agencies and the emerging technology companies.
- Increases regional development or rural economic activities as industry and local governments will use the public data (eg. climate, geophysical and hydrological) to support enterprise risk assessment and other regional development initiatives.
- Provides a basis for an open feedback system from private industry to government information agencies regarding data maintenance and quality control. This will facilitate a process of continuous improvement in knowledge. This process is important

to improve ecological sustainability through improved access to public data for land use planning and management in regional Australia.

Conclusion

Australia needs government policy that facilitates industry collaboration and innovation within sme's. This requires a *whole of government approach* to the use of public data and IP (as fundamental economic infrastructure). The Productive Commission should advise the government on the following matters in relation to cost recovery arrangements:

- The role of Commonwealth government agencies to be confined to policy development, regulation, control and quality assurance and the service delivery component left to the private industry. This is necessary to avoid a conflict-of-interest situation in agencies that generate public data but also have an obligation to create public opportunities for application of data, information and knowledge to support the Australian economy. This does not happen when these agencies compete for services with the private sector.
- The removal of the requirement by the Department of Finance and Administration for some public R&D agencies, eg. CSIRO, BRS and ABS to obtain 30% of funds from other than their direct treasury funds will minimise unfair competition and encourage government and industry collaboration. This provides the environment for the effective use of public data and IP and the incentive for sme's to invest into innovation. If the transaction costs to obtain the fundamental data that supports this innovation are too high than business opportunities that might otherwise exist are lost to the Australian economy.
- The removal of cost recovery from public data (particularly digital spatial data in the form of biophysical and geophysical data) and public IP to provide a much needed stimulus to innovation within Australian sme's in the information and knowledge services sectors.

Yours sincerely,

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