

Cost Recovery Inquiry
Locked Bag 2
Collins Street East Post Office
MELBOURNE VIC 8003

SUBMISSION TO THE PRODUCTIVITY COMMISSION INQUIRY INTO COST RECOVERY: COMMENTS ON THE DRAFT REPORT

This submission has been prepared by Environmental Research and Information Consortium Pty Ltd (ERIC) who made a submission to the Inquiry based on two key factors:

1. Government agencies engaged in cost recovery compete unfairly in the delivery of resource information and knowledge because they have ready access to public data and IP at no cost and protect these data and IP through minimising public access by imposing licence restrictions and high costs for public access.
2. The high cost and limited public access for public data from government information or knowledge agencies stifles business growth and capacity for R&D and innovation.

Generally, the Draft Report on Cost Recovery has brought into focus the key issues and the impact of cost recovery on industry development and growth. Industry should expect that the commonwealth government will adjust its cost recovery policies to minimise the impact on industry and therefore the Report could better emphasise the impact of cost recovery on emerging technology and knowledge service companies.

Also, the public expects government agencies engaged in information or knowledge building operations to add value to social and economic capital in an efficient and effective manner. Unfortunately, the revenue gained from cost recovery is adjusted for the expenses in cost recovery or the impacts of recovery on the economy. For example, what are the public costs of diverting scientist from R&D in CSIRO to prepare tenders and submissions for external funds or for these scientists to progressively engage in commercial consultancy activities in order to recover the increasing public budget for external fund earnings. Public accountability might expect that the social and economic costs of public cost recovery activities would be documented for the parliament.

The emergence and increasing emphasis of cost recovery activities in government agencies and universities has had two major implications for the knowledge services companies:

1. Government agencies and universities are moving rapidly away from the core public services of diffusing public data, information and knowledge into the community to support innovation to the non-core activities of fundraising, commercialisation of R&D, floating companies and forming alliances with multi-national companies. This change in focus is promoted by cost recovery policies and drives a wedge between the public knowledge organisations and industry services companies as they compete for opportunities in the market place. There is an emerging culture in these organisations that is consumed with the free ride to innovation or commercialisation on the back of public funds and funds from multi-nationals. It is inevitable that sme's will find it more difficult to engage with innovation and commercialisation processes due to unfair competition and inaccessibility to public knowledge.
2. The commonwealth government's Industry 2000 Policy is at odds with the cost recovery policy. The industry policy places emphasis on innovation, international competitiveness, investing in Australia, sustainable development and putting business first. In part the policy says (page29), *The government will continue to develop policies and disseminate information to facilitate true sustainable development, recognising the crucial role of industry in creating wealth and raising living standards for the community.* The government organisations that practice cost recovery can only implement this policy where there are no impediments to sme's in access to data, information and knowledge and where there is full participation, transparency, equity

and accountability with the knowledge services companies. This is clearly not the case and this situation is becoming worse with the increasing impact of cost recovery impediments on the knowledge services companies.

A further consequence of these points above is that these commonwealth government agencies and universities have lost touch with the basic tenants of good governance. Very few government organisations that practice cost recovery would link this process with principles of good governance and industry policy.

On page 66 of the Draft Report the rationales for selected agencies for using cost recovery arranges is tabulated. It is my company's experience that the common response of government agencies on the merits of cost recovery is that they are either obliged to collect revenue to satisfy government policy or they believe that since industry will make a profit from access to the data, information or knowledge; then industry should pay for this entitlement. However, in most cases industry does not on-sell the data but uses the data to add value through R&D, innovation or delivery of knowledge services. In most cases the industry cost of transforming an idea (from R&D) into a commercial product or service (innovation) is about 1:5 (ie. R&D:innovation). The high cost of access to public knowledge is a significant impediment to innovation. The common belief that cost recovery addresses issues of equity and competitive neutrality is unsustainable as such issues can only be addressed with free and open access to the whole community, as one might access other public infrastructure such as roads and libraries. In the case of CSIRO, the claim that cost recovery improves agency efficiency (page 67) through openness to market forces is probably right but it is not in the best interests of effectiveness in Australian industry. In most cases, cost recovery realigns CSIRO R&D to the highest bidder where they can readily access external funds: usually a multi-national through the CRC arrangements. Cost recovery in CSIRO leads to them taking equity in multi-nationals (in exchange for public IP) and exporting services jointly with multi-nationals. This outcome is inconsistent with the Industry 2000 Policy.

It is considered that the recommendations of the Productivity Commission on Cost Recovery should give greater emphasis to:

1. The application of the principles of good governance (participation, accountability, transparency, responsiveness, equity, effectiveness and efficiency, accountability and strategic vision) in framing the guidelines for cost recovery.
2. The application of Industry 2000 Policy in framing the guidelines for cost recovery to ensure that cost recovery does not impact on industry development and growth, particularly for sme's, knowledge services and emerging technology companies. There is a need for all public organisations engaged in cost recovery to regularly account to the parliament on the social and economic impact of cost recovery and they should actively seek this information from the public.

Yours sincerely,

Rob Gourlay

Managing Director

Environmental Research and Information Consortium Pty Ltd

(rob@eric.com.au)

Ph 02-62605161