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#### **Introduction**

Recently I dropped in to visit the huge new Bunnings store in Pymble in my electorate.

Store manager Brendan O’Hehir told me how much business this new Bunnings store is doing with tradies. When they stop at Bunnings, they can use the Bunnings Powerpass digital app to speed up the process of picking up supplies for the job they are working on, and making payment.

Powerpass also captures and stores a digital record of all the purchases you make from Bunnings – which makes for a much more efficient process of doing your accounts and lodging your tax return at the end of the year.

This is but one of countless examples which could be given of how the digital transformation of our economy is bringing efficiency, productivity and quality of life benefits.

Today I want to speak about the digital economy. I want to start by arguing that the digital transformation of our economy is fundamentally important. Next I want to touch on how far we have come as a nation – in no small measure due to Coalition Government policy settings over the last thirty years. Thirdly, I want to argue for some clear priorities if we are to capture further benefits from this digital transformation.

#### **Why the Digital Economy Matters**

Let me turn firstly, then, to why the digital economy matters. Why is fostering this digital transformation such a big deal?

The first reason is defensive. Think about how many jobs there were in classified advertising sales for newspapers or Yellow Pages thirty years ago. Those jobs have gone because internet-based businesses like Facebook, Seek and Domain have taken over the advertising market. Unless Australian businesses are innovating and adopting digital technology they will not survive.

The second reason of course is that the digital economy allows entirely new businesses and sectors to grow and flourish – creating jobs and prosperity. Think of the various categories

which simply did not exist thirty years ago: streaming video, mRNA vaccines, drones, low earth orbiting satellites and additive manufacturing are a few that come to mind.

Globally, companies such as Amazon, Apple, Alphabet Inc, Microsoft, Samsung and Tencent have achieved extraordinary growth very rapidly through developing innovative digital products and services.

In Australia there are plenty of examples of companies doing the same. Seek was founded in 1997 and became a top 100 company. Today its market cap exceeds \$8 billion. Atlassian was founded in 2001, and now has a market cap of \$48 billion.

Safety Culture, a digital platform to automate workplace safety inspections, was started in a Townsville garage in 2004. It's now a \$2 billion company. Canva began in 2013, and today is valued at over \$30 billion, even after recent market gyrations.

Excitingly, there is a very big pipeline of other digital economy businesses in Australia, at various stages of development. Take the space sector for example, which was a real focus for the Morrison Government.

Recently I visited Fleet Space Technologies in Adelaide, a company which has almost doubled in size in the last 12 months. Their clever approach using nano-satellite technology to scan for minerals underground has reduced the timeline in prospecting for minerals reserves from several years down to a matter of days.

There are plenty of other space businesses I could mention including Saber Astronautics, Space Machines and Gilmour Space Technologies.

Or I could mention the achievements of the deep tech incubator Cicada Innovations at the Australian Technology Park in Redfern. Total capital raised exceeds \$1.5 billion and over 300 start-ups have got off the ground. On a recent visit I met with iiShield, who are creating thermal protectors for organs, aka kidney pyjamas, Contactile who are solving hard robotic problems and Amentum who are developing remote sensor technology used by the Australian Department of Defence.

A third reason why this matters so much is that digital technology delivers big efficiency gains for businesses in long-existing sectors like mining and retail. It lets companies operate more efficiently, lift their productivity, generate more profits and raise income for their workers.

Mining companies have embraced automation as a means of overcoming the challenges of remote work sites. Rio Tinto operates more than 130 autonomous trucks at its iron ore facilities.

The internet has allowed retailers to reach new markets and serve customers in new ways. Look at the way Gabby and Hezi Leibovich built the national online business Catch of the Day. Starting in 2006, by 2019 they had hundreds of employees – and sold the business for over one billion dollars.

Online retailers can serve national and even global markets – and they can do it from just about anywhere. Consider online fashion retailer Birdsnest- based in the NSW Snowy Mountains town of Cooma, they have built up to now employ some 150 people.

The e-commerce boom means jobs in retail business – and throughout the value chain. I saw this recently visiting Amazon’s huge new fulfilment centre at Kemps Creek in Western Sydney. Opened early this year, already it employs about 1,200 Australians and this will rise to more than 1,500. Merchants large and small around Australia market their goods online – and then send via Amazon to customers around Australia and around the world.

As Australia Post’s 2022 Annual Report highlights, the pandemic turbo boosted a strong existing trend for Australians to buy online. In the year ended 30 June 2022, more than four in five Australian households shopped online, online spend at \$67 billion made up 20 per cent of total retail spend, and online spending was up 11.9 per cent on the previous year.

The digital economy underpins the jobs of many of the 36,000 people who work at Australia Post, with parcels revenue up by 65 per cent over three years, even as letter volumes and revenues have dropped.

A fourth reason why the digital economy matters for Australia is that it ends the tyranny of distance. Historically it was tough for Australian businesses to serve global markets because of the time and cost required to ship product from Australia to other countries. But when your product is digital – so it is weightless and instantaneous – that problem disappears.

Australia could not be globally competitive making and exporting cars – big metal boxes which cost a lot to ship. But technology businesses serving the global automotive market absolutely can be.

Adelaide based Cohda Wireless makes software for connected and automated vehicles – and has won contracts with global automakers. Baraja, a company that in its early years was based at the CSIRO facility in West Lindfield in my electorate, has developed improved LIDAR technology – a key component of automated vehicles.

The digital economy matters, fifthly, because it is key to solving the productivity problem facing our economy. The Productivity Commission says our national productivity growth is at its lowest rate in 60 years.

The more we can drive the usage of digital technology across the economy, the more we can improve productivity growth. Productivity is measured as the amount of output delivered per unit of input, such as hours of work. The promise of the digital economy is that existing tasks take less time allowing more to get done, allowing the business to generate more revenue with the same quantity of inputs – and hence productivity improves.

As the example of Fleet Space Technologies shows, if a mining company can do in a few days what previously took several years – that is a big productivity gain.

One of the main ways to improve productivity is to make the economy more competitive. If companies have to work harder to keep existing customers or acquire new ones, they will find ways to become more productive. This is where initiatives like the Consumer Data Right (CDR) are so important.

Legislated by the Coalition, the CDR empowers consumers to share their data. It enables consumers to safely share the data businesses hold about them, for example banking data, helping to make comparisons between products and services easier so they can find products and services best suiting them.

A good example of how the digital economy can boost productivity is in the potential for greater provision of finance to small and medium businesses. Increasingly lenders are able to apply artificial intelligence to the banking records of a business – contained of course in digital files – to determine factors such as the earnings and cashflow of that business, seasonal variations, growth rates and much else.

As I have heard from lenders as varied as NAB, Block and Shift, this is making it possible to provide finance to businesses when on more traditional criteria that might be declined. In turn that means more small and medium businesses able to secure finance, pursue growth opportunities, serve customers and create jobs. It also stimulates competition as more businesses compete to provide ultimately better products and services – and that means a productivity improvement.

### **How Far We Have Come**

I want to turn now to looking at how far Australia has come in building a digital economy. I have been fortunate to work in this policy space on and off for more than twenty-five years.

For a long time there was a fear that Australia was well behind global trends, that we did not have home grown tech companies, and the extraordinary digital transformation of the global economy was bad news for our country.

In a 1998 report, the Committee for Economic Development of Australia (CEDA) starkly warned that: "The levels of technology in the richest East Asian countries generally will surpass those in Australia" and that partly as a result we would "become a low-wage and low-salary country compared to the richest East Asian countries."

As it turns out the Australian economy has performed much better than many feared. Over the last thirty years our GDP has risen from \$423 billion in the four quarters to June 1992 to \$2.3 trillion in the 4 quarters to June 2022. Our GDP per capita has more than tripled from \$24,298 (in current prices) in the 4 quarters to June 2002 to \$88,816 in the 4 quarters to June 2022. We have gone from being the fifteenth largest economy in the world in 1992 to the thirteenth largest in 2021.

Now much of this story is due to the growth of sectors like resources, agriculture, education and finance. But a very strong part of the story has been the growth of Australia's technology sector.

Look at some of the indicators. According to a recent Tech Council of Australia report our tech sector is now equivalent to 8.5 per cent of Australia's GDP, with overall activity valued at \$167 billion, contributing more than 860,000 jobs directly and indirectly.

Look at Australian technology companies which have a global presence. Atlassian for example reports having 236,000 customers in approximately 200 countries. Canva cites over 75 million people in more than 190 countries using its products. CSL has 30,00 employees in over 40 countries around the world.

I think one of the most interesting comparisons is in the make-up of the annual rich list, today published by the AFR and historically by BRW. If you look at the most recent list 2022, 23 out of 200 on that list made their money in technology. The pattern is even stronger for those under 40 on the rich list: 26 out of 81.

By contrast, if you look at the rich list of 1992, the money typically came from sectors such as property, agriculture, retail and manufacturing.

Now much of this transformation has been the work of a capitalist economy. Smart people have seen opportunities and built businesses.

But there have also been important government policy settings designed to support and foster the digital economy in Australia. That has been a focus for Liberal Governments going back to the Howard Government, with initiatives like establishing the National Office for the Information Economy in 1997 and setting up a regulatory framework for Early Stage Venture Capital Limited Partnerships in 2002.

Over nearly thirty years we have had a consistent focus on making it more commercially attractive to invest in innovative and start-up businesses. Under Prime Minister Turnbull, our 2016 National Innovation and Science Agenda further improved tax settings for ESVCLPs, and provided additional tax incentives for early-stage investors in start-up businesses.

Under the Morrison Government we set clear goals to build Australia's digital economy including the ambition of making us a top 10 digital economy and society by 2030 and supported this ambition with a detailed Digital Economy Plan.

The numbers show that capital is flowing strongly into digital economy businesses at least partly in response to these policy measures. Cambridge Associates reported last year that some \$30.3 billion of capital has been raised to date. The latest KPMG Venture Pulse report shows first quarter 2022 venture capital deals in Australia were worth \$1.919 billion, the second biggest quarter ever.

### **What we Need Now**

But while we are making good progress there is much more to do. Let me turn now to suggest some steps we need to take now to further drive the digital transformation of Australia's economy. I want to argue for five such steps:

- Commit to the digital economy as a clear national priority
- Drive digital take up in sectors which lag, including small business
- A national digital identity system
- Digital delivery of Government services
- A coherent plan to address cybersecurity risks.

#### Commit to the Digital Economy or a Clear National Priority

The first thing we need to do is make this a clear national priority.

In Government the Coalition appointed a Minister for the Digital Economy.

Our Digital Economy Strategy progressed technological and digital advancement of small businesses, our workforce, start-ups and infrastructure.

Under the current government such clarity is lacking. There is no Minister for the Digital Economy. There should be. There is no clear Digital Economy goal committed to by the Australian government. There should be.

There needs to be a forward-looking commitment to the digital economy, not a backward-looking emphasis on 1950s style employment patterns favoured by union bosses, which has been the priority of the Albanese Government in its first six months.

### Drive Digital Take Up in Sectors Which Lag

Our next priority should be to drive digital take-up in sectors which lag. As Communications Minister, I established the Australian Broadband Advisory Council.

At my request, ABAC did a series of studies looking at particular sectors where there is a big prize available from greater digital take up, including healthcare, agriculture, the creative economy and construction.

A key reason there are missed digital opportunities in these sectors today is that they are disaggregated, with large numbers of small businesses, rather than a small number of large players. This in turn makes it hard to generate sector wide take up of the kind of software and apps which would allow much greater efficiency.

By contrast, digital take up tends to be faster in sectors where one or more large players have the means and motivation to drive the industry wide take-up of a particular standard. Look at the implementation of the new payments platform in the banking sector for example. This has delivered considerable consumer benefits. Under Osko, money now gets transferred virtually instantly.

We know that Australians are rapid adopters of new technology – meaning that once an industry introduces it, customers take it up quickly. Australian banks introduced payWave in 2006 and cash transactions plunged by more than a third between 2007 and 2013.

While cash payments accounted for 70 per cent of all transactions in 2007, they fell to just 47 per cent in 2013. In 2018 Westpac claimed that Australia was leading the world in contactless payments.

Similarly, today we see payments terminals across businesses of all sizes and all across Australia. But this is quite recent. I remember only three or four years ago being at Litchfield National Park, a couple of hours south of Darwin. There was a food vendor there – but he only took cash. Older people like me would go up to the van and hand over cash – but in twenty minutes I saw repeated examples of younger people wanting to pay electronically and being unable to.

By contrast earlier this year I went to Byron Bay Bluesfest. I was struck by the fact that every food vendor – there were many – had a digital device to accept payment electronically. Many were from Square, the big US business that has driven this category, but of course now the banks are responding strongly with their own offerings.

I recently met with senior NAB executive Angelas Mentis who demonstrated to me the smartphone app that NAB now makes available to merchants. You no longer even need a special terminal or a dongle to attach to a smartphone – just the app. This means that even the smallest business – a stall selling candles at a market for example – can readily accept digital payment and never miss a sale.

I believe there are big economic gains if we can get similar sector wide take up of digital technologies across our economic sectors that are more disaggregated, like health or construction.

Imagine if there was a health sector wide standard for the movement of patient information between GPs, specialists, pharmacists and all the other stakeholders. Today, all too often there are still handwritten letters going from a GP to a specialist, carried there by the patient or faxed – and doubtless frequently lost or misplaced.

There should be a focus across some key sectors – which would certainly include health, construction, tourism and the creative economy – on arriving at industry wide digital standards. Part of that work needs to be giving industry participants strong economic incentives to use the standards; another part of that work is identifying the players whose behaviour can drive take up by others.

Bunnings, with the Powerpass app I cited earlier, is a good example of a player which is influencing digital take up across the construction sector. Another obvious group of influencers is accountants: their advice is often key to small and medium businesses adopting cloud based accounting packages from providers like MYOB and Xero, and in turn this often leads businesses to begin using other cloud based applications, for example for staff rostering or payroll.

### Drive Digital Take Up in Small Business

If we want to drive digital take up by businesses which are lagging, a sector by sector approach is one strategy; but it should be complemented with an economy wide focus on small and medium businesses. Small businesses account for nearly a third of Australia's total GDP.

But many small businesses have not adopted digital technology; they are still using shoeboxes to store their paper receipts and invoices. According to a survey carried out by YouGov for software provider SAP last year, almost one third of the Australian small businesses surveyed are still conducting the majority of their record keeping physically.

Of course this is partly generational. Tradies in their twenties and thirties for example are not only bigger users of the Bunnings app than those of my age – they are also using other tools like Solo Assist, especially for quoting on jobs; Tradify; Service Mate; and Xero for their accounting.

But whatever their age, if small business owners can see an immediate and practical benefit from going digital, they are much more likely to do so. And one such practical benefit would be if issuing their bills was quicker and easier and resulted in turn in quicker and reliable payment – which is where electronic invoicing can make a big difference.

The survey I mentioned earlier has some positive news: businesses which have transitioned to e-invoicing have been pleasantly surprised, with nine in ten describing it as 'easy.'

They found it saved time and money and meant more accurate and secure record keeping. And it has also been a catalyst for digitising other business processes, with survey respondents citing payroll, debt collection, user and customer experience and talent management.

The Coalition has seen this issue as a priority for some time, and in December 2021 the then Coalition Government issued a discussion paper, "Supporting business adoption of electronic invoicing." Since then however we have heard little from the new government.

A major driver which could get many more small businesses online would be a clear national strategy to use e-invoicing.

Australian government departments and agencies transact with millions of small businesses. There should be an Australian Government wide policy that its preferred means of being invoiced by small business suppliers is through e-invoicing – and a commitment to pay such e-invoices within a specified and small number of days.

This would be a powerful way to incentivise and drive the rapid adoption of e-invoicing by millions of small businesses – and in turn for it to become the standard economy wide. The saving, in terms of the number of hours presently spent in preparing and issuing paper invoices, of then chasing them up, of reconciling payments against invoices, all the other business processes, would be substantial.

### Digital Identity

Let me turn to a third priority for stimulating the digital transformation of the economy: the adoption of a national digital identity system.

Today, when I go to a bank to set up a new bank account or to a telco to get a new mobile service, I typically provide evidence of my identity through documents such as a driver's licence or utility bill, and that identity information is retained on file.

But imagine if I could establish my identity simply by keying in my name to the website of the bank or telco, then typing in a multi-digit code just sent to me by my “trusted identity provider”.

Once I did this, the bank or telco's computer system would electronically be able to access the computer system of my trusted identity provider, which would electronically certify that I was in fact Paul Fletcher and provide one-time verification of other information required – for example, the fact I was over 18.

This would be quicker and more efficient than today's processes. But it also helps address the big problem we have today with data breaches – as we have seen this year with Optus and Medibank Private.

The advantage of this system is that now my identity data is stored once. I will initially have gone through a process with the trusted identity provider, under which my identity is verified through electronic checks against secure government records such as those of the Australian Passport Office, the Australian Taxation Office, by a state government driver's licence system, and under which I also provide biometric information in the form of a photo of my face taken with my smartphone.

Once my identity is established with the trusted identity provider, I can use it to open a new bank account or customer account with a telco or in all the other situations in modern life where you need to establish your identity. Critically, this would mean the bank, telco or other organisation would not need to store my data. There would of course be rigorous requirements on the trusted identity provider to maintain the highest standards of security and encryption.

Such a system is pretty much ready to go, following several years of detailed work led by the Digital Transformation Agency under the Morrison government. That included public consultation and, last year, issuing an exposure draft of the Trusted Digital Identity Bill.



Already such a system is in operation, through MyGovID, for Australians to deal with federal government agencies. But if the bill becomes law then it will allow other organisations to become trusted identity providers, and it will set out the legal regime for the trusted digital identity to be used to establish identity with private sector organisations and state and territory governments.

Unfortunately, the development of such a system, which the Coalition Government commenced in 2015, has stalled significantly under the Albanese Government. There should be a renewed and urgent focus on digital identity.

### Improving Commonwealth Digital Service Delivery

This brings me to a fourth priority in driving the digital transformation of Australia's economy: continuing the push to improve digital service delivery by the Commonwealth Government.

In New South Wales, under the leadership of Customer Service Minister Victor Dominello, Service NSW is doing outstanding work to serve citizens digitally. They broke new ground with the convenience of a digital driver's licence carried on your smartphone. Next year will see a digital birth certificate, and digital trade licences available in the Service NSW app to help tradies get on the job more quickly.

We need to see this same customer service mentality at work in the federal government, deploying digital tools and channels to serve citizens more quickly and efficiently.

It is clear there is huge demand from citizens. In 2019, on average around 571,000 people were accessing myGov every day; by October 2021 this had reached almost two million.

Under the previous government there was a big focus on digitally delivering more services. The Digital Transformation Agency sat at the heart of government, in Prime Minister and Cabinet, charged with driving the transition of service delivery from physical to digital.

Their achievements included upgrading the myGov App, expanding the Digital Identity system and introducing digital assistants to improve customer experience.

Unfortunately, since the election of the Albanese Government the Digital Transformation Agency has been relegated to the Finance Department. There is no single Minister clearly and publicly charged with driving the digital transformation of government.

This is a missed opportunity, compared to the approach of Coalition governments both federally and in NSW over recent years.

### Cybersecurity

Priority number five should be a clear and coherent plan to boost Australia's response to cybersecurity challenges. Data breaches are sadly nothing new, with the ANU, the Australian Parliament, the Victorian Department of Health and freight company Toll amongst high profile victims in recent years.

But the Optus and Medibank Private hacks this year have been particularly serious. There are many millions of Australians who are customers or former customers of the two companies and hence have potentially had their personal information compromised.

This is obviously bad news for those affected Australians. But it is also bad news in broader policy terms. The repeated occurrence of large scale data breaches reduce confidence amongst both businesses and customers in using digital services and channels. It therefore makes it harder for our economy to capture the productivity and efficiency benefits I have spoken of.

According to the Australian Cyber Security Centre, the past 12 months saw over 76,000 cybercrime reports, an increase of 13 per cent from the previous financial year. The average cost per cybercrime report for small business reached \$39,000, for medium businesses \$88,000.

Regrettably the current government's response has not given Australians much confidence. There has been too much blame shifting and short term politics. We have not seen much evidence of a coherent and considered plan.

One element of such a plan would be the adoption of a trusted digital identify framework as I have mentioned. Another would be to establish a more consistent compliance framework, reducing the existing regulatory overlap.

Today businesses must comply with requirements set by both the Office of the Australian Information Commissioner and the Australian Cyber Security Centre. They should be standardised. The overall framework needs careful design so it does not cause disincentives for businesses to promptly report breaches when they occur.

And while the Coalition supports proposed increases in penalties for privacy breaches, these need to be scaled. Small and medium enterprises shouldn't be subjected to the same penalties as major corporates.

Another useful element of a plan would be incentives for businesses to take practical steps to reduce the risk of being hacked. This approach formed part of the Technology Investment Boost, introduced by the previous Coalition Government in the March 2022 Budget.

This provided an extra 20 per cent tax deduction for businesses with a turnover of up to \$50 million – on top of existing deductions – for spending on specified digital economy investments. Eligible spending includes cyber security systems, backup management and monitoring services.

But there is scope to do more. A particular source of cybersecurity risk is the extensive use of legacy systems. For example in early 2020 Microsoft ceased supporting Windows 7 – meaning there are no more updates or security patches being provided. Yet many businesses still use this operating system and earlier ones – putting them at greater risk of being hacked. Incentives to encourage businesses to upgrade could be an important tool to reduce risk across the economy.

### Conclusion

Let me conclude then with the observation that the digital economy needs to be a major policy priority for the Australian Government. As a nation we have come a long way in the last thirty years. But after sustained work by Coalition Governments over that time, there is a lack of focus on the digital economy from the current Government.

I have argued that there are several concrete steps the Government could take to regain that focus. The stakes are high; it is simply too important for our national prosperity and economic growth that policy on the digital economy be left to drift.