



**COMMONWEALTH OF AUSTRALIA**

# **JOINT COMMITTEE**

of

**PUBLIC ACCOUNTS**

**Reference: Internet commerce**

**CANBERRA**

**Monday, 15 December 1997**

**OFFICIAL HANSARD REPORT**

**CANBERRA**

## JOINT COMMITTEE OF PUBLIC ACCOUNTS

### Members

Mr Charles (Chair)

Mr Griffin (Vice-Chair)

Senator Coonan  
Senator Faulkner  
Senator Gibson  
Senator Hogg  
Senator Watson

Mr Anthony  
Mr Peter Baldwin  
Mr Beddall  
Mr Broadbent  
Mr Fitzgibbon  
Mr Georgiou  
Mrs Stone  
Mr Vaile

The terms of reference for this inquiry are:

The Committee shall inquire into and report on the impact of internet commerce on:

- (1) the administration of the Australian taxation system and the implications for Australia's tax base;
- (2) the international competitiveness of Australian businesses, particularly small and medium enterprises, with the emergence of the internet as a retailing medium; and
- (3) government industry assistance programs, Customs administration, and the quality and accuracy of Australia's economic and trade statistics.

In conducting its inquiry the Committee will consider:

- (a) the expected growth in internet commerce;
- (b) the findings of and solutions proposed by the Task Force on Electronic Commerce established by the Commissioner of Taxation;
- (c) the quantity, value and type of goods entering Australia under the duty and sales tax free limit, and the commercial entry thresholds, administered by the Australian Customs Service;

- (d) the appropriateness of the existing duty and sales tax free limit, and the commercial entry thresholds, referred to in paragraph (c) and the implications, costs and benefits of any alteration to these limits and thresholds;
- (e) the commercial opportunities (both domestic and export opportunities) afforded to Australian firms by the growth in internet commerce;
- (f) the current frameworks for consumer protection and the protection of intellectual property;
- (g) the opportunities for Commonwealth agencies to improve services to the business sector and to the general public arising from growth in internet commerce;
- (h) the extent to which the Government's potential responses to the growth in internet commerce are affected by international agreements or conventions; and
- (i) the policy approaches being taken by other countries and the scope for international cooperation.

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JOINT COMMITTEE OF PUBLIC ACCOUNTS

*Internet commerce*

CANBERRA

Monday, 15 December 1997

Present

Mr Charles (Chair)

Senator Coonan

Mr Beddall

Senator Gibson

Mr Griffin

Senator Hogg

Senator Watson

The committee met at 9.07 a.m.

Mr Charles took the chair.

**CHAIR**—The Joint Committee of Public Accounts will now take evidence as provided for by the Public Accounts Committee Act 1951 for its inquiry into Internet commerce. I declare open this public hearing of the Joint Committee of Public Accounts inquiry into Internet commerce. The JCPA has conducted public hearings on this matter in Canberra, Sydney and Melbourne. The inquiry will focus on the international competitiveness of Australia's small and medium enterprises, administration of the taxation system and implications for Australia's tax base arising from the dramatic increase in the volume of commercial transactions now occurring via the Internet.

The JCPA's inquiry and report will form a vital part of our country's challenge to be a leader in the world wide Internet revolution. The implications, challenges and opportunities created by Internet commerce are only just beginning to be realised. Australia must be at the forefront of these growth opportunities and be a world player.

Currently, the global value of goods and services transacted over the Internet is estimated at \$3 billion. By 2000 this is expected to grow from around \$100 billion to \$150 billion. The inquiry will explore some of the key issues that are beginning to emerge as Internet commerce expands. For example, Australian small and medium enterprises will be exposed to greater competition from overseas retailers advertising their goods and services on the Internet. At the same time, Australia's SMEs will be able to expand their market share in the same way.

A growing trend exists for Australian consumers to purchase goods and service from overseas retailers via the Internet and avoid duty and sales tax. Currently, goods entering Australia are not subject to sales tax if they are below a \$50 duty and sales tax free limit and the value of the goods is below \$1,000 for goods imported by post and \$250 imported otherwise by post. An increase in the volume of imported goods not subject to duty and sales tax will have implications for customs administration and for Australia's tax base if there is excessive revenue leakage. In addition, there is a potential impact on the trading environment for locally based companies trying to compete against international traders able to avoid sales tax liabilities.

In addition to investigating and making recommendations on these issues, the JCPA will also consider the current frameworks for consumer protection and the protection of intellectual property, government industry assistance programs and the opportunity for Commonwealth agencies to improve services to the business sector and to the general public arising from growth in Internet commerce. Today the JCPA will take evidence from the Australian Taxation Office, the Department of Communications and the Arts, Telstra, Optus, British Telecom, the Department of Industry, Science and Tourism, the Australian Bureau of Statistics, [www.consult](http://www.consult), the Department of Primary Industries and Energy, and the Department of Finance and Administration.

I will refer members of the media who may be present at this hearing to a committee statement about the broadcasting of proceedings. In particular, I draw the



media's attention to need to fairly and accurately report proceedings of the committee. Copies of that statement are available from the secretariat staff present at this hearing.

I welcome representatives of the Australian Taxation Office to today's hearing.

**CARMODY, Mr Michael Joseph, Commissioner of Taxation, Australian Taxation Office, 2 Constitution Avenue, Canberra, Australian Capital Territory**

**MERRICK, Mr Frank John, Assistant Commissioner, Australian Taxation Office, 2 Constitution Avenue, Canberra, Australian Capital Territory**

**PICKERING, Mrs Ariane Robin, International Tax Counsel, Australian Taxation Office, 2 Constitution Avenue, Canberra, Australian Capital Territory**

**PAINE, Mr Bruce, Assistant Secretary, International Taxation Branch, Taxation Policy Division, Treasury, Parkes, Canberra, Australian Capital Territory**

**CHAIR**—We have received your written submission. I think we have all read *Tax and the Internet* at least once. Would you like to make a brief opening statement before we start to ask you some penetrating questions?

**Mr Carmody**—Yes. I note that when we released *Tax and the Internet* one of the objectives we set was to attempt to move the debate past the discussion of the potential impacts into issues of what does that mean for the way the tax office operates and indeed others and the environment around it. I am pleased to say that I have seen evidence in hearings before this committee that that is the case—sometimes excitable evidence, sometimes calm and penetrating evidence.

I am very wary of our report or us being caught up under phrases such as supporting free trade or a barrier to free trade or regulation or anti-regulation. In my view, that does not progress the debate and it is certainly not what our report is about. One of the barriers to Australian corporations and businesses picking up on the opportunities of the Internet electronic commerce is to have a clear understandable taxation environment. The very premise of this report is to attempt to provide that and attempt to do it in a way that says that our existing tax system will apply here so there is no new taxes, no new notions to apply, rather we are seeking to accommodate for business a clear environment whereby their existing taxes—taxes they are familiar with—can go. It is not about trying to block trade; it is the antithesis of that.

It was against that background that I found some of the comments a little curious in particular from one of the professional bodies that suggested that our single-minded pursuit of the potential black economy and naive belief in the level playing field is that Internet commerce will be driven offshore. I say 'curious' because the whole international arena and international tax administrations and governments around the world are in fact

striving to achieve that level playing field so that business can operate within the existing taxation environment. Quite simply, our report recognises that there are some fundamentals that enable our tax system to operate. They are issues to do with jurisdiction, the right to tax certain things, where that right exists and characterisation of income.

They have to do with the fairly basic ability to identify people who are liable to tax, who are conducting business and therefore, liable to tax. They also have to do with another basic of any taxation system—that is, the ability to access reliable records and information—and, finally, the appropriate collection mechanisms. Our report, therefore, is about taking those fundamentals and saying, ‘How can we accommodate the development of electronic commerce so as to provide a clear level playing field for Australian business?’

Very briefly, some of the issues that have been raised with us have to do with identification, so there are recommendations in there about providing on web sites Australian company numbers and registrations. Registration seems to have been taken as some notion of our trying to regulate the Internet environment. It is not about saying who can and who cannot operate on electronic commerce. It is about saying simply that, if a business is going to register with the tax office, which it has to do be it for income tax, sales tax or whatever, they include the details of the unique characteristics of the web sites and electronic commerce.

Secondly, there have been some comments about recommendations that go to looking at the regulatory environment around cash be it through reporting under AUSTRAC or the other regulatory environment that goes with Reserve Bank regulations and so on. Again, this is simply about providing certainty of application and a level playing field between electronic cash and others. I note even those bastions of free trade, the Americans, in their framework document went on to say that, in the area of electronic cash, there was a need to continue to monitor to ensure that the environment applied equivalently to existing cash systems.

There have also been some queries and comments about transaction level monitoring. Perhaps our report was unclear, but we were never suggesting that we attempt to access the details of transactions being undertaken on the Internet through spying, if you like, on the Internet. Indeed, we recognise and acknowledge in the report that encryption is going to occur and, therefore, it is just impractical for us to do that. That was not the purpose of that recommendation. The purpose of that recommendation was really to take the non-confidential header information from electronic transactions merely to show the growth in the number of transactions to commercial sites.

That is a very important issue because at the moment electronic commerce is not huge. At the moment it is not a huge threat to anybody’s tax system, but everyone acknowledges that at some point it will become a significant part of trade. As we develop and evolve our approaches, it is important that every country understands how quick that

progress is and when we are reaching a point where it is becoming so significant as to require some further action.

The report was specifically released as a draft. We are not wedded to particular recommendations in there. We are wedded, however, to finding ways to provide that the basics of our tax system operate. So we are quite happy, and have sought, to enter into discussion on issues about how we best approach identification issues, how we best approach information access, how we best approach collection mechanisms. If the specific recommendations we have do not find favour, it is no good saying, 'We do not like them.' The question is: how do we address the core issue in a way that enables business to get on with their business and the community to have a secure tax system? Unfortunately, a lot of the submissions have not got to that level yet, but we will be taking the initiative in following up with a range of bodies that have made representations to seek to have further discussions with them.

It does need to be recognised that electronic commerce does open up the potential for abuse be it through lack of identification, lack of accessible information trails, use of unaccounted electronic money and opening up of opportunities to all levels of business. We are not, as has been suggested, so fixated on the black economy and those who are trying to avoid their tax so as to impose unnecessary burdens on those seeking to do the right thing. That is why we want to work with business in finding the correct approaches. But let us be realistic and recognise that there will be some, as there are some now, who will seek to take advantage of these opportunities. If that is allowed to occur, the poor old people who are genuinely seeking to meet their responsibilities will continue to bear an increasing burden of the community's responsibilities for tax. If that goes on for too long and is allowed to get too great, at the end of the day even they will get disillusioned.

Let me summarise then. There are practical administration requirements if we are to have an effective tax system. They go to identification, access to information and collection mechanisms. We are not tied to the specifics. We are tied in concert with others around the world to finding ways to accommodate those practical operations in an electronic commerce world so that we can give business certainty of the operation of our existing tax systems. That requires that we monitor and have effective approaches in place to monitor the developments of electronic commerce so as the community and governments know how it is growing and what the impacts are.

We do not necessarily believe that all of our recommendations, even if they turn out to be the final ones, need to come in from day one. This report is about putting Australia in a position whereby we have the opportunity to try to work with business and others to evolve those approaches into the best possible balance for business and the community. Some may well need to come into place now; others will evolve as we continue to learn.

If the answer from some is to, in a sense, put their heads in the sand and say,

'Don't do anything. Don't touch anything. It is not big enough now. Don't you worry about it,' my fear is that at the end of the day we and governments around the world, in the event that electronic commerce does blossom as predicted, will be pushed into knee-jerk reactions which will be no good for business or the Australian community.

One final point is that, in all of the international discussions about electronic commerce and the desire to let business lead and for governments to intervene only where necessary to address gaps, it is also recognised that the technology itself can and should be used to address some of the problems. So it is that in the area, for example, of registration or some similar requirement, we can use technology for those involved in electronic commerce to make those processes almost seamless and readily accessible. We can use technology to simplify the services that the Australian Taxation Office offers—be it advice on form lodgment or the filling in of forms. More broadly, by promoting electronic commerce in transactions with the tax office, because of the spread of operations we have, the tax office can help promote in the business community further developments of the hands-on use of electronic commerce throughout the Australian community.

The final point is the question of where to from here. We do intend to further consult with those who have made submissions and who have raised concerns to see if we can address those or find better ways of addressing basic issues. However, I have said on a number of occasions that this is not something that you can rely on the tax office to resolve, it is not something, with due respect, that this committee can resolve, nor is it something the Australian government can resolve. We are operating in concert with the international community because electronic commerce is a global issue and it needs global responses.

There have been some significant developments in that field since we last met. There was a meeting of the OECD that covered all issues to do with electronic commerce and barriers, be they to do with consumer privacy or other issues. However, there was a special one-day tax conference, which I had the pleasure to chair, which brought together all government representatives from the OECD and representatives from the Business Advisory Committee of the OECD to work through a range of issues. Importantly, what came out of that was a commitment to finding ways to accommodate electronic commerce under our existing taxation regimes to find that certainty for business. More importantly, there was a commitment to move towards a ministerial meeting of the OECD in October next year to seek to agree to the first set of international protocols or guidelines on electronic commerce.

At that meeting of government and business officials, a number of guidelines, if you like, of the way we can approach the task between now and October were developed. The first and primary amongst those was working to accommodate electronic commerce under our existing systems. Issues of neutrality of operation were pursued but, most importantly from my perspective, there was a clear acknowledgment that guidelines and

issues go not only towards jurisdictional or taxing rights but to practical issues of administration. There is a commitment to work internationally also towards that October meeting on those issues. I think that is a significant development and it is a development in which our thinking will continue to evolve. We will be playing a very forthright part in those developments. With that, Mr Chair, I will hand it over to you.

**CHAIR**—Thank you, Mr Carmody. I might clean up a couple of timing things that would assist the committee in terms of your program and what information might be fed into us to help us conclude our inquiry and report. Could you tell me when the ATO intends to release a final report?

**Mr Carmody**—My thinking has evolved to the point where I am not sure that we are going to have a one-off event final report. I say that because I think we need to evolve in consultation with the international community and business the development of our approaches as electronic commerce develops. However, I think there are some things that we need to move on initially and we need to get in place some action along some of the lines that I have talked about. So subject to our ability to consult with a range of the people that we have had here, I am always too optimistic on these so I will be a little pessimistic and say that by the end of this financial year I would want to see some initial finalisation of our approaches, but recognising that it will continue to evolve.

**CHAIR**—I assume that it would be helpful if our report was presented prior to the end of the financial year.

**Mr Carmody**—I do not like to push you, but yes.

**CHAIR**—No, that is probably all right. The second timing thing relates to your submission at 3.8, where you say:

. . . the ATO and ACS has commissioned AC Nielson to conduct a study of low value consignments imported into Australia and to benchmark the revenue leakage . . . The outcome of this exercise will provide a benchmark for the ATO and ACS to monitor the growth of activity in this area.

When do you expect that report?

**Mr Merrick**—This information was provided by one of the senior officers in our sales tax area who is not here today, but we can check and get back to you on that.

**Mr Carmody**—That clearly also involves the Australian Customs Service, so we will need to get in touch with them to give you an answer.

**CHAIR**—May I say to you that it would be extremely helpful to this committee if we could see those benchmark numbers and the result of the survey before we start actually considering a draft report. It is a high profile issue.

**Mr Carmody**—I understand that.

**CHAIR**—It is not necessarily that big, but I guess it has lots of implications in terms of how we see ourselves and how the Internet may or may not evolve.

**Mr Carmody**—We will get, as soon as we can, a projected date from the Australian Customs Service.

**CHAIR**—We have visited the mail exchange at Clyde and we have been to Customs at Tullamarine airport and seen what they do to screen and not screen items. We have watched all of that—with some fascination, I might say—but it would be helpful to know what we find when they test what is in all those parcels.

**Senator WATSON**—Thank you, Mr Carmody, for a very good presentation and congratulations on chairing one of those forums. Would it be possible for the committee to have some papers or release of documents from those OECD deliberations? I think it could supplement the work that we do.

**Mr Carmody**—In fact, it was my task to report back to the main forum on that and I have a copy of the speech I gave which gives some information on that, and I will see what else I can get from the final records.

**Senator WATSON**—And some of the other speeches. Thank you very much. Could you bring us up to date on the loss of revenue to date arising from the Internet? I realise that it is an estimate.

**Mr Merrick**—We were recently asked this point by the Senate estimates budget committee. The report gives a figure of \$10 million for estimated loss of revenue to—

**Senator WATSON**—That is per annum?

**Mr Merrick**—Yes, it is per annum up to 1996. But it is difficult—and we said this—to give a definitive figure, simply because there are no reliable estimates on the overall size of Internet commerce and, in any event, it is rapidly growing. So it would be difficult to give any sort of definitive figure for the loss of revenue.

**Senator WATSON**—An associated question: is the black economy growing in Australia? I know the Internet is part of it.

**Mr Carmody**—If we knew the exact details of the black economy so as to calculate the amount of the black economy, we would be able to bring it into the white economy. We released a preliminary report into the cash economy and announced some initiatives that we were undertaking. We will be coming out, I hope, around February with the further development of our responses to the black economy. That report does not give

a definitive answer on the black economy. In fact, it points to a range of estimates that vary wildly. It also notes that, anecdotally, there is a view that the black economy is expanding, but we have no precise figures on it. That is why we, in acknowledgment of the concerns of the community, have taken a number of steps, including tripling our field presence but recognising that those traditional responses will not be enough to address the black economy. I can provide you with a copy of that original preliminary report, and as soon as we get our final report out in February I will make that available too.

**Senator WATSON**—Is taxing through the credit or banking system—credit cards, electronic bank transfers, et cetera—the best way of trying to pick up revenue, following the cash?

**Mr Carmody**—I am not quite following your question.

**Senator WATSON**—Is taxing through the banking system or the credit card system—taxing Visa, Mastercard, et cetera—one way of overcoming the problems of some of the current structures of residents, et cetera, trying to pick up revenue?

**Mr Carmody**—You are dealing with the Internet and so on?

**Senator WATSON**—Yes.

**Mr Carmody**—That was a subject of heated discussion at the OECD conference. There was some concern, particularly from the European countries, to do with their indirect taxes, and they were looking for where the viable trail was to attempt to collect the equivalent of their indirect taxes. There was some suggestion that you could look at the transaction of the money, the credit cards. I must say, having raised that, there was a rather violent response from the representatives of the credit card industry over there. But I think it is fair to say—and I am not suggesting that this is what we are doing here in Australia—that there will be some further discussions between now and October as to where we can find practical collection mechanisms, and that will be one area that I am sure will be raised by a number of countries.

**Senator WATSON**—Mr Carmody, you mentioned the need to licence web sites. If they are scattered around tax havens such as the Bahamas and others, does that really help you a lot?

**Mr Carmody**—Certainly the issue of tax havens is heightened by the development of electronic commerce. You would be aware that Australia has taken a number of legislative initiatives on this front. You may also be aware that we have announced an annual research prize in which we are attempting to mobilise world thought and Australian thought on the more perplexing issues for tax administration. The subject that has been picked for the first of the research prizes is: how do we address the impact of the development of electronic commerce on the impact of tax havens and associated bank

secrecy?

Certainly they are particular issues there. However, the issue of registering and licensing web sites is a bit like the present situation where any business that is liable for sales tax registers with us and any business that is liable for income tax acquires a tax file number. The purpose of the recommendation was in concert with that. Let us ensure that businesses conducting business through the web site do so also and if businesses are already registered they should let us know that they are conducting business through a web site.

I am not saying it is the total solution to the issues, but it is a fairly fundamental issue of identification. You then have to go to the more extreme exceptions and find ways of dealing with that. I think this issue, as well as the issue of registering, is not just for the Australian Taxation Office alone; this has to be an international approach. I believe the OECD is looking at the whole area of bank secrecy and tax havens and what can be done there. I am not pretending that we have got the final solutions. All I am asking for is the equivalence to our existing systems while we try to work on the more complex issues.

**Senator WATSON**—If you have a rolling web site, you could have had 50,000 transactions before it eventually gets registered.

**Mr Merrick**—There is an important issue concerning goodwill in relation to web sites. One of the largest commercial web sites, Amazon.com, has about 10,000 what are called Banner Ad Advertisements on other web sites which point to the web site that Amazon.com carries on. If you want to set up a substantial business, it is not as easy in commercial terms to relocate the site all the time. Goodwill operates on the Internet just as it does in commercial businesses.

**Mr Carmody**—In fact, some of the barriers to the development of electronic commerce may well assist our concerns. Just as we want identification and accessible records, anyone who wants to carry on genuine commercial business wants to be moving down the same path too. In fact, one of the barriers to the blossoming of commercial developments on the Internet is the fear that you have a wonderful looking web site but behind it is Fred and Gerry in the back shed with nothing much else behind them. While there has been some response to our report, saying, 'Isn't this terrible! They're trying to make sure they can identify and get access to information,' that is what business is going to be wanting too. What I would like to do is to hook into those developments so our mutual objectives are shared in the most accommodating way.

**Senator GIBSON**—As to accreditation, it is public versus private accreditation opportunities. Following your recent OECD meeting, have you come back with any views about what is going to happen—it is really a follow-on from what you have just been saying?



**Mr Carmody**—Are you talking about accreditation of digital signatures and the like?

**Senator GIBSON**—Yes, and registration of players on the net. People want accreditation; they want to have credibility behind them so people will deal with them.

**Mr Carmody**—Public versus private: I do not think the discussion has got far enough into that. Whether it is us or someone else, I do not particularly care. I am happy with what is more comfortable for business. I just want to make sure we know who is there.

**Mr GRIFFIN**—Earlier, on the question of the black economy, you mentioned that it is incredibly difficult to estimate the size, et cetera. Your estimation at the moment is that the actual impact of Internet commerce on taxation revenues is minimal, but if you cannot work out reliably what the size of the black economy is in this respect how can you be sure that that is the case?

**Mr Carmody**—First of all, let me make this point. Whether \$10 million is the precise figure or not—I can probably guarantee it is not—the point of the \$10 million is that, when you look at the work done around the world and look at the sites that have developed genuine commercial activities, it is at the low end of the scale. I have not found anyone in the world who is suggesting anything else. We can have a fair level of confidence on that.

The black economy presents different issues. I am not assuming—in fact, I am assuming the exact opposite—that everyone who goes into electronic commerce on the Internet is trying to hide. I am assuming they are trying to take up business opportunities as distinct from the black economy, where people by definition are trying to hide, so obviously it is harder to get. As to trade on the Internet, my assumption is that the bulk are going to be trying to be genuine commercial activities.

The general consensus is that the bulk of electronic commerce is factored around a lot of advertising and a sort of updated mail order business. The biggest trade is not necessarily trade; it is just intercompany dealings. So if you look anywhere in the world you can be reasonably confident at the moment that electronic commerce is not at staggering levels. In fact, there is a whole debate about how big it will get. You hear lots of stories about where you can get your Timberland shoes or a Jaguar, but that all presumes you can go along to a conventional store and try on your shoes and kick the tyres of a Jaguar and satisfy yourself that that is the car you want.

On that premise alone, electronic commerce can never take over the totality because you will not have the rest of us there. Also there are issues about personal interactions. I think we can be confident that electronic trade is not enormous at the moment. We can be reasonably confident, however, that it will expand. I do not believe it

will take over the world, but it will become a major component of trade. It needs only be five per cent, 10 per cent or 15 per cent of world trade to make it very big.

**Mr GRIFFIN**—What sort of time lines do you see on that, though? I am asking you how long a piece of string is.

**Mr Carmody**—If you asked 20 people, you would get 20 different answers.

**Mr GRIFFIN**—So it is sort of like talking to an economist.

**Mr Carmody**—I have got into trouble before making comments about economists. I chaired a joint OECD-APEC meeting in Sydney last year and I was talking about economists, or something, and I had this woman from the Philippines come up and introduce herself as an economist, so I had to talk about lawyers then.

**Mr GRIFFIN**—That is okay—we all talk about the tax man.

**CHAIR**—You could have thrown in politicians, too.

**Mr Carmody**—You will notice that you cannot get a law degree now; they are all dual degrees now, as I understand it, so that is probably why. I am working on this premise, which goes back to the point I was making before about our positions evolving: we are in a unique position with something as significant as this, and with its potential impacts, where the world is starting to really think about how you facilitate and address it before it gets too big. You get forced into knee-jerk reactions, which are no good for anybody.

I do not know how long it is going to take to take off. So, being a fairly prudent person, given our responsibilities, I am saying that over the next 12 to 18 months we have to get ourselves in a good position. If it takes longer to blossom, we have not lost anything. If it does, we are there. That is why the time line with the OECD fits in very well with that.

**Mr BEDDALL**—My concern is that there seems to be a movement to impose a tax regime where the transaction takes place. There has been a lot of evidence given here that that is where the process looks like going, which is obviously being pushed by the United States, where, conservatively, 80 per cent of the web sites are.

Presuming the government of the day here goes on with a goods and services tax, I would have thought the area is not about Jaguars or timberland boots but insurance. For example, to buy a US policy on the Internet would be a sensible transaction. Now that there is no tax applying it to here, there is no advantage, but if you are buying from one of the US giants via the Internet, and you are secure you are buying from them, you get a product, and the tax, whatever rate it is, would be at the point of the transaction, which

would be the United States.

I see that that is where the greatest threat to revenue in Australia is and it involves a significant amount of money when you start to go into financial transactions. Should they be taxed in this country?

**Mr Carmody**—First of all, you are assuming that there will be certain goods and services taxes in the future. That is not for me to comment on. I can comment, though, as chair of the meeting about the discussions there. I think it is fair to say that in Europe in particular the most immediate and pressing issue for them is the potential impact on their value added taxes, because some countries rely very heavily on value added taxes.

The Internet attracts lots of hoopla and horror stories and things like that. When we were analysing it, the Internet was not a threat to the total value added tax base. Their particular concern was with some of the things you are talking about, where digitised products or services can come down the line. There are issues there about identification, but it is a matter of sheer collection. How do you collect when it is just coming into people's homes? While that is not huge at the moment—their whole capacity and other issues to deal with that—that was certainly the most focusing issue for my European colleagues. I am sure that there will be a strong focus on that issue in the lead-up to the ministerial conference.

The general feeling at the meeting was that your starting point should be that tax is at the point of consumption—the liability arises at the place of consumption. The general feeling was that that should form one of the principles to move forward. That then raises the question of how you achieve that at a practical level. Senator Watson asked me a question before. That is when speculation arises about whether you go to the money trail to try to find that.

**Mr BEDDALL**—But that is totally different to international tax policy now, isn't it? You may pay an import duty but it is taxed now at the source of the transaction, isn't it? You may buy something from the United States by mail order catalogue, say a book from Amazon.com.

**Mr Carmody**—No, I do not think that is necessarily the case.

**Mr BEDDALL**—Is there a sales tax on books?

**Mr Carmody**—In Australia there is. I am not fully conversant with the operations of value added taxes in Europe but generally in practice the rule has been at the point of consumption. But there were some services where it was at the point of provision. That worked fine when generally things were provided from within your national boundaries. They got into whole issues with telecommunications services.

As best I can remember—feeling very uncomfortable because it is outside my field of knowledge—they went to the point of requiring the major American telecommunications firms to register in Europe so that they had a point to tax. In practical effect, it is all coming back to being taxed at the point of consumption. There are, however, some practical issues to give effect to that. I am sure that will take a high focus in the lead-up to this ministerial meeting.

**Mr Paine**—Perhaps I could just clarify something. Books are not subject to tax.

**Mr BEDDALL**—That is my point. In the United States they could put a two per cent tax on and the revenue would be collected there but we don't tax books, so there would be no revenue loss but there is a revenue gain. Under a goods and services tax, books will not be exempt, so again you have that problem arising under a value added tax system, whether it be Europe or a future Australia.

**Mr Carmody**—I am sorry, Mr Beddall; I thought we were talking about Europe.

**Senator COONAN**—I want to ask a much more general question. I think this committee—and no doubt everyone at the table—is pretty familiar with the problems. I note with interest your comments about the intention of working within existing systems, at least until—

**Mr Carmody**—Until that proves impractical for them.

**Senator COONAN**—Yes, and looking to the future a bit further. Within existing systems, even legitimate businesses will seek to minimise their tax. At paragraph 2.9 of your paper to us there is a reference to the OECD and the forthcoming meeting at Ottawa in Canada. There is a mention of confirmation of a framework. Construing that, that seems to suggest to me that this committee at least might be some distance along the track to trying to formulate some guidelines. There is a particular reference there to taxation. Can you tell us a bit more about what stage this process is up to? It seems to me that unless we really do look to the international solutions, whatever we do nationally is not going to be much of a picture.

**Mr Carmody**—That is right, and clearly that is the premise on which we have operated and why we have involved ourselves so strongly in the international forum. The decision to hold a ministerial conference in October 1998 to endorse, I guess, the first iteration of guidelines or protocols was announced only last month. A range of work has been going on in the working parties of the OECD to deal with issues of the implications on source, residency and for permanent establishment. At the moment, while there is uniformity that it should be neutral, what neutral means is turning out to have some different perspectives depending on where you are in the international trading world. There has also been some work going on on treaties, because we will need to look at a range of implications for our treaties.

What has happened now is that a clear focus for those activities has been provided by announcing the ministerial conference in October. The Committee of Fiscal Affairs of the OECD will be meeting in January to bring together the work program to achieve that objective. So it will be a matter of coordinating the work of those working parties and setting out a timetable that enables that to go to the ministerial conference. I guess they will be looking at not long after the end of this financial year to have their position pretty well done so that they can move into that.

The other important feature that I mentioned is that, while traditionally the OECD has looked at taxing rules and jurisdictional issues, they have now acknowledged the importance of practical administration. It is all very well to have the right to tax, but if you cannot identify or collect or access information that right is nothing. So the OECD has now recognised the importance of that, and there will be international work done and developed for those issues also leading up to that Ottawa conference. I believe there is some suggestion that, concurrent with the Ottawa conference, there will be an international meeting of commissioners of taxation to progress this point.

**Senator COONAN**—Is there some work being done on the implications for the double tax agreements with various countries as part of this process?

**Mr Carmody**—Yes.

**Senator GIBSON**—In item 6.4 in your submission relating to credit cards you make the offer that:

. . . companies subject to Australian tax liability have credit-card related transactions offshore: we would be happy to provide the JCPA with particular types of transactions where this practice occurs.

Could you elaborate on that?

**Mr Merrick**—Can we get back to you on that?

**Senator GIBSON**—Sure.

**Mr Merrick**—We have some actual examples, but it would help to see the diagrams and so on as well.

**Mr Carmody**—I will just make an observation. This recommendation has obviously stirred a few emotions. I want to make this general point—and this is only the harbinger of a broader issue: at the moment, to be able to administer laws we need access to information. Sometimes if people are not paying their taxes and, as I have said before, you notice that they have big cars, big houses and yachts and are returning little or no income, one of the means we have is accessing their spending patterns and so on to determine what is happening. Traditionally, they have been within national boundaries and

people have Australian credit cards and conduct their transactions in Australia.

If the Internet is to introduce seamless world activity and if our existing tax systems are going to operate you are almost going to have to move to seamless world administration. I do not mean by that a world tax organisation, but I mean that the ability to access information and the ability to work with other tax administrations is going to have to move outside your boundaries. We already have a range of exchange of information. But if we reach a point where there is seamless world trade and a seamless access to credit cards then that is a whole new paradigm for tax administrations. No longer is it 90 per cent looking into your own country and 10 per cent a bit of international cooperation. The balance is going to have to shift dramatically.

This particular recommendation was just illustrating that while people, at the moment, have credit cards here, into the full future they will have credit cards anywhere and they will have other information stored anywhere. That has significant implications for us.

**Mr BEDDALL**—Can I just follow that point through? If you take an analogy, when Joh Bjelke-Petersen abolished death duties, immediately every Australian state had to follow suit. What you will get, even if it is only 10 to 15 per cent of trade, is that if it is on the Internet it will be someone else basically setting your tax policy. That can happen, can't it?

**Mr Carmody**—Whether the Internet—

**Mr BEDDALL**—Call it electronic commerce.

**Mr Carmody**—It is already the case that there are issues of tax competition—and that is occurring even on the current levels of trade without electronic commerce. That is another focus of the OECD. I guess you could say to the extent that electronic commerce opens up more trade that is traditionally internal, it may increase some of those pressures. But they are issues that I know the OECD and governments around the world are alert to.

**Senator HOGG**—I would like to raise the issue of the relationship between yourself and state governments. It does not come out in the submission anywhere. Could you describe what the relationship would be on the issue of taxation? I should imagine that as we move into the Internet system the issue of state federal taxes will become somewhat blurred. How are you going about handling this issue?

**Mr Carmody**—Our report specifically addressed our responsibilities with regard to federal taxes. I think we did acknowledge however that electronic commerce certainly has the potential to impact on the current tax base of state governments—be it through gambling or a range of their other charges.

I guess to the extent that occurs that raises broader questions for governments as to taxing bases and how revenue is distributed. But it would be our intention to at least be talking to our state revenue counterparts to share the benefit of our understanding of the potential impact.

**Senator HOGG**—Is any mechanism by which that happens currently set up, or is it a matter that they are not talking to you and you are not talking to them?

**Mr Carmody**—No. On a range of issues it is ad hoc, depending on the particular initiative. There is an annual meeting of all heads of state revenue offices, and we have been invited to that for the past so many years. So there is that formal forum, but in addition we are quite open. We have discussions on specific issues as they are required.

**CHAIR**—Could I follow up on that and a specific issue. The banking industry have told us very strongly that FID and BAD are already, they believe, impacting on our ability to act as an international financial centre in the South Pacific, if you will, and that, as electronic commerce generally and Internet usage expand, that will continue to impact on our total trade ability. Would you have any comment on that?

**Mr Carmody**—I think that is a policy issue for governments, not for me as an administrator.

**Senator HOGG**—Do you have any idea, therefore, what the impact of the Internet will be on state government revenues and thereby on the federal government as a result of Internet commerce trade?

**Mr Carmody**—We addressed our research and activities to our federal tax base. We only alluded to the potential impact on states. We have not done a study of that.

**Senator WATSON**—Mr Carmody, on page 4 of your submission you mentioned that thresholds may need to be reviewed, which formed something of an initial view after looking at the Sydney mail exchange. What do you think should be the key considerations of that review? Also, at the moment you delegate some of your taxing powers to the Australian Customs Service. Given the changes that are occurring, is there any likelihood that that may change, partially or wholly, as a result of growth in Internet commerce?

**Mr Carmody**—It is too early to say but I think we have had fairly fruitful and mutually beneficial cooperation, because they are the people at the border and it is a natural synergy to work with them. So, while all things are possible, at the moment I would like to build on those synergies. We have certainly implemented over the last year regular meetings to discuss the potential to expand that.

You asked me what the considerations are. I think the considerations will be very similar to what they are now. I think at 3.10 we give some of the factors that have led to the idea of not trying to get down to the last dollar in those issues. So it will be a matter

of balancing those against what we find is the growing impact of this sort of trade through ordering through electronic commerce.

**Senator WATSON**—You say you want to build on those synergies between you and Customs. Do you conduct any audits to ensure the effectiveness of their collection of revenue through sales tax, given that is a delegated responsibility? What audit trails do you establish to ensure that Customs is collecting the appropriate amount of tax?

**Mr Carmody**—I will have to get back to you with the detail. My knowledge is that we have established very regular meetings between my officers and Customs officers to ensure that we are operating effectively. I can get back with the fuller detail of what they have been achieving.

**Senator WATSON**—I know there are meetings, but do you actually conduct audit trails, et cetera, to ensure that the amount of tax collected is appropriate, the legislation is adequate, et cetera?

**Mr Carmody**—Certainly that has been heightened by now. The point of my answer was that I can give you the full detail of that; I will need to get that back to you.

**CHAIR**—Thank you very much for coming and for your forthright answers, when you gave them.

**Senator HOGG**—Well said, Chair.

**Mr Carmody**—There are only so many things I am responsible for, Mr Chairman.

**CHAIR**—We do look forward to continuing to work with you. We would appreciate the additional information, particularly that Nielson report. While there may not be huge revenue implications for goods being imported from purchases over the Internet, nonetheless we would like to know the quantum and it gets back to the questions Senator Watson asked about Customs, how appropriate the screen free limit is and all the rest of it—highly emotionally charged issues. I think we have to consider that issue very carefully, so we will appreciate any input you can give us.

**Mr Carmody**—Thank you, Mr Chairman.

**CHAIR**—Thank you once again.

**Short adjournment**



[10.16 a.m.]

**BRYANT, Mr Simon George, Director, Online Industry and Infrastructure Section, Department of Communications and the Arts, 38 Sydney Avenue, Forrest, Australian Capital Territory**

**PELLING, Dr Simon, Director, Information Policy Section, Online Industry and Communications, Technology Branch, Department of Communications and the Arts, GPO Box 2154, Canberra, Australian Capital Territory 2601**

**STEWART, Mr Brian P., Assistant Secretary, Online Industry and Communications, Technology Branch, Department of Communications and the Arts, GPO Box 2154, Canberra, Australian Capital Territory 2601**

**CHAIR**—I welcome representatives of the Department of Communications and the Arts to today's hearing. We very lately received your submission. Would you like to make some opening comments before we try to ask you questions about it?

**Mr Stewart**—We apologise for the late arrival of the submission, but we thought it was useful to try to include some material from the government's recent policy statement which is quite relevant to your committee's terms of reference. If it would help the committee, I could do a few minutes of introduction to the submission.

This submission is from the Department of Communications and the Arts and it is a bit of an overview and a stocktake of our role and interest. We have three broad roles under the government's admin orders. One is responsibility for specific policy areas relating to communications issues and certain programs such as the regional telecommunications infrastructure fund. A second role we have is the broad strategic input on government policy and a major role in coordinating the work of other departments involved in the issues. The third role we have is supporting advisory and coordination mechanisms that the government has had. We have supported in the past the Information Policy Advisory Council and currently the Commonwealth-state Ministerial Online Council. Those are the functions of department. This is a departmental submission rather than a submission from the National Office of the Information Economy, because I gather you are meeting separately with the board members of the National Office of the Information Economy later.

The government's recent statement indicated a number of roles of the government, including providing strong leadership, encouraging business and consumer confidence, getting Australia on line and fostering the development of information industries. Those roles are broadly consistent with the roles which the government has laid out for the new Ministerial Council for the Information Economy and the new National Office of the Information Economy.

We tried to provide a bit of a stocktake of what the government's policy priorities are in the whole area of on-line industries and information economy and provided some highlights of the government's statement and some broad assisting comments on the terms of reference. Rather than recite the submission in detail, I might just leave it there.

**CHAIR**—Could I get to the nub of a problem that we have straightaway, and that is that you have asked that part 2 of your submission and attachment A be confidential. I have some difficulty in understanding why they need to be confidential. I cannot see anything that is commercial-in-confidence about the information.

**Dr Pelling**—The reason we thought it was appropriate to have our comments on the tax paper confidential was that we felt that the government has yet to provide a response to this report. Indeed, the Taxation Office itself is still considering the report. As a government department, we felt it would be appropriate that our comments on the report be kept within the government.

**CHAIR**—Everybody else is having a go. That is what this inquiry is all about: to try to come to grips with what the parliament thinks of the *Tax and the Internet* report, the recommendations and the whole broad issue of electronic commerce. We would like to discuss these issues in the open.

**Dr Pelling**—I guess it was a question of wanting to keep comments from one department on documents that another department or agency has produced within the system at this stage, given the fact that these reports are still under discussion within government.

**Mr Stewart**—There is also the question of the role of the national office. We are very conscious that the national office has been formed, and we are in the department, and the national office will have a view on some of these things and the advisory board and the chairman will have a view on some of these things. We are keen not to say anything in a public forum which might in some way commit the national office or the board on particular issues.

**CHAIR**—I guess we will have to clear the room and have an in-camera hearing.

**Mr Stewart**—Chairman, I could try to check with our minister's office. We do not want to go to the trouble of going to an in-camera session on this material. We are just conscious of the sensitivity within government—

**CHAIR**—If it is confidential we have no choice, because we cannot take public evidence of information which you say is confidential. If you decide later to remove the tag, we can certainly authorise that—that will not be a problem subsequently—but in the meantime we will have to do it in camera.

**Mr Stewart**—We can take that on notice and check it with the minister's office and with the advisory board.

**CHAIR**—Okay.

*Evidence was then taken in camera, but later resumed in public—*

[11.15 a.m.]

**WILLIAMS, Ms Elizabeth Anne, Senior Regulatory Adviser, BT Asia Pacific, Level 18, BT Tower, 1 Market Street, Sydney, New South Wales, 2000**

**KHALIFA, Mr Omar, Marketing Manager, Internet and Data Services, Industry Services Division, Optus Communications, Optus Tower, 101 Miller Street, North Sydney, New South Wales, 2060**

**McGUINNESS, Mr Reaymond Anthony, Lawyer, Optus Communications, Optus Tower, 101 Miller Street, North Sydney, New South Wales, 2060**

**ADAM, Mr Darren, Taxation Adviser (Multimedia), Telstra Corporation Ltd, 11/231 Elizabeth Street, Sydney, New South Wales, 2000**

**ROLLAND, Mr John, General Manager, Internet Access Products, Telstra Corporation Ltd, 25/35 Collins Street, Melbourne, Victoria, 3000**

**SPARTON, Mr Phil, National General Manager, National Infrastructure Planning, Telstra Corporation Ltd, 25/35 Collins Street, Melbourne, Victoria**

**WEIR, Ms Deanne, Regulatory External Affairs Counsel, Telstra Corporation Ltd, 25/35 Collins Street, Melbourne, Victoria**

**CHAIR**—I welcome representatives from Telstra, Optus and British Telecom to the hearing. Thank you very much for your submissions and thank you for coming to talk to us today. Do any of you wish to make a brief opening statement?

**Ms Williams**—Thank you very much to the committee for giving BT the opportunity to present to the hearing today. We focused on two key elements of the committee's terms of reference: the international competitiveness of Australian businesses, particularly small and medium enterprises; and the expected growth of Internet commerce. We wanted to take a closer look at two key issues for us.

In the Prime Minister's statement 'Investing for Growth' he encapsulated, at a high level, what needs to be done on a continuing basis to deliver the benefits of the information economy for all Australians. We wanted to focus quite clearly here on outcomes—on what we wanted to deliver. The Prime Minister said that Australians need to develop the skills to benefit from the information age and build vibrant competitive industries—that is the easy stuff—and that access to these technologies will be the key to Australia's future.

We wanted to quite clearly define the two kinds of access we are talking about. The first one is that, for example, graziers in my home town of Glen Innes in northern

New South Wales have physical access to computers and software that enable them to sell their wool clip to China or their beef to Kobe or wherever they happen to want to sell their goods.

The other part of the access that we want to talk about is actually harder to deliver because it is, and should remain, invisible to the naked eye. We want to talk about, in particular, access to networks. It is of little use to have computers and software and great ideas and entrepreneurial people with connections to networks which are overpriced or congested or for whatever reason are expensive and difficult to get access to.

We have spent a lot of time contributing to the industry self-regulation process and to making the competitive regime of telecommunications a reality. Where the most difference could be delivered is in opening access to Telstra networks so that we can get competitive activity off the ground. In terms of data access and what this committee is looking at, this is the most important thing. That has been quite difficult. We need to step through there some significant questions to resolve our access to Telstra's network to provide data access services which is what we would do if we were to be delivering the information economy.

Quite clearly, we need to focus on the second kind of access, the invisible stuff, so that when you plug in your computer it goes somewhere to a domestic network and goes somewhere else to a global network. There is not much point if we do not get the global bit. That is what we quite clearly want to focus on.

**Mr Rolland**—We would like to thank you for the opportunity to answer your questions today. We put in a supplementary submission on the issue of bandwidth congestion based on the questions you asked in the previous hearings. We look forward to today.

**Mr Khalifa**—I have just a few things. Optus is relatively new to the Internet market. As you know, in July we brought AARNet on to the Optus system. On 21 November, we introduced what is called Spinnaker which was our first wholesale offering to all the ISPs in Australia. Together we will be addressing about 600,000 people in Australia, end users—approximately 45 per cent of the active Internet population. We have plans for becoming a majority supplier of Internet services by the middle of 1998.

Spinnaker is notable because it really begins to address some of the issues that this committee would be interested in—that is, to begin to disaggregate and lower the prices for access to the Internet. Our national discount of over 30 per cent for Internet access within Australia means that Australian companies can now begin to enjoy advantages using the Internet versus international suppliers.

Today we also find that there are a lot of new uses for the Internet; obviously not as a sales and information channel but, in fact, as a substitute, in some cases, for other

forms of communication whether it be mail, fax or phone. It also enhances, by having real-time processing capability, cost savings and better information, and it certainly is quicker than other information sources.

We are also finding that a great number of ISPs are looking to extend the markets of their own businesses. We are also looking at the creation of new opportunities and markets both overseas and domestically. Today obviously one can buy a car, a house, a book, track a package, plan a holiday, visit the royal family, send virtual flowers, find a doctor, avoid finding a lawyer, submit your taxes, locate a friend, locate a job, locate yourself, pay a bill or visit with Bill Clinton. The uses are as varied as the human imagination. We believe that any prescriptive measures today would hinder the growth of the Internet and all its various uses.

Lastly, we also believe the Internet is a geographical equaliser. That means that people no matter where they are—whether they are in Dubbo, Sydney, New York City or Geneva—all have equal access to the same markets and it allows them to all compete on a flat playing field. We wish that to remain the same and in fact enhance the ability for more people in Australia to access this powerful medium for their own success.

**CHAIR**—Thank you. A major issue for this committee, which each of you addressed in some small way, has been the suggestion that there might be a bandwidth shortfall over the next 12 to 18 months. Telstra, in their supplementary submission on the 5th, did address that. They said:

Telstra notes the suggestion that there is likely to be a major bandwidth shortfall between Australia and north America within the next 12 to 18 months which will impact on Australian businesses wishing to engage in electronic commerce.

You go on and talk about a number of things you might do but you never really answer the question. If each of you would like to give us some view on whether the suggestion that there is likely to be a bandwidth shortfall is valid or not?

**Mr Rolland**—Six months ago there was a belief that there would be a bandwidth shortfall. However, with the planning that has taken place with the cable networks that we have and, more importantly, the stuff that we are starting to see with satellite coming on stream, our very firm belief is that there will not be a bandwidth shortfall in the next 12 to 18 months. Satellite is probably one of the most exciting technologies we have seen for Internet, in particular, for an alternative to backbone cable to the US. The other issue is that we are diversifying our links significantly into Asia, which is also taking some pressure off the networks going direct to the US.

**CHAIR**—Does Optus have a view?

**Mr Khalifa**—Yes. We would like to think we are probably responsible for Telstra

not having a problem with bandwidth. We are addressing that issue not only by additional bandwidth but we do not see that there is a shortfall; it is just a matter of what price. What translates the price to say there is a shortfall to what the market will in fact bear is an issue that we try to address by separating the domestic and international traffic. We should give the right cost indications to the market. International bandwidth is more expensive than using Internet domestically and we should begin to disaggregate that and make people become more efficient over the domestic network where they have mirror sites or other things that alleviate the traffic on the international links.

The issue is one of making our Internet network be more efficient in Australia so we are not so dependent on international links to try to gather some balance in the links so that we are not paying for a lot of access from Australians for the US users as well, which is one of the issues. As you may know, 20 per cent or 30 per cent of the traffic is outbound and the balance is all inbound. The issue is that if we can begin to minimise that that also creates efficiencies here.

Also, as with Telstra, we have explored the use of satellite as giving us some additional relief. We are on our way, as you may also know, to put on Southern Cross in two years time which will give us a tremendous leap in the amount of bandwidth and, also with Telstra, we are looking at trying to forestall the international links from Asia to the US shortfall by also looking at using the Asian Pacific Rim as a destination for a lot more of the traffic. In other words, we would not send traffic to the US to bounce back to Asia as is often the case today but actually route the traffic directly to destinations in Asia.

**Mr GRIFFIN**—How important is pricing people out of the market in terms of avoiding problems with capacity?

**Mr Khalifa**—We believe that pricing is a significant issue. It is a significant issue for a lot of the ISPs we talk with. They have constant pressures from their consumers to continually bring down their costs. By beginning to forestall any decrease in prices on international and concentrate on domestic we give a net benefit that the ISPs would be looking for and give the price indications to the market that try to bring in more data and even electronic commerce would stay onshore rather than trying to seek destinations overseas. That has not happened yet. There has been no economic reason to do that.

**Mr GRIFFIN**—The nature of that economic adjustment you are seeing occurring is basically a stabilisation of prices internationally but a reduction in prices domestically. Is that what you are suggesting?

**Mr Khalifa**—Absolutely. We see a lot of scope on the domestic side. We see very little scope on the international side. Obviously satellite is less expensive than international cable links today and could offer some slight relief but the majority of that relief will probably be found on the domestic network.

**Mr BEDDALL**—What are the technical problems of satellite? There is a technical problem with constant signals. I have been in Vietnam using Telstra's time-lag satellite where you get the feedback. That may be the technology in the hotel but there is, because it is a broadcast through the air, interference and therefore transferring data must be harder.

**Mr Rolland**—There is a latency involved with any satellite. In terms of using it for IP, it does have some technical challenges. That is certainly what we are looking through as are other people in the market. If you are talking about trying to dump traffic through not necessarily real time but into caches and things like that, satellite does take an enormous amount of pressure off cable networks in our view.

**Ms Williams**—It appears that we are coming to some kind of consensus that there is not a problem with international capacity. If that is the case, it is all very well to get on your eastern seaboard and your western seaboard the delivery of international capacity but, once it gets to, say, Sydney or Port Hedland, you have to deliver it to other parts of the network. We need to consider quite clearly that there are cost disadvantages and access problems on the domestic side, which Telstra has brought up, which are significant barriers in terms of price and efficiency. The ways in which the networks are managed are crucial problems that need to be resolved.

If we then agree that we do not have a problem with the international bandwidth, we have to look quite clearly at who uses it, is it used efficiently, are there better ways of using it, is it more difficult to get access and, is it difficult to get access to, for example, a cable consortia, which BT uses all the time. We own cables across the Tasman. We own cables from Port Hedland to Singapore. If then we are of the view that there is no problem with the international bandwidth, we have to significantly answer some questions about how it is used, who uses it, what it is used for and if there is any spare capacity around that can deliver and receive traffic from the United States.

I do not see any great improvement within the next, for example, 12 months about where our traffic is directed. For example, the sites that most people want to access are like amazon.com, a CD provider or Lands End, from where I buy clothes. I still go to US sites, and the majority of traffic still appears to be going to US sites. Unless we can switch things around and have more mirror sites and manage our domestic network better, the problem is not resolved. The other problem that is not resolved is that, once you get your point of presence, using transmission capacity domestically within Australia is still not at cost base price.

**CHAIR**—Is it true, though, that some of those US sites will in effect be Australian sites located on the US web?

**Ms Williams**—Yes, but we still have the problem that the majority of traffic is going out searching for US or European related traffic. We have to bring it back to



Australia. Unless we can change where we reside sites, that is going to continue to be a problem, in addition to the domestic issues that Optus has raised as well.

**Senator WATSON**—Would I be correct if I inferred from your presentation that there are some cost problems in terms of domestic distribution at the moment?

**Ms Williams**—Yes.

**Senator WATSON**—How significant are they compared with other parts of the world?

**Ms Williams**—Very. They directly affect how any new entrant or competitor acts in the market. For example, if we were bidding for a particular bit of business to provide data access to a particular company, multinational or small or medium enterprise, our bid component for what we pay for access to Telstra's network or Optus's network would be still way out of whack.

**Senator WATSON**—Compared with other countries around the world, how far 'out of whack' would Australia be in terms of the delivery of domestic services?

**Mr BEDDALL**—Particularly, say, BT's own market.

**Ms Williams**—Perhaps I can go backwards to answer your question. We are in the process of participating in the ACCC's inquiry into digital data access, which for us is the key way in which we would deliver any data rich service or deliver or enable any electronic commerce platform. The ACCC is holding a public inquiry early in the new year to resolve the discussion about digital data access and the service description, what we are actually provided as an access seeker.

The other part of that investigation is into pricing, about what we should actually be paying for that. The model that we are supposed to be using is TSLRIC forward looking costs, and the price that we pay for that access should be on a cost basis. We have not got to the bottom of those discussions yet. Of course, there are a number of steps. Firstly, we should be negotiating commercially. Secondly, we should be using the ACCC process. Thirdly, we should be complaining. It is a very long, drawn out and difficult process, and I think every new entrant is in the same situation.

**Senator WATSON**—How much more are you paying for these services in Australia compared with comparable services from other sophisticated countries around the world?

**Ms Williams**—I can come back to you with a list of those, Senator, if you are happy for me to take that on notice. I will prepare a list for you.

**CHAIR**—Just to follow on from that briefly, and before I allow Telstra and Optus to respond to your comments, do I understand that you are talking about a cost shortfall, not a capacity shortfall, within Australia?

**Ms Williams**—Yes.

**CHAIR**—There is a big difference. We started out talking about technology. We have now shifted it from technology to cost. I just wanted to make sure the committee and everybody else understood that that is where you have shifted the discussion to.

**Ms Williams**—I do not think we have actually resolved the question because, on the bandwidth side of it, Telstra's additional submission indicates that traffic is growing and that the main use is for e-mail, which is true. If traffic is going up, we presume we have to have greater capacity, then we have to ask questions about the efficient use of that capacity and then we have to ask the question about price. So there are a number of different questions there that need to be looked at.

**Mr Rolland**—We are extremely pleased that BT has been able to indicate that there is a process for us to resolve the cost issue. We are going through it. We are working proactively with all the bodies to try to resolve it. So I think we should just park that issue and get back to the issue of capacity. I am not speaking for Optus, but Optus, Telstra and BT are all investing in overseas cable. We have a very aggressive plan over the next two years to resolve any capacity issues that were perceived to be there.

On the domestic side, we should probably hear from Optus before we comment on whether it perceives it as a domestic capacity issue. Although, I would note that this is a very competitive market and what Optus has done in the last few months is again shown that there is an ability and a willingness to plough capacity into this country for IP based services.

**Mr Khalifa**—Firstly, I will answer the question that came up before regarding satellite. As Telstra has indicated, there are some forms of traffic across the Internet that are more acceptable to delays than others. So all data packets coming across the Internet are not equal—some are in a hurry and some are not. E-mails can withstand the milliseconds of delay and nobody would know the difference, whereas if you are watching a live video across the Internet, listening to sound across the Internet or making a telephone call across the Internet, those delays may in fact make a much larger difference.

What we look to do—and I am sure what Telstra is also looking to do—is look at the traffic profiles and different ways of channelling the traffic that is time critical and that which is not. This is, I think, the first step in aggregating the quality of service of traffic. Just as one would use an overnight carrier to deliver an express package and be willing to pay a bit more for that timely delivery—versus someone else who could wait a little longer for that same information to arrive—we believe there is still scope for a

quality of service, we would call in our industry, differentiation in the market. So those who absolutely want the premium service would pay slightly more for the premium service, and those who are willing to do with less would get the cost benefits. We believe there is still scope in that. That answer was to address your point on whether satellite delay would affect everyone. I think it would affect different people in different ways, and we are all trying to minimise the effect of it.

We also look at it perhaps as a bandaid solution in a way for the Internet, because the satellites are there already, they can be activated on quite short notice and there is some capacity left there. The international capacity in cable is available but there is a cost issue, as we have all come to find out—being that we compete with a lot of the Asian countries for those same cables. That, again, does not mean they are not there; it might just mean that we have to pay more than we might otherwise think would be appropriate.

**CHAIR**—Just to change the topic slightly. Optus in their submission said that the government should not legislate to impose liabilities or responsibilities on persons who are at arms length from commercial transaction or money flows such as ISPs or infrastructure providers. I think Telecom made somewhat the same point. Would each of you like to tell the committee the strength of your argument in that area and, if you feel very strongly, why?

**Mr McGuinness**—I think Optus's view is that Optus, as an ISP or backbone carrier in terms of liability issues, ought to be treated as being analogous to an organisation like Australia Post, which may or may not be involved in carrying material which is offensive or in breach of trade practices legislation or various other statutes, be they civil or criminal. It is really a question of not foisting upon a backbone carrier or an ISP liability for something which they do not or could not reasonably be said to know. It is really just an extension of existing legal principles into new areas.

There have been some cases in the United States which have created a bit of concern. ISPs have been prosecuted, I think both civilly and criminally, for carrying material which may have been in breach of trade practices type laws or of a pornography type character and there was simply no way that they ought to have known. But at the same time, if there is going to be an extension of liability to ISPs and/or backbone providers, I think Optus recognises that they cannot wilfully close their eyes to what is going over the systems which they are administering. There has to be some sort of test. It is probably something like existing common law tests. If you ought reasonably have known something you were carrying was in breach, you should have taken some steps to remedy it. Optus is saying that it should not be a strict liability that carries on to ISPs.

**Mr Rolland**—I think the only thing we would like to add to that statement is that we are here talking about the efficient use of bandwidth. If an ISP is going to be held accountable for content, it means they have to at least have a look at it, which means you are going to choke a fair bit of capacity as we go around the domestic network. It is

extremely difficult for you to expect an ISP to look at every packet that is coming through—which they will be required to do if they are going to be held liable—and still want efficient, fast access to the Internet for everyone in Australia. It is just physically not possible.

**Mr BEDDALL**—Mr Chair, can I come back to the bandwidth, because I think you finished bandwidth before I got my question in?

**CHAIR**—Let Ms Williams have a go and then you can go back to it.

**Ms Williams**—I have a very brief answer so you can get back to it straightaway. Technologically, is it possible and what are the effects?

**CHAIR**—We do not know.

**Ms Williams**—I think we have to answer that question. I think we have to really look and think carefully about the answer to that question. Is it possible to do it and, as Telstra quite correctly pointed out, what does it mean for an ISP? What does it do to the business and are there other ways, as Optus have said, of remedying that situation? I think we have to think quite carefully about the effect that kind of activity would have. I would not add anything more there.

**Mr McGuinness**—Can I add one thing to that. It is as if the regulators have already, to some extent, taken it upon themselves. It is fairly well known that the ACCC is currently conducting a fairly severe blitz across the Internet of people who are engaged in pyramid selling type activities, writing fulsome letters to numbers of people and demanding answers and the like. It is as if it is stepping into the breach and identifying where the liability should lie, which is really with the person who is responsible for producing the material.

**Mr BEDDALL**—I want to go to the bandwidth, because it is a crucial issue in terms of capacity. Telstra in my time and since was never able to do timed local calls. Obviously, the number of people who are on the net and the amount of time they are on the net affects your bandwidth capacity. Given that you cannot in the foreseeable future have timed local calls, how do you get a drop-out rate so that someone does not tie up the capacity for four, five or six hours at a time or for 24 hours a day, 7 days a week? Is there a technical way that you are looking at that, because that is obviously one of the problems, isn't it? It is that someone accesses the net continuously and never drops out.

**Mr Rolland**—I will hand over to Phil in a second, but I would have thought that the issue is this: are we planning the capacity appropriately to cope with how people are using the network? The answer is yes, and Phil might want to comment on that.

**Mr Sparton**—First of all, no, we have nothing in plan to cause customer drop-

outs. You would be very familiar with our \$3 special from 7 p.m. till midnight for weekly STD calls, plus we have our international specials—talk for 24 hours. We certainly do not have any plans to cause customer drop-outs. The response that we are putting in place, as John said, is to dimension our network appropriately.

Traffic on our network is read on a three-minute basis across all routes in the Telstra network. That is then plotted on a time based run chart, and we use predictive measures to determine when capacity shortfalls are required. We initiate relief projects three months before the shortfall, such that there is additional capacity in place before there is a shortfall. From time to time, at the fingertips of our network, we do get caught out. However, in general, the Telstra network performs, I would say, in excess of the requirements under the legislation in terms of network performance. We will continue to dimension the network along our current processes to continue to guarantee that capacity.

**Mr BEDDALL**—When the network was built, Telstra was basically run by engineers, so it was over-engineered—as all things are that are run by engineers—and rightly so because that is the role of an engineer, and therefore it never fails.

**CHAIR**—Is that a slur on engineers?

**Mr BEDDALL**—No, it is what happens when engineers run telephone companies. You say you can address the capacity issue. But if it gets to a stage where your cable capacity is running out, how do you address those issues? You cannot do that in three months; you cannot put another coaxial or other cable link between Sydney and Melbourne in three months.

**Mr Sparton**—Let us focus on those inter-capital routes because they are probably a good example of what demand is going to be like in the future. We have dual cables between all our capital cities except for Sydney, where we have three, and we have nearly got three to Brisbane. Our good colleagues, Optus, have one through to Perth; they have two to Brisbane, or one under construction. So there is a fair amount of infrastructure there. The technology that is becoming more and more available is allowing us to expand the capacity of those existing fibres. There is new technology which will be rolled out come December 1998 in the Telstra network called wave division multiplexing which allows us to go from our current capacity of a single fibre pair of 2.5 gigabytes—I cannot quickly mathematically tell you how many telephone calls that is—to up to eight times that; we have eight separate time slots.

Following on from that, by the year 2000 we will have a further advance of that technology which will allow wave division multiplexing of four by 10 gigabytes; so that gives you 40 gigabytes per fibre pair. That would mean that across east-west, which is probably one of our most challenging routes, I could have a six by four, 240 gigabytes, capacity before I have exhausted my optical fibre capacity. That is with the technology that is beyond the drawing board, which is due for delivery in the next two to three years.

So there is a rapid increase in capacity per fibre and we are relying on that technology and it is being delivered to keep us ahead of demand. I understand that Optus also deploys similar technology east-west; they advertised—I think, about July—that they are going east-west. Does that address your question?

**Mr BEDDALL**—Who is providing the technology?

**Mr Sparton**—We purchase our equipment from Siemens; I understand Optus uses Nokia.

**Senator WATSON**—I go back to the answer that was given a few moments ago by Mr McGuinness of Optus. I can foresee a problem of, say, overzealous state governments trying to legislate in the area of information quality and the type of information that you portrayed. Do you think there is a need to have national exclusive standard at a federal level, rather than allowing state governments to put in their own prescriptions about the type and quality of information that can come over the Internet?

**Mr McGuinness**—Yes, very much so. If I can just push your question out a bit to the legislation that the states are proposing in respect of electronic commerce generally, in Victoria, as you probably know, there is legislation under way and perhaps even introduced into the Houses down there. We have had a look at that legislation and it is fairly good; it seems to be a facility to possibly do the right sorts of things. But the problem is that it is a state. I think that it is generally accepted that having patchwork legislation in relation to electronic commerce may well be the equivalent of the railway gauge problem. There will be real difficulties for people. Lawyers will make a fortune because they will be having to advise on six or seven pieces of legislation every time somebody wants to set up a site. It is as simple as that. That seems to me to be a very inefficient way.

**Senator WATSON**—Have we gone too far down the track in allowing states to legislate in this area in the manner in which they are?

**Mr McGuinness**—To date, I do not think that has happened. I understand that there have been a number of state initiatives. I recently read about the state sporting ministers, for example, in respect of gambling. There are a lot of things coming up to SCAG, as I know it, the Standing Committee of Attorneys-General equivalents. That seems to be a good filter for the states to get their say in at various levels. But I am not aware of a lot of legislation.

**Senator WATSON**—Is the Commonwealth doing enough to ensure a uniformity of standards right across the country? I think that is what the need is.

**Mr McGuinness**—I think that is right. I think that is almost taken as a given.

**Ms Williams**—It certainly seems an anathema to have state-based regulation when you are talking about national and international jurisdictions; that seems to be a regressive step. It is also very confusing and the effect of that, as Mr McGuinness says, is to create confusion in people's minds and uncertainty, which stifles business.

**Mr BEDDALL**—One of the recommendations of the tax working group was that all web sites be registered. Do you have a view, collectively or individually, on that? Their justification is that you register as a business now, under the current legislation. Why shouldn't you do that if you are trading on the net?

**Mr McGuinness**—The answer to that is it depends on who is going to register them. I have read the tax report, and it seems to me that in principle, and it is understood, the tax office is concerned about revenue, et cetera. Once again, it is a question of how onerous or unreasonable it might be for ISPs or backbone providers to take on that responsibility. I think Optus's view is that if there is going to be some registration system perhaps there ought to be some centralised body. I am not too sure how far the tax office has gone with thinking through exactly what it would have. I assume that at the end of the day it would be some sort of government body rather than a private sector organisation like Optus, and the like, having to report in. I would have thought the responsibility should lie with the person setting up the web site.

**Mr GRIFFIN**—On the question of rural and remote areas within the domestic network, I think you, Liz, mentioned some problems with respect to domestic capacity. Can I get a comment from each of you about that issue?

**Ms Williams**—Unfortunately—even though we do not want to deal with it—we come back to the pricing of that access. Obviously Telstra are in a better position to give the capacity of their networks, the quality of their networks and the kind of service they provide. If you wished to provide services to the Tamworth area, for example, the part at which you were exposed to using Telstra's network because, for example, BT, Optus or another service provider who are not in this room do not have a network at that point, you have to at some stage interconnect there. That is the problem.

There is nothing wrong with the network. As Mr Sparton has just said, there is activity, planning and all that kind of activity going on very actively and very progressively, but we still have to price that. We still have to pay for it. We have to pass that cost on to the constituent; we have to pass it on to a customer; we have to pass it on to the person who is actually using it. That is an important consideration.

It makes a great difference. The price differential and the ABS statistics that were released two weeks ago were indicative of why you would not buy a computer: it is too expensive. You cannot have the Internet in your house if you do not have computer. Why don't you buy a modem? There is no use for it—it is also \$325 for a 28.8 modem; that is what I paid for my modem a couple of years ago.

We have to be quite careful here about presuming what people will pay for, what they have the time to use and where it is they slice themselves off from participating in electronic commerce because of cost—whatever that cost is, whether it is the price of computers or the price of the connection to a network. That has to be carefully and honestly examined because price is the major differential.

**Mr Rolland**—As BT has pointed out, there is a process for us to resolve price within the new telecommunications regime. That process is ongoing in terms of someone indicating they want a declared service. The process has been running since July. We are running through the top few products at the moment, as were requested, through the normal process.

**Mr GRIFFIN**—Could you run us through that process?

**Mr Rolland**—We have someone here who is a lot more knowledgeable on that particular issue than I am. We felt this issue would come up, so we thought we would bring our best person along.

**Ms Weir**—The ACCC essentially has announced its program for the first set of declaration inquiries under the new regime. Data access is being handled as it is one of its first major issues. A discussion paper will come from the ACCC very early in the new year. They are seeking submissions from the industry in relation to possible declaration of a data service and how that should operate—whether or not there is sufficient service description in the service that has already been deemed under the transitional provisions, which was a previous service provided by Telstra to Optus. So that should go through the ACCC's process early in the new year. When the report comes out and the ACCC makes the decision will be towards the middle of next year.

**Senator GIBSON**—I have a question to Optus again, which is a flow-on from a question from my colleague Senator Watson about state versus federal legislation. In item 5 of your submission, 'digital signatures and authentication', you make reference to a number of different models—Utah, Massachusetts and Germany. I note that there are two separate ones in the USA. Will you expand on that and on what is happening in the USA? Is it moving towards a federal overarching model?

**Mr McGuinness**—There seems to have been a flurry of different models used for this area in the last two to three years. They seemed to be called a prescriptive or non-prescriptive approach. That is, there are pieces of legislation which are very detailed about what constitutes a digital signature, and they have very lengthy provisions, and then there are those which are called the light touch provisions. You probably have read recently—moving away from the States—that in Malaysia legislation has been introduced which I understand might be based on the Utah model. It is fairly prescriptive.

As I understand it, in the States there is not really a great degree of uniformity,



although President Clinton put out a statement in July. I am not aware of bodies having got together at this stage to try to pass uniform legislation. As I understand it, there is a degree of competitiveness between the states, who are all saying, 'If we pass the best set of legislation, we will have 500 businesses come in and set up down the road.' I also understand that the anecdotal evidence is that that just is not happening, nor is it happening in Malaysia. But that really is just a result of my readings rather than anything else.

**Mr BEDDALL**—We talked about two networks but there are proposals for other networks. Another provider—not BT—has been to see me about some of this. They are looking at negotiations with state governments on two fronts: one, their electricity generating carriers and, two, their role networks, which all apparently have some fibre network. Have you looked at those as delivery mechanisms as well as the traditionals?

**Ms Williams**—We look at whatever we can get. Those kinds of creative solutions, that creative coordination between different kinds of bodies, are certainly the way you need to go. They certainly provide different ways of delivering to more difficult locations the same kind of service you get in Sydney, Melbourne or Adelaide. I think there are ongoing discussions about those kinds of things. But it takes a long time.

**Senator WATSON**—My question is directed to Telstra. By way of explanation, you say that 'electronic commerce applications do not of themselves create demand for large amounts of bandwidth'. Firstly, could you explain that? Secondly, you say that 'bandwidth hungry applications are more likely to be video or e-mail with attachments'. I was surprised at that. I can understand that being a happening of the past but, given the growth of electronic commerce, I am just surprised that you feel that that will continue into the future. Could you explain the first and the second separately?

**Mr Sparton**—The first comment is based on the fact that most requests are small packet trains—small bits of data that are flowing around. They tend not to be one meg or two meg files—huge big chunky files which tend to be video or, in some cases, attachments to e-mail, such as Powerpoint, which you will find are much bigger packets of data than a lot of the electronic commerce that we are seeing today, which is simple requests and transfers. What we are seeing with a lot of web sites is transfer of big chunky data files. But electronic commerce on its own should not be seen as the key driver for bandwidth in the future. A lot of other applications will do that first.

**Senator WATSON**—Should this committee be recommending cost differences between the different types of information so that the system is not locked up with large amounts of e-mail?

**Mr Sparton**—It depends what you believe—

**Senator WATSON**—From your perspective in wanting an efficient industry.

**Mr Sparton**—From my perspective, what I find interesting is that we are discussing state versus federal and we are discussing international versus domestic when we are fundamentally talking about a global network. I make no distinction between any territory or region. It is a global network and we should price it that way and we should approach it that way. E-mail is, in my view, a terribly important mechanism and a really important part of what the Internet is offering, which is global communication real fast.

**Senator WATSON**—You have not answered my question. We have to get to a global situation, but does that mean that there should be costs for timing of certain types of information? We have an argument in this country about timed local voice calls. Should we be moving away from that, given the likely developments for certain types of information? Exclude the timed local calls for voice because that is a very politically charged issue. Keep away from that.

**Mr Sparton**—I would like to come back to the point made by Optus, which is that we will start to see—and we firmly believe there should be—quality of service differences and layers so that business starts to get the reliability that they expect and that they get out of other communication technologies, and people who want a cheap and cheerful service can get that.

**Senator WATSON**—How do you do it?

**Mr Sparton**—There is technology which is coming through called RSVP, which is a standard on the Internet. That is not there yet. We have some proprietary systems at the moment offered by companies such as Cisco which offer a weighted system of different packets getting through at different times. Those systems will come through in the next 12 to 18 months and then business will be able to get a different quality of service.

However, our ability to identify packet and decide that it is e-mail versus something else brings you back to the same point we made about an ISP having to measure packets coming through and being responsible for the content. It is extremely difficult in a data world for you to identify what a packet is and, in particular, what is in it. So I think the same issue arises.

**Ms Williams**—I think a simplistic answer to that kind of question is to ask: how do we deliver this service? What is the basic thing we need? I do not want a cheap and cheerful service because my demand and my needs for electronic commerce are quite high, and I use the Internet every day for all kinds of things. If you work backwards and say, ‘What’s the platform and how do we price that basic stuff?’ and then you give it to anybody who wishes to step up their level of use, their level of data reliability, their level of mission critical data or their level of complete reliance on the Internet, they pay for that incrementally by adding on better, faster, stronger access but pricing the basic fundamental access at the bottom level and then adding on.

If you were an MNC and you really needed the best quality service and the best quality data delivery for a global solution, you would buy an absolute premium product and you would pay premium price for that premium product. It would deliver that for you. But right at the very bottom level, when I am at home and I just want to do my e-mail, I get my cheap and cheerful service. But at the very base of that you have reasonable pricing and then you differentiate and innovate and add on top of that platform the different services.

**Senator WATSON**—The technology is there to do that, is it?

**Ms Williams**—The products are different. How you provide the network and how you price that network remains the same, but you can provide differing levels of service. That is where competitors come in. Where you have new entrants to a market and you have a reasonable access price, we can then say, ‘We can provide’—in BT’s case, for example—‘a global network because we are a global company.’

But we have differing levels of customer need. Unless we address what the customer wants, which is kind of a novel approach, we do not get anywhere. We have to give a customer what they want. To a certain extent, we can lead that because we have new products coming on to the market or we have better ways of doing business or better ways of providing a service. But that is for us to add value to that basic network, and I think that is the most important thing.

**Senator WATSON**—Do you have standard pricing at the moment or do you have adding value pricing?

**Ms Williams**—It depends on what a customer wants. If we are talking about boxes, a box comes with a price on it and then we have other components of the way in which we provide a service and box X costs a certain amount. What does not cost the same amount everywhere is your platform on which you set that product. That is the difference, I think

**Senator HOGG**—Could I just ask a question, which follows on from this? Are quality and service going to be synonymous? Where does this actually take us? That is what I wanted to get in.

**Mr Khalifa**—That is really the crux of how we will probably develop a network. We do not see all packets as being equal. I think the quality of service is also dependent on the destination of that service. We believe that one would expect to pay more for an international call than a domestic call. One would then also expect to have packets that go to an overseas destination cost more than a packet that goes across Australia. We do not believe it should go to the state level or to the city level because there is not that sort of resolution. But by doing the first at least you begin to give indications to the Internet community as to where to emphasise the efficiencies of their network.

We believe, by disaggregation, by making it less expensive to send a packet across Australia than to send it across the US, you begin to motivate people to react differently as to how they will handle packets, which packets they will cache—which basically means temporarily store—versus where they will actually transmit directly. We do believe you can disaggregate the streams of traffic. That means that Internet email can be separated technologically from a packet of a web site, let us say. Those can then be done in the background and the end user would not see it.

We believe that that is where Telstra, Optus and BT could begin to look at how they would handle those issues better than the other. Then I think the competition would kick in because we are all going to have different approaches. We have already illustrated that we fundamentally think there is a different approach to providing those Internet services today.

**Mr GRIFFIN**—If you take that view on the question of international versus domestic being a different length and a different cost and, therefore, that that should allow for any structure, do you then take that on from my earlier question about the rural and regional areas and taking that into account in the process of that as well?

**Mr Khalifa**—We would not believe so. One could take it to the extremes and do it on a per kilometre basis all over the world. It just does not make sense at some point for one to do that. Is there an end user benefit or benefit to the businesses that want to be on-line? Our answer is no. Australia has a special condition compared to the US. One is that most of the sites people are accessing are, in fact, in the US internationally. So it is disproportionate to where the US model is. Everything stays on-shore, the price can basically absorb any of the international costs that may be there, and Telstra is trying to help aid the balance of that as well. But, nonetheless, we believe that in Australia, being isolated by distance, the Internet cost can then begin to give the indication as to why the market here should run a bit differently and run more efficiently.

In some ways it opens up new opportunities. If I am trying to access a site, as BT said before, that is always in the US there is a real reason for me, if I am a US company wanting to access the Australian market, to set up my Internet site here in Australia. Also, Australians may then want to bring those same sorts of goods and services and develop them here as well and become competitive with those. So what we are saying is that we see a balancing that will go on if there is some accurate reflection of cost. I guess that was the point we made before. Whether you fly internationally or fly nationally there should be a difference in that cost that does reflect that.

**Mr BEDDALL**—Doesn't that defeat your own borders? Why should I operating in Perth and wanting to access a site in Singapore pay more than a site in Cairns? The borders are not there on telephone lines. You have to go through exchanges no matter where you go.

**Mr Khalifa**—It would be up to balance, but it is three times as expensive to get to Singapore as it would be to go to Perth. I would think it would only be fair that we would be able to, as a company, make our own decisions of whether or not to pass that cost on through our different price. Every company makes those calls every day. As to whether they reflect the same cost to everyone or not, we believe there is a real efficiency to be gained from the Internet system here in Australia if we were to show that the costs of running that system are in fact lower.

Telstra and us have invested a great deal of money in a network that we believe has a lot to be gained from, and it is already in place. To make that run more efficiently should mean that we should be able to lower the costs of people using that network. We have less ability to lower those costs on our international connections, although we are beginning to do so.

**Mr BEDDALL**—Don't you all own a line to Singapore?

**Mr Khalifa**—Sure we do, yes.

**Mr BEDDALL**—What is the difference between Singapore and Cairns?

**Mr Khalifa**—The capacity. We still have to lease lines across the ocean. Those lines cost us more than the line across Australia.

**Mr BEDDALL**—I thought you had your own capacity. Telstra does, doesn't it? Didn't you pick it up from ATT on the way through?

**Mr Sparton**—We are now entering the realms of the international traffic management, which is—

**Mr BEDDALL**—You mean the cartel?

**Mr Sparton**—I do not know that that is the right word. We own half circuits. I think that is the issue that Optus are talking about. I am pleased to hear that costs are cheaper to route a call to Cairns than to Singapore.

**Mr Rolland**—I just want to put this cost issue in perspective. In the OECD report last year, Australia had the second cheapest Internet access for end users. That should be our focus here. We had the second cheapest Internet access only to Canada. We were cheaper than the US. You can get a copy of the OECD report and check it. We need to put this in perspective. We should be talking about end users here—and I thought we were—about people who are going to use electronic commerce.

**Senator WATSON**—Why is that? How have we achieved those efficiencies?

**Mr Rolland**—We would argue that it is because of the untimed local call, which we support, at 25c. That is a lot more cost effective than some countries in Europe where it is timed. That is a major component. The other thing is that the costs that we charge for Internet access to ISPs, whilst it is a different model to some others, does offer surety at 19c. No matter where you go in the world, you will get charged the one rate, which recognises it is a global network. That is a very different product from Optus's—and that is not to criticise Optus's. It is just a completely different philosophy. Telstra believes the Internet is global and knows no boundaries.

**CHAIR**—In Telstra's report you commented on ATO and Treasury re-examining the exemption from wholesale sales tax of the tax advantage computer program. You also said that if we remove that exemption it would provide an impediment to further development in this area when it is an area which Australia should be trying to foster and develop. Could you tell us what is happening in other countries?

**Mr Rolland**—We just happen to have a tax expert with us so that you are very well informed.

**Mr Adam**—The intention behind the comments in our submission with regard to the ATO looking at wholesale sales tax on tax advantaged computer programs and things like that was that the ATO report recognised that that exemption being in place had given rise to a lot of development in software. Probably their intention was that the benefit of that exemption is going beyond its original intention because the range of products now is a lot broader than what was envisaged when it first was introduced.

Our response is, therefore, that that exemption has been a success because it has allowed the growth of all this various software development and of electronic commerce and to remove that now, when electronic commerce is still by and large in its infancy, may inhibit that somewhat as opposed to allowing these new products and new technologies to continue to come on line. With regard to how that compares with international experience, that is one area which I cannot, unfortunately, address.

**Senator WATSON**—It is a bit like the old argument of tariffs. You are arguing against a charge or a sales tax because it is new and it helps keep prices down. Why should some services or certainly some goods be charged a higher rate than others? After all, you are conducting business. Shouldn't businesses be on a level playing field irrespective of the type of business they are in? You are virtually putting a case that there should be no indirect taxes on anything.

**Mr Adam**—No, that was not the intention of it. The intention was merely that there seems to be a general philosophy, from various statements which have come from the new office set up under Senator Alston, et cetera, that we are seeking to grow electronic commerce in Australia and we currently have an environment which seems to be generating that. What the ATO is talking about with the exemption would change the

current tax settings, which would potentially provide a hindrance to that as opposed to allowing it to continue to grow in the way it has shown it can.

**Senator WATSON**—Don't you think all industries would like to be able to put the sort of case that you are suggesting?

**Mr Adam**—Historically, many industries have. Industries such as the motor vehicle industry and the clothing and textile industry have. Tariffs is an area which I am not really qualified to debate, and I do not think Telstra necessarily has—

**Mr GRIFFIN**—It is usually a government policy, and the government does not have one.

**CHAIR**—Moving on, in Telstra's submission you talk about domain name registration procedures. You said this should be re-examined or reviewed to ensure that domain names are equitably assigned. Are you talking about regulating the industry? Is there a problem? Do our major carriers see a problem with domain name assignment? Is it that the first cab off the rank got all the best locations? Is that what we are faced with now? How big a problem is it?

**Mr Rolland**—It is certainly less of a problem than it was. I think that was not part of the supplementary that we put in.

**CHAIR**—No, but it is part of your submission.

**Mr Rolland**—Yes, the original one. The belief is that, yes, with domain names there does need to be some element of central regulation around how to allocate them, the associated costs and, more importantly, the speed with which they are allocated.

**CHAIR**—Do you have a view?

**Mr McGuinness**—Once again, it is possibly instructive to look at the states to see what has happened there with domain names. There have been some interesting cases where people have basically gone off and registered themselves as 'McHamburger.com.au' or whatever and got into some nasty copyright and trade practices fights. I think that a sort of central registration system may help to allay that sort of thing happening in Australia with people starting to assert goodwill, copyright and ownership in names which really they have no right to do.

**CHAIR**—They are complex issues, aren't they.

**Senator GIBSON**—Do you think that registration of names should be controlled by a public entity or that it should be left to industry players to develop their own?

**Mr Rolland**—It is currently with industry players. Our view is it should be with a third party—an objective third party that has no particular industry specific axe to grind.

**CHAIR**—There being no further questions, thank you very much for coming today. It has been a very good session.



[12.38 p.m.]

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**TODD, Mr Michael, Leader, Information Industries Taskforce, Department of Industry, Science and Tourism, 20 Allara Street, Canberra City, Australian Capital Territory 2601**

**CHAIR**—I welcome representatives of the Department of Industry, Science and Tourism to today's hearing. We have received your written submission. Would you like to make a brief opening statement before we ask you questions about your submission?

**Mr Todd**—Could I make a suggestion to the committee. Since we provided the submission, the government has released its 'Investing for Growth' statement. That does significantly change the basis on which the submission was provided. If it suits the committee, I could provide a brief summary of the information age element of that statement, and that would take approximately five minutes.

The information age and the information industries are key elements of the 'Investing for Growth' statement. It is clearly recognised in the statement that global communications and on-line technology are dramatically increasing opportunities for jobs and economic prosperity in Australia. The main engines for change are seen to be the Internet and electronic commerce. Together they are forcing governments and businesses to rethink how they operate. The government examined the implications of these changes in the light of two reports from the Information Industries Taskforce and the Information Policy Advisory Council.

In terms of the framework that the information age has been taken forward under the government's statement, there are four key elements. I will very briefly deal with those four areas. Firstly, the government will provide strong leadership to encourage business

and consumer confidence to get Australia on line and to foster the development of the information industries. In terms of policy leadership, the Commonwealth will ensure a high national profile for the information economy, and the statement commits the government to comprehensive action. A ministerial council has been established under the chairmanship of Senator Alston to implement and develop a whole of government action agenda for the information economy. The National Office for the Information Economy is developing, coordinating and overseeing policy for the information economy.

Moving now to business and consumer confidence, the growth in the information economy must come from the incentive and drive of firms and individuals, not government. Building on the government's earlier liberalisation in the telecommunications market, the government will provide a light-handed regulatory framework to support private sector led development of the information economy. The framework will be developed through the ministerial council and will address issues such as security of transactions, privacy, authentication and protecting the rights of consumers. The government, in the statement, committed to not introducing a bits tax and to ensuring that goods delivered electronically remain tariff and customs duty-free.

Moving now to getting Australia on line, there is a series of initiatives in this area in the statement. The government, as a leading edge user, is committed to delivering all appropriate Commonwealth services electronically by 2001, and under that heading there is a series of earlier targets to be met. In terms of education and training, these are seen to be the foundation on which the information economy will build. Initiatives include funding additional postgraduate awards, providing high quality surplus Commonwealth IT equipment to schools and undertaking an educational community access pilot project in rural areas and areas of socioeconomic disadvantage.

In regard to raising awareness, the government is committed to establishing a national promotional campaign aimed at increasing awareness of the benefits of being on line. In regard to access, to ensure that all Australians, particularly those in rural and regional Australia, can access on-line technologies and services, the government is subsidising the re-equipment of homesteads and communities with digital receivers for satellite broadcasting and supporting innovative high quality projects which seek to enable people with disabilities to use information technology and on-line services.

The business on-line initiative is intended to foster strategic up-take of the latest on-line technologies by providing support for training and demonstration initiatives across states and territories that allow firms to access the latest on-line commerce and business technologies, and then more broadly promoting the adoption of on-line commerce and best practice business systems across industry sectors.

In the trade area, the Minister for Trade announced in September that an on-line trade strategy would be developed in cooperation with industry, and a report to ministers with recommendations will be undertaken by June 1998. The government will appoint a

market access negotiator, an on-line ambassador, to provide a one-stop shop point of contact for the information industries. The government's Export Access program will assist small business to undertake export activity with increased emphasis on sectors with particular export potential such as the information industries.

Finally, moving to developing the information industries, the first action agenda of the 'Investing for Growth' statement will be for the information industries to ensure that we exploit the full potential of information and communication technologies across the economy. The significance of the industry is well recognised by the government in terms of jobs and growth opportunities. The industry has revenue of around \$47 billion and employs over 200,000 people. That is a conservative estimate; it is growing at around 12 per cent a year. Major gains flow across all industries when these technologies are applied for competitive advantage.

The information industries will particularly benefit from a number of broader initiatives that were announced in the statement. Of key importance is the appointment of a strategic investment coordinator to advise the government on a case by case basis of major or high technology projects exhibiting strategic characteristics and which, in special and limited circumstances, may warrant incentives.

An additional \$43 million has been provided to support the availability of venture capital to emerging new technology based firms. The extension of the R&D START program was announced with additional funds of \$556 million over the next four years. Increased funding has been provided for the diffusion of new technologies to Australian industry, and the import of goods free of duty and sales tax under manufacture in bond arrangements will be allowed so that firms can realise their full export potential.

In terms of the information industries action agenda, particular initiatives will be advanced with funding of \$28 million over four years. This will cover software engineering, testing and conformance initiatives as well as a series of further actions that will be funded from existing resources. A national network of software engineering quality centres will be established to provide both software development companies and industry at large with access to the latest software engineering technology. The testing and conformance infrastructure initiative will ensure that Australian industry has access to appropriate testbed facilities within Australia or overseas to facilitate new product development and testing.

Tariffs on inputs to the manufacture of information industries equipment will be removed after a consultation process with local suppliers. Industry development will continue to be strongly assisted through procurement activities under the Partnerships for Development and telecommunication carrier plan programs. The government's decision to outsource this information technology infrastructure requirement also provides a significant opportunity to leverage industry development. Guidelines will be developed by March 1998 to facilitate licensing of rights to intellectual property under government contracts.

Finally, the government will support the continued participation of industry in international fora in regard to standard setting.

That briefly summarises the initiatives in the 'Investing for Growth' statement relating to the information economy. We have had one other development since the submission and that is in regard to consumer affairs matters. Mr Philip Noonan, who heads the Consumer Affairs Division, can tell you about that.

**Mr Noonan**—I have a very minor update to the submission, which referred to the National Advisory Council on Consumer Affairs having released some principles for consumer protection in relation to electronic commerce. The council met last Friday and considered the submissions that had been received so far, which were generally quite positive about the principles, and the council expects to report to the minister in February or March next year about the final form of the principles.

**CHAIR**—Thank you for that. In your submission, in talking about the OECD-ICCP working party report of 18 and 19 September this year, you said:

The paper provides information on the current extent of Internet commerce, reporting that it is quite small, at most about US\$500 million per annum world-wide.

You go on to say that you expect the market size to at least be \$US5 billion per annum over the next three to four years. All the advice this committee has been working on from day one is that the current size of the market is \$US3 billion and is expected to grow to between \$US100 and \$US150 billion by the year 2000. Could I have some comment on this rather startling difference in numbers?

**Mr Todd**—I suspect that the divergence in figures that we are referring to there contrasts, on the one hand, a fairly narrow definition of product that is traded electronically over the net between consumers and producers and, on the other hand, transactions of a broader financial nature, including obviously banking transactions.

**CHAIR**—With respect, the statement does say 'extent of Internet commerce'.

**Mr Todd**—As I have said, that basically is a narrow definition that includes a lot of the existing financial sector transactions. More broadly, one problem that we have encountered is that the statistics are very poor in this area; so whether one is talking about Australia or globally there is a dearth of adequate statistics. One of the initiatives announced in the statement is that, under the on-line initiative, as a matter of priority we have now moved to developing an improved statistical base.

**Senator HOGG**—What is your source for the statistics quoted here?

**CHAIR**—That was from the OECD report.

**Senator HOGG**—Do you have a different source that might help us?

**Mr Todd**—If it suited the committee, I could take this question on notice and come back to you to explain those divergences and perhaps give you a number of different sources and explain in each what the discrepancies are. It is a problem that has bedevilled us as we have been working through this over the last two or three months.

**CHAIR**—We would appreciate some definition of that statement so that we are not out here playing in some kind of fairyland. You did go on later in the submission and say that there were something like 67.5 million Internet users worldwide—and that was back in 1996. The \$US500 million would imply a very small take-up in terms of Internet commerce and we would have thought it was a good deal larger than that.

**Mr Todd**—I could come back to the committee to compare different statistical trading arrangements—

**CHAIR**—On page 18 of your submission you said:

Australia's capacity to become a regional Internet commerce location is consistent with initiatives designed to establish Australia as a significant player in the regional financial services sector.

We have had submissions from the banking-insurance industry and we have talked to the chairman of the Sydney Stock Exchange. What is your view on the impediments to an increased location of global financial services within the Australian marketplace and the use of the Internet for those services—the restrictions imposed by the financial institutions duty, the bank debits tax and perhaps even stamp duty?

**Mr Todd**—Given the DIST portfolio, that is an area that is not our core responsibility. Could I take that question on notice?

**CHAIR**—Surely, as your department said that 'Our capacity to become a regional Internet commerce location is consistent with initiatives designed to establish Australia as a significant financial player', I would have thought that you would have some view on how taxes would impact on that.

**Mr Todd**—If one broadened it out in that context, the initiatives that have recently been announced in the Investing for Growth statement—namely, a commitment to no bits tax and a commitment to ensuring that the Net remains tariff and customs free—are a significant contribution by Australia to ensuring that Australia remains competitive with both the United States, which has indicated the likelihood of following a similar track, and the EU. More broadly, in the 'Investing for Growth' statement the investment incentives initiative recognises that in special cases, if one is going to attract significant new overseas inward investment initiatives, we may well be matching other economies in terms of particular tax arrangements.

**CHAIR**—Perhaps I could ask the question another way: are their similar financial institutions duties in the United States, Hong Kong, Singapore or Kuala Lumpur?

**Mr Todd**—I will ask Mr John Griffiths to respond.

**Mr Griffiths**—We will probably have to take that on notice. As Mike said, either the Taxation Office or the Treasury would probably have a better idea of which particular taxes apply in other jurisdictions. No doubt some of those jurisdictions would have similar taxes. Some may not. Those sorts of taxes do obviously affect the amount of this type of commerce which is undertaken. That is probably something that the government would be looking at in the context of tax reform.

**Senator GIBSON**—My question is a flow-on from the chairman's question. On page 18 of your submission, you mention Fujitsu, American Express, Deutsche Bank and BT, et cetera setting up regional headquarters here. Over the last two or three months since the meltdown to our north of markets and financial institutions, has the department been in receipt of possibilities of increased investment in financial services and the like here in Australia rather than in South-East Asian centres?

**Mr James**—Certainly there has been an increase recently in interest in investing in Australia in financial services. A number of companies have recently expressed their interest. One I mention specifically is Mondex, which is based in London and which was established as an independent payments company in July 1996 by 17 major organisations worldwide, and they include Australia's four largest banks. So it has an extensive ownership. They are looking at establishing in Australia a regional headquarters for their stored value card system. This will be introduced as an alternative to notes and coins. Mondex can be used for everyday shopping as well as for electronic commerce. So, if we do achieve the establishment of a regional headquarters in Australia by a major organisation like Mondex, that will be a major coup. I think that is symptomatic of Australia being regarded as a safe haven for major financial services organisations in the Asia-Pacific region.

**Senator HOGG**—I would like to raise the issue of employment. I note that when you were referring in your submission to the siting of these regional headquarters in Australia there was talk about employment prospects and growth as a result of those industries coming to Australia. Do we have any real analysis of the impact of Internet growth on the employment situation in Australia? Do we know whether it is going to have a positive or negative effect overall? Whilst we hear a divergent range of views, there does not seem to be anything definitive as to what is going to happen in that area.

**Mr Todd**—I think that is a fair comment. When we examined this issue broadly in preparing the 'Investing for Growth' statement, the best definitive advice we could get was out of the OECD. That generally found a positive correlation between the adoption of high technology information and communication technologies and employment. So generally

they found that moving down the route of an information economy led to both increased employment and a higher wage level than existed previously. But there is significant change in the type of employment that occurs.

**Senator HOGG**—So that would involve a fairly substantial commitment to training. Otherwise one will see a large pool of people who were in an otherwise different economy not being able to cope in the new economy. Is that a reasonable assumption?

**Mr Todd**—That is a correct assessment. For that reason, in the ‘Investing for Growth’ statement, there were a series of initiatives to facilitate the faster uptake of the information economy, including in the education area and technology diffusion to business in the broad, particularly small to medium enterprises, and technology diffusion to the software development industry. There were a series of education and training initiatives as well as moves towards the R&D end of the spectrum.

**Senator HOGG**—How much of that would be the re-education of people in the existing work force as opposed to the education of those coming through the education system?

**Mr Todd**—If I think in terms of getting small to medium enterprises prepared for on-line commerce and the adoption of best practice on-line technologies, they are all existing SMEs, if you like. We are looking to set up centres across all the states, state by state and with a rural and regional capacity to basically get these technologies out to small and medium enterprises in particular.

In terms of education, in some cases, for example, there are postgraduate awards, which are obviously for those people going through the system now. In terms of community awareness, there is a teacher training dimension to that. It would obviously be of benefit to those coming through the system. So it would be a bit mixed, with sometimes existing players and sometimes people coming through the education system.

**Senator HOGG**—In terms of many of the small businesses—I presume that that is where a fair number of your targets would be—one of the greatest obstacles is the fact of time. They do not have the time to devote to seminars. They are terribly focused on getting their business up and running and keeping it running. How do you intend to overcome this problem that seems to be forever lingering with small business; that is, distracting them from their mainstream business to become interested in information technology? What sort of carrot or sweetener do you offer to them that this really will be a saviour for them rather than a curse?

**Mr Todd**—In response to that, I would say that there already is significant awareness out in small to medium enterprises of the benefits that can come from the adoption of best practice on-line technologies. There would already be an awareness that they can, for example, on inventory control, invoicing procedures and those types of things

save very significantly in terms of costs and their own labour if they adopt good on-line technologies. At the same time, we are still at the developmental stage. We have to design user friendly courses in terms of time. They are put on during the week to make sure that we maximise the needs of SMEs. On that front, we will have to think with these measures whether the day or the evening would meet their needs best. There will be a fair awareness already that they can save a lot of dollars and time through adopting good IT practices.

**Senator HOGG**—What stage are you at in developing those programs?

**Mr Todd**—At the moment, the Commonwealth and states have been meeting for the last three months. We are looking at the development going through the first six months of next year and then the roll-out progressively occurring during the second half of next year across the states. The states' preparedness obviously varies a bit around Australia. The purpose of the initiative is to bring everyone along as quickly as possible.

**Senator HOGG**—I am glad that you said as quickly as possible. One thing about this whole area of the Internet and information technology development is that it seems to be galloping along. Are we keeping pace with the developments taking place? Is there some quick, easy fix that you can look at putting in place which will assist many SMEs that need the quick fix now?

**Mr Todd**—Governments have to be careful to complement and not compete with private sector initiatives. A number of initiatives would already be coming out of, for example, technology institutes or private companies that would significantly help small business. But for the sort of campaign referred to in the 'Investing for Growth' statement, we need something substantially more than that. We need to be able to match the sort of initiatives going on in the European Union. We have to go as fast as we can.

For example, tomorrow I will be in Queensland meeting with all the states to push the development phase of the business on-line initiative as quickly as we can. We will roll it out consistent with making sure that the product is properly developed and the state having a delivery agency to get the material out to small business. But there is no reason why we should not be starting that towards the end of March. For Australia as a whole, it is more like June when we will be ready to get across all the states. The states are very strongly supportive. The feedback we have had from the states is that they are very keen to participate in this, as is industry.

**Senator COONAN**—I wanted to ask for a comment about the European Union directive on privacy and the extent to which Australia's approach to self-regulation is likely to meet the sorts of concerns that have been expressed or even the prohibition which has been suggested which might apply. Can anyone comment about that?

**Mr Todd**—I think that is still an issue that we are working through. There are



differing positions between, for example, the European Union and the United States. I think, from a consumer perspective, Mr Noonan might like to comment on that.

**Mr Noonan**—I mentioned the principles for consumer protection, which were published by the National Advisory Council on Consumer Affairs. They identified privacy as an issue that needs to be addressed in securing greater confidence for consumers in electronic commerce. The primary emphasis of the national advisory council's work is not to impose a whole lot of additional regulation. In the context of Internet commerce, the effectiveness of regulation can be rather problematical because so much of it happens so fast and it is across national boundaries and so forth. They note the work by the Privacy Commissioner in developing a framework for privacy principles, which she is continuing to do. I think the principles suggest that some sort of high quality self-regulatory solution may be the best way to secure consumer confidence.

**Senator COONAN**—Won't that require some national response? That seems to be the major criticism of the UN or the objective of the European directive, does it not, that it does require that there be some legislative framework that satisfies the requirements? Is that not right?

**Mr Noonan**—That is not the direction that Australia has been taking at the moment. The national advisory council is looking at how one can put in place an effective self-regulatory system because that will be the first line of defence, if you like, for consumers. That is where most consumers will look to for adequate protection if they are to have the necessary confidence to participate in electronic commerce. So the emphasis that the national advisory council is putting is on having a high quality, self-regulatory framework.

**Senator COONAN**—Where is that up to? What is the time frame on that?

**Mr Noonan**—I understand that the Privacy Commissioner has been taking submissions. I am not sure exactly what her timetable is, but I understand that it is early next year.

**Senator COONAN**—Do you have any knowledge as to what regulatory code might be proposed for people to voluntarily enter into?

**Mr Noonan**—I think the Privacy Commissioner released, in about August or September of this year, a discussion paper which indicated the kinds of issues she thought should be addressed. I do not have a copy of that with me at the moment, but I could pass that on to you if you wish.

**Senator COONAN**—Yes, I would like that. Thank you.

**Mr Todd**—On particular initiatives, recently a code of conduct was released for

the smart card sector of the industry. The Privacy Commissioner was present at the launch in Parliament House by the Attorney-General. Self-regulation was one of the elements of that code, which was a code developed by all the participants of the industry. So self-regulation was addressed in that context but, admittedly, smart cards is just one sector of what is a much larger challenge.

**Senator COONAN**—Yes, I was aware of that.

**CHAIR**—In your submission you comment, as many others have, on the slow take-up of Australian business, particularly SMEs, to transact commercial activities on the Internet. Could you give us your view of why that is so?

**Mr Todd**—I think the awareness is obviously strong in Australia. PC penetration in Australia is very much towards the high end of the spectrum. I think the take-up globally is perhaps not as fast as people anticipate but, with the profile that has been given to electronic commerce, we see this as something that is likely to change around reasonably quickly. The challenges seem to be in the areas that we have partly covered today in terms of privacy and authentication and security. Those types of issues are ones that governments globally acknowledge need to be resolved. It is very difficult for one economy to do it on its own. Hence, that is why we, together with the US and the EU, are pushing to try to resolve that collectively.

**Mr Healy**—I think a lot of it is to do with what I would term critical mass. If you can do some things on line and other things on paper, you are going to choose one medium. If people have to do some things in electronic commerce but have to do others by sending cheques off, then they will choose to do it in one way. Until it is more freely available to do more things on line than that, the take-up will be slower.

**CHAIR**—Are you talking about our payment systems?

**Mr Healy**—Payment systems, gathering information or whatever. Basically, there are different ways of doing business.

**Mr Noonan**—I will just pick up on that critical mass point. The business also needs a critical mass of consumers who are confident enough to deal with them across the Internet. That may be a problem in Australia at the moment. We recently did a survey of consumers in rural and remote areas. One of the findings of the survey was that there was not enough information around about consumer issues, so we asked them: how would you like to get your information? Only 12 per cent of respondents said that they would like to use the Internet to get information. Seventy-two per cent said that they definitely did not want to use the Internet, despite the fact that it is the technology that seems to have significant advantages for regional and remote communities.

So I think it is a question of building up a mass of consumers who are confident

that, when they use the Internet, they do not have to worry about the fact that they do not exactly know where the trader is, and they cannot exactly be sure who the trader is because they feel that they have adequate confidence in something like a set of consumer protection principles that that sector of the industry has publicly committed itself to. So the kinds of things that the national advisory council has been doing and the codes of conduct that have been developed by sectors of the industry could play an important role in generating that mass of consumers that enable it to be worth while for business to offer Internet technology.

**Mr GRIFFIN**—Do you support the level of the existing duty, sales tax free limit and the commercial entry thresholds, or do you think they need adjustment?

**Mr Todd**—The position that is outlined in the ‘Investing for Growth’ statement basically states that there will be no customs or tariff duties applied to goods that are ordered and delivered electronically, so we are basically committing to being at a zero level there. I am uncertain as to how that relates to your question.

**Mr GRIFFIN**—It does not really, no. This is principally in terms of what is coming in by mail, goods ordered electronically but coming through the post and otherwise.

**Mr Todd**—Where goods are ordered electronically but delivered physically, the position in the ‘Investing for Growth’ statement is that the situation remains unchanged. That is where there can be some confusion. Where we are looking at just information delivered electronically, if you like, then no bit tax, customs or tariff duty will apply. Where goods are physically coming in, then the present taxation arrangements will prevail in the country of either origination or destination.

**Mr GRIFFIN**—Okay, and you have got no proposal to alter that. On page 9 of your submission you comment:

. . . that countries with protectionist policies will increase their use of NTBs in order to prevent loss of control over industry development issues.

Have you got any examples of countries that are moving down that track?

**Mr Todd**—We have not got any particular case studies on that.

**Mr GRIFFIN**—So it was more a statement of what you expect will be the result rather than this has actually happened?

**Mr Todd**—Correct.

**Senator WATSON**—What is your view—should tax be levied at the point of

consumption or use?

**Mr Todd**—If I could refer that to Mr Griffiths.

**Mr Griffiths**—I guess that is essentially a policy issue for the government. In looking at tax principle terms—

**Senator WATSON**—Take it out of policy. What are the pros and cons of taxing at source or at use? The Internet could involve questions of residence, permanent establishments and all these sorts of things. It is essential that we understand that there may be some fundamental changes to the way we may have to levy the tax system. I do not think we can dismiss it and say it is a government policy issue. I think we need some technical advice on the pros and cons of whether we should be looking at the feasibility or otherwise of taxing on the basis of consumption. What are the pros and cons of that? You are coming from the Department of Industry, Science and Tourism so we want it, naturally, from your perspective.

**Mr Griffiths**—I guess, as we have outlined in the submission, there are some issues there, particularly for the competitive position of different producers and retailers of goods. I guess that is an issue we have wrestled with in the submission. We have pointed out that in principle we would like to apply taxes the same to everyone regardless of how they are interacting with consumers. But practice often dictates how taxes can be applied. For example, with goods ordered and delivered through the Internet, in practice it is virtually impossible to levy taxes on those people.

As you said, it raises the issue of where you tax. Particularly with electronic commerce and dealing with the sale and purchase of goods and services, we are looking at basically the origin principle, where the goods are produced, or the destination principle, where they are actually consumed. Certainly, I think most countries tend to use the destination principle—that is, tax is of the consumer on consumption.

As you say, this does raise the issue of how you might tax people if they are able to receive things through the Internet—and even more and more things can be sent through the Internet—and what that means for your tax base. I presume those are the sorts of issues that are being looked at as part of the tax reform process that the government has undertaken. Presumably, people will be putting submissions in on those issues. It is probably not really this department's area of expertise; it is probably more one for the Australian Taxation Office or Treasury.

**Senator WATSON**—Couldn't it jeopardise Australian business if essentially you allowed value to be consumed in Australia without an Australian tax being applied? Aren't you discriminating against your local producers?

**Mr Griffiths**—As I said, we did touch on it in the submission. I guess it is a very

real issue if people are able to buy goods, say, CDs, from the US through the Internet and then you have got local retailers or producers of those goods and they are paying taxes. There is a possibility that the American producers are paying American taxes that may be equivalent to the taxes being paid in Australia. There may be an equivalence in the tax take between the two providers of the service and in other situations there may not.

I guess it comes down to Australian producers needing to be able to compete on the Internet and, therefore, provide similar service to people overseas as well as to people in Australia. In that sense, you could argue that within the Internet there would be a level playing field of taxation. Certainly, between the Internet and other forms of sale and distribution, it may be difficult to keep that playing field level. We raise in the submission that that is an issue that needs to be looked at more broadly from a tax design perspective. As far as those other producers in Australia who feel that they are being unfairly taxed, they would have a legitimate claim to a review of their tax position.

**Senator WATSON**—Nearly all the witnesses want a tax-free environment. We are going to build up a lovely industry but with nobody paying taxes if we are not careful, certainly in Australia. Is that in the best interests of this country? We do have to employ people in industries outside the Internet.

**Mr Griffiths**—Yes, Senator. I certainly agree. It is a very real issue. As I say, it is probably one more for the tax office and Treasury to wrestle with in the sense that there is this diminishing tax base.

**Mr Todd**—Also in an international trade sense the competitive position of Australia has stood us in very good stead. In some ways, with your questioning you are only comparing overseas companies with domestic companies in terms of what happens within Australia. If one then turns that around the other way and thinks in terms of our exporting opportunities, our competitive position will always be better with lower tariffs, lower NTBs and a competitive framework within Australia than it would be if one goes for a higher tax and tariff type outcome.

**Senator WATSON**—But if nobody is paying tax, how is the government going to pay for education, health and social security benefits? We have to raise the money from somewhere. True, we might have a very efficient industry, but if it is contributing a disproportionately low share of revenue compared with other industries, what is in it for us?

**Mr Griffiths**—To pick up on Mr Todd's point, I guess it comes down to the different types of taxes which may be paid. A lot of our discussion has focused more on the indirect taxes which are applying to the goods and services that are being transmitted. There is also income tax and company taxes. For example, if our firms became uncompetitive and could not compete and were losing business to, say, Internet users offshore, then our Australian companies would be less profitable and therefore paying less

company tax.

Whilst we might be losing some money on the indirect tax side by sort of letting them off on taxes for using the Internet, it may mean that because they are able to build up that sort of commerce their company tax payments may be higher as a result because they are able to compete and able to get business offshore as well. There is that distinction between the two types of taxes.

**CHAIR**—Before we close, going back to my first question, and you are going to get back to us on size, I remind you that the Department of Foreign Affairs and Trade said in *Putting Australia on the new silk road* that by 2000 the global value of goods and services transacted over the Internet will be around \$US100 billion to \$US150 billion per year. Currently, the values are around \$3 billion per year. Thank you very much.

**Luncheon adjournment**

[2.21 p.m.]

**EDWARDS, Mr Robert William, First Assistant Statistician, Economic Accounts Division, Australian Bureau of Statistics, PO Box 10, Belconnen, Australian Capital Territory 2616**

**McCOLL, Mr Robert Alan, Director, Balance of Payments Section, Australian Bureau of Statistics, PO Box 10, Belconnen, Australian Capital Territory 2616**

**ROGERS, Mr Russell John, Assistant Statistician, Services and Small Business Statistics Branch, Australian Bureau of Statistics, PO Box 10, Belconnen, Australian Capital Territory 2616**

**CHAIR**—I welcome representatives from the Australian Bureau of Statistics to today's hearing. We have received your submission. Would you care to make a brief opening statement before we ask you questions about the submission?

**Mr Edwards**—Thank you, Chairman. The ABS submission focuses primarily on the issue of quality and accuracy of Australia's economic and trade statistics. As we currently see the issues, we feel that the ongoing responses by the ABS to its change in context are expected to deal effectively with the statistical implications arising from the Internet commerce. Clearly, though, we must not be complacent and we will continue to keep a close watch on emerging developments. We will also keep across emerging opportunities for both collection of data and dissemination of statistics through the Internet. Basically, those themes were the ones that we covered in our submission.

**CHAIR**—Thank you for that. One thing we seem to be having some difficulty coming to grips with is that the Department of Foreign Affairs and Trade in the *New silk road* said that currently international trade and Internet commerce is of the order of \$US3 billion and is expected to go to \$100 billion or \$150 billion by the year 2000, which is not very far away, and others have used those sorts of figures. Is there anything in your statistics that would confirm or deny that?

**Mr Edwards**—At this stage we are not seeing activity of that nature as far as Australia's trade statistics are concerned.

**CHAIR**—That was internationally.

**Mr Edwards**—Yes. As far as Australia's trade is concerned, we are not seeing activity of that nature at all.

**CHAIR**—Your estimate of trade today on the Internet in Australia?

**Mr McColl**—We do not have an estimate of trade on the Internet in Australia at

the moment. We have some indication of the size of the international trade between Australia and the rest of the world. We think that is somewhat less than about \$100 million in 1995-96 and not much different in 1996-97. That is a measure of trade which is based upon the settlements that are going internationally, but quite often the goods are supplied through the normal delivery channels. It is only the settlement regimes that are put on the net.

**CHAIR**—What are you trying to tell us? That perhaps the commercial reality is that Internet commerce for Australia is quite insignificant today and perhaps not growing?

**Mr McColl**—I think so. That is the element we observe in the statistics which we are collecting. We are seeing no significant growth in international settlements via this medium.

**CHAIR**—We have [www.consult.com.au](http://www.consult.com.au) coming to talk to us next. In their submission, they said:

It would be appropriate to point out that Internet usage and growth rates are slowing down from the spectacular double digit highs one to two years ago.

**Mr Edwards**—I might ask Mr Rogers to say something about Internet usage but it might be worth saying something about the trade flows aspect of it and how we are capturing it in our statistics. Essentially, our traded goods statistics are compiled as a by-product of the customs administration. Goods that are ordered through the Internet would come into Australia either in small lots, perhaps through parcel post or whatever, or part of much bigger shipments. Those that come in in big shipments would go through the full processes of the customs administration and we would capture information that way. There are threshold levels for goods coming into Australia through parcel post, et cetera, and we have some information from customs sources on the likely magnitude of that.

As we have seen, there is no evidence that goods coming in via small job lots via the Internet are increasing in significance in Australia at present. The area where potentially there is a problem is if such things as recorded music or books were actually delivered electronically via the Internet. In other words, they do not come through the parcel post system. That could be a potential difficulty for us. What we would be looking at there is trying to get some information on that sort of activity through credit card settlements or whatever.

**CHAIR**—You would not really know, would you, if an insurance policy was purchased from a company in the United States by someone in Australia over the Internet?

**Mr McColl**—We would know if the insurance purchaser was an Australian corporation or business operating here because we ask those questions of the business for insurance risk placed directly abroad. We do not ask whether they have done it via mail,



via a representation arrangement or via Internet. But we do ask for those policies and we do measure that.

**Senator HOGG**—Could you give us some idea of what percentage insurance is written overseas by major companies as opposed to what is written here in Australia? You can take that on notice.

**Mr McColl**—I would have to take that one on notice.

**Senator GIBSON**—Just to follow on from the questioning about how much there is, in your submission to us you referred to the tax office report about Mastercard Australia's recent advice that the business conducted annually over the Net using credit card was only \$15 million. Do you still think that is around the current level?

**Mr McColl**—I have no comment on that observation. It seemed like a reasonable amount. If I could clarify my comments earlier on, in light of what Mr Edwards was saying, what we measure via our credit card settlements is the amount that is settled internationally on credit card from Australia. Some of that will come from Internet commerce. A lot of it, we know, comes from purchasing from catalogues and ordinary mail settlements as well as what might be going over the Internet.

**Senator GIBSON**—And Australians travelling overseas or not?

**Mr McColl**—We measure that in total, but we also measure the difference of what is done directly from Australia.

**CHAIR**—These questions are particularly relevant. If everyone is saying there is going to be this explosion of business over the Internet and we are talking about nationally putting in systems of regulation to make sure that we do not have tax loss revenue adrift and that people can feel secure about all these transactions when in fact nothing is really happening, perhaps it is superfluous whether we do anything or not. Does that sound reasonable?

**Mr Edwards**—All we can say is that, at this stage, based on our monitoring of the situation, we are not seeing or feeling that we are missing statistically significant activity between Australia and the rest of the world associated with this Internet commerce.

**Mr GRIFFIN**—In relation to credit card transactions, although I take your point that there are a number of things that are actually part of that, is the total figure showing an increase over time and, if so, by what sort of percentage?

**Mr McColl**—It is not showing much increase between 1995-96 and 1996-97. It is a little bit imprecise because it is measured indirectly, but it was of the order of \$100 million in 1995-96 and it is about that same magnitude in 1996-97.

**Mr GRIFFIN**—Can you do any estimations or any analysis of the internals of that sum of money as to what in fact it has been used for, transactions under \$100 or so on and so forth?

**Mr McColl**—No.

**Mr GRIFFIN**—That sort of statistic is not available?

**Mr McColl**—No.

**Mr GRIFFIN**—There was a question raised by the Australian Fishing Tackle Association. They have concerns regarding what they believe is an increased volume of fishing tackle entering Australia under the \$50 duty and sales tax free limit. Given what you have said, I think I know the answer to this question, but I will ask it anyway. Do you have any information which would suggest that in particular industries there are circumstances where there is a greater impact occurring on the question of importing and ordering through the Internet?

**Mr Edwards**—We could provide the committee with information on imports of fishing tackle that was captured through the Customs system. That would be no problem. What we would not know, though, of those import data was whether the fishing tackle was ordered via the Internet or mail catalogues. We would not have that information.

**Mr GRIFFIN**—But you could analyse trends in terms of the global question of things coming in on that basis?

**Mr Edwards**—Yes, we could certainly provide the committee with that information.

**Mr GRIFFIN**—I think we are getting similar information from Customs in terms of that, that is all.

**CHAIR**—We understand that, if an item—let us say a fishing reel, a rod or a packet of line—is under the screen free limit, Customs will not tell you about it because they do not know about it.

**Mr Edwards**—Yes, that would be an example of small lots of items that were coming into Australia either via parcel post or other arrangements. There is some information in aggregate that we obtained, estimates of the volume of those imports, but we would not necessarily have that information split by commodity.

**Senator HOGG**—As I understand trade on the Internet, there is a greater likelihood that it would be a large volume of small transactions rather than a small volume of large transactions. Therefore, it seems to me that it would be harder for you to capture

any change in what is happening at that smaller end of the purchasing market. Have you taken steps to try to counter that to see if we can measure the changes at the low cost end but primarily the higher volume end?

**Mr Edwards**—It is probably worth making some comments about that in the sense of what impact it might have on our statistics. If we missed it as an imported item, we might be able to pick it up, as we said, through credit card transactions and that sort of thing. We do not believe at the end of the day our balance of payments statistics would be seriously flawed because we were missing out on this. What might be happening, though, is that we might be missing out on some items at the individual commodity levels.

The only other way I think we might be able to gather some of this information is through our household expenditure survey. As well as collecting information on the goods and services that households acquired, you would need to ask some additional questions such as whether they were acquired via the Internet. But at this stage we have not considered adding those questions to our household expenditure survey.

**Senator HOGG**—Will you be considering adding those questions in the future?

**Mr Edwards**—If it appeared that this was emerging as an important gap in our statistics, yes, we would seriously have to consider that.

**Senator HOGG**—One of the things that I have found difficult so far in these hearings is getting some sort of reliable statistical data as to what is happening with the Internet, its use, purchases and so on. We heard from witnesses this morning that, whilst your organisation does a very good job, there is a timelag because of the very solid way in which you collect the data. That is commendable; nonetheless, there is a timelag as a result. Outside of your statistics, there do not seem to be any other terribly reliable statistics from what I can understand. It seems to me that people are guesstimating at best as to what is happening. What are you doing in the wake of the fact that something like Internet commerce and trade will impact upon gathering statistics more quickly, if that is possible, and more accurately to enable governments to make decisions in this area? Is there anything you can do?

**Mr Rogers**—Can I make a couple of comments. We have a number of new collections we are trying to put in place to try to address some of the questions you are putting to us. For example, the *Household Use of Information Technology* survey is published data for the year 1996. The next round of that survey will be run for the calendar year 1998, so the interviewing of households will start in February 1998 and some data for that reference quarter of February will be available early next year.

We are also starting a new round of business use surveys to have a look at the use of IT&T goods and services by businesses and governments. That round of surveys will commence for reference year 1997-98—so it is the current year. We will be going out

mid-1998 to try to improve that data set as well. Certainly, we intend to expand those surveys to include questions relating to the use of Internet commerce by businesses and governments, so we will get a handle on how Australian businesses are using the Internet as a tool both for ordering and purchasing of goods for their own activities.

Also, we are running a survey for reference year 1996-97—which is the year just past—of the telecommunications industry, which includes all the Internet service providers. We will get some handle on their activities, some income and expense data items about those businesses and also some activity measures from the Internet service providers themselves. So there are a number of collections we are trying to put in place as quickly as we can to try to improve the broader range of data that we have got.

**Mr GRIFFIN**—When will they be available—that last one particularly?

**Mr Rogers**—The last one should be available about mid-1998. The reference year was 1996-97. It is collecting information about income and expense items of businesses in that industry, so we have to wait until their financial year records are complete and all those sorts of things. So the collection process is under way now ready for the final output about mid next year.

**Mr GRIFFIN**—You mentioned the *Household Use of Information Technology* document that we have got. There are some figures in there regarding the question of Internet usage. I think it says that 300,000 persons over 18 with a computer at home access the Internet. That figure is significantly lower than most of the figures that we have heard in respect of Internet usage within Australia. Can you explain the difference?

**Mr Rogers**—There are probably a number of reasons it might be less than some other estimates. The first one is that it is household use and does not include business use, so the many people who would use the Internet from work would not be included in that set of data.

**Mr GRIFFIN**—So you have not got any statistics in relation to business use?

**Mr Rogers**—No, but we are adding questions to the 1998 surveys that are about to go out to ask just that question to try to get a better handle if we can. The other sorts of reasons are that it is an average of four quarters of 1996. So that estimate of 310,000 users, or whatever the number is, is about mid-1996. It is some time ago and I guess there is some evidence that during the four quarters of 1996 the data rose—from February 1996 through to the end of 1996. We cannot make very good estimates of the growth rates because the survey was not really designed for that purpose, but it is clear that there was some growth during 1996.

The other reason could be that in that survey there were a number of people who said they used e-mail, for example, but did not use the Internet. There are some ways

of using e-mail that are not Internet related but I suspect there was some misreporting in terms of all of that, so you might be able to add another 60,000 e-mail users to that total number. However, the main reason is that we are talking about data in respect of 1996, rather than the end of 1997, which is the sort of estimates you are probably getting now.

**Senator GIBSON**—That leads to my question. Why is the survey every two years? This is an area where we have anecdotal evidence that there is a lot of activity going on. Why not annually?

**Mr Edwards**—That is a question of overall statistical priorities, I guess. If we were going to fund this survey annually, something else would have to be given up to make way for it.

**Senator GIBSON**—But from a principle point of view of less emphasis on goods and more emphasis on services—and we know this is a services area where there is a lot of activity going on—it would be useful for us as members of parliament. The more hard data we have, the easier it is for us to make judgments about things. That is the only point. I am pleased to see it is 12,000 households, so it is a pretty good sized survey.

**Mr GRIFFIN**—You mentioned before about the fact that it is four quarters of 1996 and it was an averaging process. Have you got any figures for each quarter which would show an incremental increase over that time?

**Mr Rogers**—We could get back to you with those figures. The difficulty is that the sample survey, as Senator Gibson said, is 12,000 spread across the whole year. It is 3,000 in each of the four quarters and it is not really designed to measure change. It is meant to build the sample up so we can get a good estimate overall, but I can look into it if the committee requires that.

**Mr GRIFFIN**—Nothing with respect to those surveys looks at the question of purchasing of goods and services on the Internet, does it?

**Mr Rogers**—Not the 1996 survey.

**Mr GRIFFIN**—The 1998 survey will?

**Mr Rogers**—The 1998 survey will certainly ask those sorts of questions to get a wider understanding of how people are using the Internet. I guess back in late 1995, when we designed the survey, those issues were not necessarily as topical as they are today.

**CHAIR**—We are talking to the NAB later today. We know they intend to go on-line with Internet banking early next year. We also expect that Mondex is ready to take off before 30 June next year which, if people see it as secure, has huge implications for electronic commerce and electronic money transfer. The fact that we are undertaking this

inquiry is significant because the Taxation Office, from their *Tax and the Internet*, is concerned that there are a whole range of issues surrounding electronic commerce that need to be examined in terms of taxation implications, trade, security, copyright, intellectual property and so on.

One thing that we keep coming up against with almost everybody we talk to is this huge vacuum of statistical data that we can rely on. In fact, the Department of Industry, Science and Tourism said that an OECD report listed electronic commerce as some fraction of what Foreign Affairs and Trade in the *New Silk Road* listed it as. You are telling us there are only 200,000 households that use computers to send electronic mail; another 100,000 other on-line services and databases were probably a small fraction of those who purchased things in 1996. That is to say, household real consumption must have been very small.

**Mr Rogers**—Yes, that is our judgment.

**CHAIR**—But, because of the changes to banking and security implications, we would expect that there would be huge changes over the next one to two years.

**Mr Rogers**—Yes.

**Mr Edwards**—Accepting your point about the increasing importance of this, are we missing out in our key macro-economic statistics—our national accounts, growth rates, our balance of payments? We do not believe we are. When we ask businesses operating in Australia, ‘What was your turnover over the last 12 months?’ for example, we would expect those businesses to report turnover in total, irrespective of whether it was derived from Internet activity or sales over the counter. I would not like you to form the impression that our national accounts are seriously flawed because we are missing a lot of activity.

**CHAIR**—I did not imply that.

**Mr Edwards**—No. What you are really saying is: we have not got a lot of information about the Internet commerce itself.

**CHAIR**—That seems to be true.

**Mr Edwards**—That is where our range of information technology surveys are really going to be important from here on in.

**Mr Rogers**—We have just changed our work program to try to increase the frequency with which we do those. Back in 1995 or 1996 they were going to be triennial; we have now moved it to at least a two-yearly basis in an effort to try to improve that.

**CHAIR**—I was trying to amplify Senator Gibson's point.

**Senator GIBSON**—Well done, Chair.

**CHAIR**—Things are moving awfully quickly and your two-year base might miss the boat altogether. If all these things are occurring at once, there must be some good reason for it. Banks are not investing that amount of money to go on line with banking services if they do not think there is a quid in it, if they do not think there is efficiency and if they do not think people will pick it up.

**Mr GRIFFIN**—Of course, banks have occasionally been known to make mistakes before—the whole of the 1980s, for example.

**CHAIR**—Skase, Bond, Holmes-a-Court. Gentlemen, I do not think there is anything else we could ask you that would be horribly useful to our inquiry. We thank you for coming. If you could provide us with any more information we would be absolutely delighted to receive it, because being able to get reliable data about what is really happening is an area that every member of the committee has expressed some concern over.

**Mr Edwards**—Yes, and we will certainly follow up on some of the issues of detail.

**CHAIR**—Thank you very much.

[2.54 p.m.]

**MARZBANI, Mr Ramin, Chairman, Managing Director, www.consult, Level 11, 2 Bridge Street, Sydney, New South Wales 2000**

**CHAIR**—I welcome the representative of www.consult to today's hearing. Thank you for your submission. Although it was not long, I found it fascinating. Would you like to make a brief statement to the committee before we ask questions about what you have written?

**Mr Marzbani**—I will make a very brief statement. Fundamentally, having reviewed a lot of the other submissions and reviewed what we do as a research company, it appears that we are confusing a lot of things—first of all the definition of electronic commerce. Obviously, it would be clear to you guys, after a couple of days of hearings, that there is no standard definition of electronic commerce. In fact, it could be viewed as a very wide ranging set of processes and activities of which electronic transactions are a very small part.

Secondly, there is a lot of confusion between commerce activities and their substitution, using electronic commerce segments—like ordering by the Internet versus ordering by fax. Thirdly, despite various lobby groups and special interest groups having put their cases forward, it appears overall that within all of their analyses and submissions there is really a lack of hard-core research on what is going on and what is likely to happen. As such, it makes it hard to make policies that go forward.

**CHAIR**—I think the committee agrees with you. We have just interviewed the Bureau of Statistics, and we are still having trouble coming to grips with all of this stuff. In the final paragraph of your submission you said:

It would also be appropriate to point out that Internet usage and growth rates are slowing down from their spectacular double digit highs 1-2 years ago.

Could you give us some idea of amplitude—how high was it one or two years ago and where is it now?

**Mr Marzbani**—About 12 months ago we were seeing growth rates in the 10 per cent to 12 per cent a month range. Today the growth rate in the consumer segment is down to around two per cent a month. That is of the order of 20,000 new Internet users a month, which is probably fewer than the number of new mobile phone connections per month. So the growth is slowing down.

The total number of users is a very hard concept for people to get their heads around. It is a bit like asking whether someone has seen a radio in the past three months. It does not mean they have actually used it, they listen to the radio very much or they are



influenced by the news, editorial or music they hear on radio. As such, the overall numbers seem to have been blown out of proportion with all the hype we have in the press today. Total numbers from our research stand at around one and a half million.

**CHAIR**—One and a half million what?

**Mr Marzbani**—Internet users. Within the definition of ‘users’, we will break the segments out. It is close to 600,000 academic, admin and teaching staff as well as students within universities. That is a big chunk of users, of which it is probably split fifty-fifty between hard-core users and people who are using it only for e-mail. That leaves 900,000, which is broken down to around 550,000 consumers and small office or home office users—what we call SOHO users, who primarily are dial-up Internet users—and another 350,000 business and government users, who are a mixture of dial-up and leased line connections.

Each one of these segments has a very different usage characteristic and a very different growth rate. So the numbers are small. The amount of purchasing they have done on line is small. You will find that around 30 per cent of Internet users have tried to purchase products over the Internet and that, out of those 30, more than half have purchased more than one product.

**Mr GRIFFIN**—What are the results of your research?

**CHAIR**—Let him finish.

**Mr Marzbani**—I am happy to roll that in.

**CHAIR**—Keep rolling.

**Mr Marzbani**—The median spent for those who have purchased has been \$100 over the past 12 months. So these are reasonably small numbers. They are not affecting much of the activity. The basis of the results was about 10,500 clean answers from about 12,000 responses to the last on-line survey that went from November through to December 1997. So it is very current—it is only a few weeks old. The data is very fresh. This is the fourth time we have done this research in Australia, and it has been done every six months.

**Mr GRIFFIN**—Could you explain that to me a bit more. When you said it is an on-line survey, is this survey done by you?

**Mr Marzbani**—Correct.

**Mr GRIFFIN**—So you punch it out on the Net and it is then a question of who responds to that survey?

**Mr Marzbani**—Correct. It has the support of over 100 Internet service providers from every nook and cranny in Australia plus every single major on-line publisher, all the Fairfax properties, APN, ZD-Net and people like Village Roadshow and Yahoo. It is the most massively broadcast survey out there. Our skills lie with actually cleaning the data and making sure people answer it consistently so we can throw out answers that are not really good and having a database that we can work with going forward.

**Senator HOGG**—Who do you do the survey for?

**Mr Marzbani**—We do it for ourselves.

**Senator HOGG**—So you market the results out there in the business community?

**Mr Marzbani**—Yes, we are an independent research company. You will notice from the submission that we started 2½ years ago with two people. We have over 35 right now. We have two in Singapore, and we run 42 streams of research.

One of the things that was interesting—this is not trying to push our services—is that a lot of the decision-making today, especially out of the federal government, has not used any of our research. We have had a number of approaches from people saying, ‘Can you give us something for free?’ It is amazing that so much energy is being devoted to trying to understand this medium. Our company has invested about \$1.3 million in pure R&D, yet no-one from the department of the communications and the arts, or even DIST to this date, has actually seen it as worth while to approach us to purchase stuff. We funded the business from internal cash flows and we are employee owned with no debt. We are doing something right.

**Mr GRIFFIN**—Governments have always been in the user pays for those we use.

**Mr Marzbani**—But we still think it is important for us to at least contribute, so I am happy to answer any questions you guys have in any of the areas where we have research. If we don’t, I will tell you we don’t.

**CHAIR**—I have a simple question. What today is the purchasing volume in Australian dollars in Australia on the Internet?

**Mr Marzbani**—Purchasing where you are purchasing and downloading or purchasing where you are purchasing and having someone ship it to you?

**CHAIR**—Both.

**Mr Marzbani**—If we aggregate the numbers, it is something like 250,000 times \$150, because the average is greater than the median in this case.

**Senator HOGG**—Which way is that? Is that over the Internet?

**Mr Marzbani**—A total of 250,000 people have spent, on average, \$150 over the last 12 months.

**Mr GRIFFIN**—That is on both downloaded and stuff—

**Mr Marzbani**—This is total. It is a very small number.

**CHAIR**—It is zip.

**Senator GIBSON**—How is that split between digitally downloaded and hard goods?

**Mr Marzbani**—I don't have the answer to that. I can tell you by category what they have been buying. Primarily non-educational software is the single biggest category but most of the products they buy in that category are trial products, like Internet browsers, software plug-ins and even software modules. There is a lot of shareware being sold over the Internet today in the \$40 to \$50 category but the dollar size of the transactions is extremely low. So in terms of the duty-free thresholds that we are talking about, at \$1,000 we are certainly not seeing a lot of activity there. Even at \$250, it will not have a huge impact, except to maybe get people to rethink what they are paying and what they are buying and in what sort of quantity. It may discourage people from buying larger quantities in one hit.

**Senator GIBSON**—You mentioned that you had over 100 ISPs on board for your survey. Are there many other ISPs in Australia outside?

**Mr Marzbani**—The number stands at about 503 ISPs in Australia today for infrastructure. It would be incorrect to assume that the top five are 90 per cent of the market, even though we are seeing other submissions in other areas that contend that. Depending on whether you are looking at the consumer dollar market, the lease line market or the wholesale market, in the first two markets you will find that those top five ISPs are under 50 per cent of the market share. It is only in the wholesale market where there are about four or five major ISPs or telecommunications carriers that have the bulk of the market. So overall the market is very fragmented. There are no dominant players in the dial-up business or the lease line business today.

**Senator GIBSON**—Is that number growing or shrinking now? What is happening?

**Mr Marzbani**—The number of Internet service providers in Australia appears to be still growing although we know of at least 25 Internet service providers who have merged or changed ownership because of financial issues.

**CHAIR**—If there are only 1.5 million Internet users, there are over 500 ISPs already?

**Mr Marzbani**—Yes. It is a reasonably high number but it is not exceedingly high if you compare us to other countries such as the US or Japan. Because of the way we set up telephone local dial zones, you will find that there are a lot of ISPs that get attracted to providing services in small and remote towns where it does make sense. About 186 of them are non-metropolitan only.

**Mr GRIFFIN**—Do you have any competitors that provide the same sort of research service that you do?

**Mr Marzbani**—Because we provide 42 different streams of research, overall, there is no-one in Australia today. In fact, there are very few in the world. We are one of the largest in the world. There are a few research companies that compete with one or two of our products.

**Mr GRIFFIN**—In terms of the usage of your products, you mentioned some names before. Could you go through in a bit more detail who actually utilises your research and for what sorts of purposes?

**Mr Marzbani**—At a broad level you will find telecommunications carriers. There are about seven telecommunications carriers that actually subscribe to our research. You will find that most of the top five Internet service providers in Australia subscribe. Pretty much every major publisher in Australia, most of the infrastructure providers in hardware and software—that is competing providers—subscribe to the research.

In fact, we can name some names here which are public. Netscape and Microsoft, for example, sponsor, amongst others, our on-line surveys. These are people who are competing tooth and nail against each other. You will find that in the hardware arena—networking hardware and PC hardware—we have a number of highly competing organisations that also subscribe. You also find a number of banks, transport companies, airlines, insurance companies and the like in Australia—most of the larger players.

**Mr GRIFFIN**—You mentioned seven telcos in Australia.

**Mr Marzbani**—Yes.

**Mr GRIFFIN**—Can you say who they are?

**Mr Marzbani**—I would prefer not to name our client names, but I think you can assume that the two largest ones in Australia are certainly included amongst them.

**Senator HOGG**—Can I just ask how you validate your research results? I am not

bringing them into doubt, but it would be interesting.

**Mr Marzbani**—Which one of the research? We do a lot of electronic research. For example, we do research on whole of market issues where it is no longer a case of sampling. It is very easy in this day and age to monitor the top 1,000 companies in Australia and what they are doing electronically full time every day—whether they have web sites, where they are connected, what sort of software they use and what sort of Internet service provider they use. We do the same thing with advertising. It is whole of market and it is electronically based. What we do is add other components where we will get it by other types of research. The on-line survey is one type of research. We also use telephone surveys, we use face-to-face interviews and so on.

We try to, wherever possible, either get very large numbers or whole of market. So, for example, if you compare a 10,500 Internet user sample to some other types of research where they have 10,000 households, of which maybe 1,000 or 2,000 are using the Internet, the sample size is significantly larger and our questionnaire length is significantly longer because we are using the medium itself to use it. But on-line surveys are only one of the techniques we use.

How do we validate them? We use, within the survey itself, methods of ensuring that people answer consistently. We weight them by where they entered, so we can weight the data by which ISP people say they belong to. We have information on consumers and who they regard as their primary or secondary ISP, since many people have more than one account. If you added all the accounts across the country you would not get the right number, you would get a bigger number than the real number.

So we have information that even they do not have. That is why they subscribe to the research. But, overall, you will find that most of the large infrastructure players in Australia do subscribe. In terms of the quality of the business, I think the fact that we are still in business tells you that we are doing reasonably well with good credibility and good continuous support for the clients in terms of research.

**Mr GRIFFIN**—You mentioned that you do other types of surveys other than on line. Can you outline what they are?

**Mr Marzbani**—Yes. We mentioned electronic research. We mentioned telephone research where we design the research, we outsource the phone calls and we do the analysis. We do a combination of telephone and mail research where we qualify IT managers and then we send them scanned forms of questionnaires, they fill them out and the surveys go back to the research house, they scan them and we analyse the data. We do face-to-face interviews, for example, with Internet service providers. We are currently doing a survey of them. What we will do is send them an email and direct them to a form on the Internet where they can fill out their answers and where we analyse them. So we are using most of the technologies available to us today to do the research where

appropriate.

**Senator GIBSON**—Towards the end of your submission to us you say:

At this stage, the only successful model to be emulated is the US, in which competition is intense, duties and taxes associated with trade zero or minimal and Government intervention also minimal. It should also be noted that regulating content is similar to regulating commerce, and this temptation should also be ignored.

Would you care to expand on that?

**Mr Marzbani**—Sure. There are two components in that. The first has to do with why the US model is successful. Basically, there are very few barriers to people creating content and services in the US. There is very little regulation—just like Australia to date.

**Senator GIBSON**—So far.

**Mr Marzbani**—That is one of the reasons Australia, for example, compared with South-East Asian countries, is so far ahead. We have an office in Singapore. We work closely with one of the main regulatory bodies there—and we can mention who they are since our contracts are public knowledge. The Telecommunications Authority of Singapore, which is responsible for a number of issues, including Internet service providers, the quality of their service, as well as a number of activities under the Singapore 1 umbrella under which there are HFC and ADSL trials of multimedia.

We work closely with people like JARING in Malaysia. That is one of the biggest Internet service providers in the original area there. Over there, because of the regulation, there are very few players and very few people who actually understand how to use the technologies. They do not have hundreds of ISPs. They have three in Singapore, plus about six resellers. They have two in Malaysia, plus about seven active resellers. So not too many people know how to play with these technologies. As a result, industry and business does not really adopt them very well and they are way behind us. In Australia, we have 500 ISPs and 1,000 web developers. These are 1,000 large, medium and small companies that are helping other companies get their Internet act and their web sites together. That is a very big plus for us. So it is the same as the US. They also have a lot of infrastructure to support development activities.

Secondly, in terms of duties and tariffs, if you look at commerce, people who are concerned, either with the duty component or with the reliability of distribution, are not going to use the services. As such, what happens to Internet users in Singapore and so on is that the use of the Internet is primarily related to materials they cannot get locally and, in many cases, related to materials that are in restricted supply but not totally censored—be they books or magazines or things like that. We do not have any of those issues in Australia, except for triple X-rated videos. But, going forward to the last part, which is—what was that last part? I have the answer, but I forgot.

**Senator GIBSON**—It was about regulating content or regulating commerce.

**Mr Marzbani**—The key issue in Singapore is that even though you can get access to a lot of X-rated material and pornographic material from Singapore they do not block everything. What ends up happening is that publishing is restricted; you need to be licensed to be a publisher in Singapore. As such, the drive by entrepreneurial businesses, medium sized businesses and small businesses is very low to get on to the Internet.

Content and commerce go together very much on the web model of the Internet. We have a new paradigm or new business model that just emerged, or a new buzz word, called ‘transactive content’ where I really need to combine my product or service with some content in order to compel you to transact. This is a new way of doing business. It might look similar to the infomercial we had on TV, which is an ugly comparison because on the web you have a lot more options in terms of how you package it and how you make it interesting to get people to look at it. But developing transactive content is going to be very important for people, whether it is to do trade locally within Australia or with the US.

One example of why things fail—maybe I will give you two—is if you look at something like the David Jones site, which really did cost them six figures to develop by a major ad agency, and the business model behind that, they were not selling any other products cheaper than their shop. I think there is no David Jones in Perth. Unless you lived in Perth and were an ex-Sydney sider who wanted to order something from David Jones, there was no compelling reason for you to order stuff from David Jones. As such, I think, they have shut down. That has hurt their economists. That does not mean there is something wrong with us; it just means that they did not do it right.

But also, funnily enough, David Jones stopped advertising their web site and they also did not tag their web site correctly or give instructions to search engines in an adequate manner. Most search engines help people find their way through there—I use the didgeridoo example, which was correct at the time we wrote it—so that is a real problem. We are not putting the effort in.

The same can be said of the Optus web site. It is not even tagged properly. If you search for Optus on an American search engine, which is still the preferred search engine for most Australians—whether it is AltaVista.com or Yahoo.com; they both have Australian variants—you probably will not find anything to do with Optus. That will certainly not help Optus in their efforts to go forward. Yet again they have spent in the six figures to get the web site going.

I think poor management and unreasonable expectations are really hurting Australian Internet commerce more than anything to do with duties or overseas competition. Arguments made about people cheating on their duty declaration form are not caused by the Internet. The only thing that is happening is that more and more people get

to see their options ahead of them.

The part of the equation that no-one has really talked about is the consumer surplus associated with Australian consumers getting a better deal or a lower price. Consumer surplus is important. It has to be taken into account in all this. It is not about the extra revenue generated by taxation minus the customs or duty costs of inspection. You have to add consumer surplus in there. If we do not do that, we are probably missing the total cost-benefit equation.

**Mr GRIFFIN**—How do you estimate it, though?

**Mr Marzbani**—There are good micro-economic techniques to try to get a good feel for it. You just need good data around it to do so.

**Mr GRIFFIN**—Yes, but one of the problems with this field is actually doing estimations because it is so new and so changeable. You can have a model that actually allows you to adjust according to circumstances but the issue is understanding the medium well enough to make the adjustments to make the model work.

**Mr Marzbani**—If you get 35 full-time people with good resources, you can get close. I think that is what we have tried to do from the data. We funded all this research without having any commitments in dollars. We are not trying to push that. It is possible to do it—and you are spot on: it changes quarter on quarter, month on month and it is hard to stay on top of it. But it is possible to have a good crack at it with a good enough arsenal of numbers.

**Mr GRIFFIN**—On that David Jones example that you used, was that a badly designed site or was it because of their circumstances in the Australian market—that they really did not have a market because they were already there in a physical sense?

**Mr Marzbani**—The answer is it was a badly designed business strategy by management, who may have abdicated their responsibility in understanding the market. It sounds like a very harsh judgment—and hopefully I will not get sued for saying this—of what they are doing. I think management has to be accountable. We have come across businesses that are investing millions of dollars who think the Internet is still growing at 12 per cent a month. They think 3½ million people are using the Internet in Australia, and they do the numbers and they are saying we are going to get an extra 400,000 people on this month. We are not. That is the fact of the matter. But, if you build your business plan on those numbers, you will fail.

**Mr GRIFFIN**—For a business like David Jones, is there still a sensible Internet strategy within Australia, given the fact that they are geographically located in all bar one states?



**Mr Marzbani**—There are a number of sensible strategies ranging from fire sales of excess inventory. David Jones has only two sales a year in their shop but, for crying out loud, they can get rid of everything else through the Internet.

**Mr GRIFFIN**—So it is smart marketing required to adjust to the—

**Mr Marzbani**—Thinking, yes—grey matter.

**Senator HOGG**—So what you were saying is that a lot of business people out there really do not understand the purpose, the role and the function of the Internet in relation to their business opportunities?

**Mr Marzbani**—Correct.

**Senator HOGG**—Who is responsible, therefore, for making them aware of what that or their opportunities should be? Is that government's role or is it the role of organisations such as yours—or should it be a combination of the two?

**Mr Marzbani**—I think the responsibility is with the company at all times. I came this morning from some meeting at DFAT on the *New silk road*. They were talking about the government putting money in for this and that. It is amazing. The government might as well come in and help me do my accounting. The government does not come and help me decide what sorts of products to design. The government has absolutely no role in this whatsoever. People talk about legislative frameworks for certificates. These will evolve, and they will evolve because of market sources and forces.

**Mr GRIFFIN**—Yes, but market sources and the way the markets work in classical terms rely on the fact that you actually have operating within the market people who have the grey matter, as you said before, to actually do it properly. Yet one of the things that I think have come up continually in Australia—I would not say it is only in Australia—over the years is that we do not have an entrepreneurial class that actually is on top of the game. That is one of the reasons why our business suffers.

**Mr Marzbani**—From our perspective and that of the businesses that we come across, not anecdotally but on a consistent basis because we do have such a brief spread within the market, there is no shortage of entrepreneurial skill and good ideas but also there is not a big shortage of capital. It is amazing. The government puts all this money forward for venture capital things, and one of the first deals done out there is the guys who wrote the report saying put the venture capital money in to seed it, they grab a chunk of the money and they help someone buy a chunk of a manufacturing facility at Wangaratta from IBM. I am sitting there saying this really helps small venture capitalists in Australia. This does not look like a really clean deal to me.

We do not have a shortage of venture capital or good ideas. The only thing we

have a shortage of is good management to take things past the idea stage. Sausage Software is a great example. The kid is young. He is a great kid. Stevo, or whatever he calls himself nowadays, is a fantastic guy. He had a great idea. He was the head of Microsoft. He was ahead of his time. Was he the best manager and the most experienced manager to take that company forward? I think history will show probably not. But that is part of having an entrepreneurial society.

The real issue we have here is that most of our industries are not competitive. Distribution is not competitive—people like Officeworks. Look at the whole Coles Myer empire with their distribution. I guess they have K-Mart, Target, Officeworks and so on. They control a lot of the distribution out there. They are not necessarily very competitive. They have not done a lot on the Internet. They could but—

**CHAIR**—They told us they have not.

**Mr Marzbani**—They told you they have not or they could not?

**CHAIR**—Have not.

**Mr Marzbani**—But they could; I think that is the point.

**CHAIR**—But if they are not interested.

**Mr Marzbani**—Correct. Officeworks are still more interested in setting up physical facilities, physical stores, than helping us order on line. Mind you, they have a very good fax form. I think fax is the best analogy here. When faxes first came out there was no-one out there who said the government should get involved in making sure the fax number on the top of the page was really the fax number it came from. Have you been through this already? We did not say, 'With the signature at the bottom of the page we have a registrar of central signatures you can check.' We did not do this. We did not go out there and say, 'We'll teach businesses how to use the fax or how to design their forms so they can be faxed.' People figured it out. People are not that dumb. When it makes sense, they will do it.

Most Australian businesses do not have a role to play with selling product on the Internet. If you are a retailer selling sheepskins at retail level, you cannot afford to export the stuff. It is the wholesaler or maybe the manufacturer of the sheepskin who can afford to export it. But you as the retailer do not have enough margin to play with to get anything substantial going. We helped a company who did this pro bono 2½ years ago. I am not sure what happened to them, but I do not think they sold much. It was a great idea and they got a lot of trade inquiries, but they could not actually close anything. They could not get all the Swedes up there to start buying Australian sheepskins, even though it is a great, unique product.

I think we just get carried away sometimes by the reality of the business. It is not practical for most Australian businesses to sell in a global market because, one, we are not competitive; two, we do not make the products they need; and, three, we just do not understand how to do it, even if we did it.

**Mr GRIFFIN**—But it depends on how much of it is one, two or three. If it is three—not understanding how to do it—then there is an issue about what you do about that. If it is one and two, I agree. But the question is that judgment about how much of it is one and two and how much of it is three.

**Mr Marzbani**—The answer is that you really need to do industry vertical analyses of what is going on. For example, can Australian insurance companies export? Maybe. But the Internet is not necessarily the only way to export. To export successfully into South-East Asia you have to establish a brand there, some presence, et cetera.

**Mr GRIFFIN**—That is an argument about identifying which industries are in fact the ones that can do it or need to be encouraged to do it and which ones are not—industry specific strategies.

**Mr Marzbani**—Correct, and which products within which industry suit what model of electronic commerce. Is it a cost reduction model, is it an automation model, is it a cycle time model, is it a sales model or is it a support model? The best example is the Kambrook iron. I bought one from Woolies. It had a warranty card that went straight to Kambrook instead of Woolies. I could not fill that in on line. But, if they had an opportunity for me to fill it in on line, Kambrook and maybe Woolies could have actually found out a lot more about why I bought that model, what else I looked at and why I bought it at Woolies. That is part of electronic commerce. It can help them understand their markets a lot better, yet they are not doing it.

**CHAIR**—I want to go back to David Jones. If I remember correctly, Lands End brought catalogue sales into Australia. A year or so ago they gave up and sold what was left to Myer Direct, who probably are not doing very much with it either. How much of David Jones's failure of on-line commerce was due to Australians' reluctance to buy from catalogues rather than to see it in the shop?

**Mr Marzbani**—You are spot on. There is something in Australian culture. We have not, over the last 30 years, been doing a lot of catalogue shopping. I am told, and I do not know for sure, that 60 or 70 years ago Australians did use to shop from catalogues, especially if they lived in rural and remote towns. Maybe to some extent they do today. But that is part of the equation. The problem with the Lands End catalogue is that I get it at home today and it has a little insert page that says, 'Add 37 per cent duty,' or something, 'to whatever you are ordering from me.' It is amazing. It does not say whether it is over \$250 or whatever; it gets me to add the duty in right then and there as I order the product.

**CHAIR**—They still send you one? They quit sending me mine; Myer Direct does now.

**Mr Marzbani**—I get it from Lands End. But I think I ordered the catalogue to be sent to me through the Internet. If you want a fine way to get people to send you catalogues, you can get L.L. Bean and Lands End to send them to you directly. It is an issue. I think people's comfort level with buying on line is an issue. But amongst Internet users of today it is not an issue because they are sophisticated, they have very high levels of income, they understand technology, they have computers and they have been using them for a while. These guys are not scared of using catalogues, and I think they have demonstrated that.

**CHAIR**—If we have only \$30 million worth of Internet commerce happening today, and we know the NAB is going to go on line with on-line banking some time early in the New Year, and we know that Mondex, supposedly, will take off before the end of the financial year, how much difference will that make, do you reckon, to Internet commerce?

**Mr Marzbani**—It is a broad question. Basically the NAB and the Mondex thing will have very little impact. It is not that people are not shopping because they are scared of security on the Web today. That is affecting around 15 to 20 per cent of current Internet users only; that is it. The rest of them are reasonably comfortable. Plus, remember, with whatever I have on the Internet, I can always print a form, call a 1800 number or fax something over or mail something over and order it. I do not have to make the payment on line. If it is a good deal, I am saving \$50 and my preferences are suited to buying that product through a different time scale, it makes no difference—Mondex or no Mondex, SET or no SET; it is irrelevant.

The Commonwealth Bank has been on line for a while. The Advance Bank was on first. The Commonwealth Bank is doing reasonably well. You will find that most of the majors, including maybe some of the other banks in Sydney, are selling products through the Internet, whether they are mortgages or they are other types of products. They may be doing it quietly, but they are doing it quite successfully or taking inquiries over the web. FAI, for example, are the biggest on-line advertiser in Australia today. They can sell you insurance for your car or whatever with 10 per cent off and have a higher underwriting profit margin because of the different risk profile of Internet users. A lot of that is going on.

Will NAB come on line and have a big impact? Absolutely not. The real key issue they have is that they have a whole lot of merchants. A lot of their traditional merchants that are their big volume merchants may not be big volume Internet merchants. Like you said, maybe a direct mail order house which is a small merchant today will be a big Internet merchant. Most of the banks are still trying to get their act together in terms of really breaking down the segments. They are being a little bit slow in doing that. By the

time they figure out what to do, another cycle comes and goes and they are a little bit behind the face shift. So they say, 'Let's go back to the drawing board again.' Things are changing a little bit too quickly for the cycles they are used to. There is no question that some banks are doing an excellent job about it in Australia. NAB is probably not being left out tremendously by not doing stuff today—because, remember, with 100 points I cannot open a bank account on line today.

What will I do with on-line banking? I want to view my account balance, my past statements and what transactions have gone through and do a bit of bill pay. That is pretty much it. We can give you the transactions that they do and want to do. We get that data, but it is primarily those two key activities. They are very simple things. But banks are still going to struggle and say, 'Can I create a new activity or new product that fits what you want to do? An example is this, when you want to know what you have been doing, I give you a transaction statement that mirrors what I mail you. It is a statement that has these cheques presented on this date in chronological order.

But as a small business I probably want to know which cheques up to the last one you have, have not been presented yet so that I can balance my cheque book. That is a new function. The cost is very low in technology, but that is what banks have to be thinking about. How do I take the costs out of the processes I have today and make them more efficient? That is what I think the Internet offers to most Australian companies today. We are going to be net users of the technology and there is nothing wrong with that.

**Senator GIBSON**—As to the number of skilled people available in Australia, you quote an interesting statistic in your report about there being more trained people and Internet activity in Western Australia or South Australia than in Singapore, Malaysia and Thailand added together. Are we training enough?

**Mr Marzbani**—Training is a very tough question. We have a lot of people. Pretty much anyone who is any good is fully employed. There are no good programmers, designers or any people in those high-technology categories that affect the Internet, like network operating system managers or whatever, sitting on the dole queue waiting for a job. No-one good in that industry is unemployed.

Secondly, there is the cost of employment. Their contracting rates and their employment costs have been going up faster than anything else out there. It tells me it is a scarce resource if I believe supply and demand. The costs of technology are going down; the costs of skilled people are going through the roof.

The problem with a lot of training models that we have is that, by the time you do two or four years of college and you come out, what I have probably trained you for and what the market needs are going to be different. The real challenge is, how are people going to re-tool and adapt quickly? There is no silver bullet there. It is going to be a real

tough ask. We are going to need new types of commercial educational and training institutions out there that will be different from the traditional universities and maybe even the TAFEs.

**Senator GIBSON**—Given your earlier comments, should government get involved?

**Mr Marzbani**—Again, like I said, commercial organisations can do all this training. In fact, there are companies like Comtech Education that are making a mint out there. I would say there is a market and people can do this sort of stuff. There is nothing holding them back; no more hit failures there. In fact, any attempt by government to mandate or encourage stuff or waive fees for specific types of education are probably going to be counterproductive.

**Senator HOGG**—What can you tell us about the age profile of users on the Internet? Also, is there any correlation between the age of the person and their likelihood of making purchases on the Internet?

**Mr Marzbani**—About the age, one of the things I can do is rattle off stats or have someone make a photostat of this page to give you the age or maybe give you the highlights.

**Senator HOGG**—Just give us the highlights, and if you can supply the data as well, it would be interesting.

**Mr Marzbani**—The median age is 30 to 34. One of the things we have seen is that people over 55 now make up around six per cent of Internet user population. It is actually one of the fastest growing segments out there. In terms of their propensity to buy products and services over the Internet, I do not have that analysis. We can do that. It would take us about 20 minutes. It is a phone call away to get that cross-tabulation.

However, one of the things we can say is that Internet users that have been on for longer periods have a higher propensity to use more functionality and to do transactions. People who have been on less than three months are still just experimenting. That is in their own words. That is a category. It takes a while to get comfortable with what is out there, explore all the free options and find things you want to pay for.

**Senator HOGG**—It is not necessarily an age related issue where young people who are more open to things such as the Internet are more likely to make purchases over the Internet, as opposed to people in an older generation?

**Mr Marzbani**—No. So far, from what we have seen, there is no age discriminant on purchasing, because this is a new market segment. It is not so much age driven, as it is technology adoption driven. What they all have in common is their willingness to adopt

this type of technology more quickly. One note of caution. We hear a lot about Australians getting mobile phones quickly, colour TVs, VCRs and CD-ROMs. Mobile phones are a bit of an exception because they do require some infrastructure, but they are a replacement of a very traditional product and tool and their utility is very well-known. The other ones are usually one of many products. If you put a VCR or a CD in, everyone in the family can look at it at the same time. They are one of many products and they do not require a lot of infrastructure out there.

The Internet on the other hand is an actual different animal. There are so many different things you can do out there that it is not easy for me to tell you what the value proposition is in one sentence. It varies from person to person. What has happened is that the people who have adopted the Internet technology have got something in common, but it is not age; it is an attitude.

**Senator HOGG**—Is it income related?

**Mr Marzbani**—Yes. Today you have to own a personal computer. There are no options. You can use stuff at public libraries, schools, universities, PC barns within TAFE and even some community centres. But 60 per cent of the use is primarily from home for personal purposes. You need to have a personal computer. The median income is around \$60,000 a year. That is a lot higher than that average Australian income.

**Senator HOGG**—That would of itself cut a lot of people out of the market?

**Mr Marzbani**—Absolutely. In fact, there is a whole have and have-not social issue that is coming up. That is something for the government to look at, because it does cause polarisation within society and for differences to be magnified. That is a social issue and I am not going to say that free markets will fix that.

**CHAIR**—You said in your submission:

Laptop computers are a good example of the price differences between Australia and the US, with the usual explanation being "small market" or "greater distribution costs". These arguments are simply not valid. Why it is that IBM in Australia currently generates significant volumes of revenue with significantly fewer staff than in 1989?

Can you tell us what that difference is?

**Mr Marzbani**—I worked at IBM. I have to say that up front and I was familiar with a lot of the programs that they had running. It is possible that a lot of money does get wasted in terms of contracting costs for companies doing business in Australia primarily with government.

**CHAIR**—No, this was price difference between Australia—

**Mr Marzbani**—I am just saying what was going on before. The efficiencies that they have gained today compared with a few years ago are allowing them to basically manage a large business with far fewer people. Overall in the IT market it is highly leveraged, so a huge amount of employment is not going to be generated, even if we get a lot of people working in this arena. That is one separate issue and I will park that.

As to the price difference on the PC, if you look at it, I order the product from the US, they put it on a plane and they ship it over for \$40, \$50 or maybe \$100 and for express delivery it is \$200. As for the price difference on a laptop which does not weigh a lot, you can verify the cost of shipment via Fedex or UPS. It is easy to do. But the price difference would be very high between what we pay in Australia.

**CHAIR**—How many dollars?

**Mr Marzbani**—It varies by size of laptop. If you are buying a very high-end machine it is \$A10,000 or \$A14,000. The equivalent at the old exchange rate—and it is a new ball game today at 66c—but at 78c the difference could have been easily \$2,500.

**CHAIR**—How about a \$4,000 laptop?

**Mr Marzbani**—At \$4,000 the difference is far less, for sure, but the odds are that for \$4,000 you are not getting something that is huge. At that sort of price range, it is probably not worth it, unless you know a friend who is coming over who might be able to slip it through customs. I have to say that there is a lot of that going on right now.

**CHAIR**—We were looking at some statistics before that seemed to indicate that probably only about half of the PCs in Australia that have a modem is the modem actually being used. Is that reasonable, and if so, why?

**Mr Marzbani**—It is certainly reasonable. The cost of the modem part is quite low. It adds to the attractiveness of the package. When you say, 'I am selling you this, plus a modem', I feel a lot better comparing it to something without the modem. You will find that there are companies like Apple Computers, for example, who had a massive excess stock of 144 kbps modems that were ordered incorrectly. It was electronic commerce and one extra zero was added at the end when there should not have been and they may have packaged it in.

But there is no need for most people to use the modem. It is a comfort level. It is like when I buy a car with a lot of features, but I do not necessarily use it. Or I buy a four-wheel drive and actually I drove it around for a year before I forgot you had to lock in the front nuts to actually get four-wheel drive mode out of it. I put it into four-wheel drive, but I was not using the feature.

It is a feature that is out there. Having a modem does not mean you are going to



use the Internet, because firstly, you probably need a second phone line to feel comfortable using it, if you live in a household where more than one person needs the phone. Secondly, you do need to sign up with an Internet service provider almost always having to give away your credit cards details to get it connected. I am not saying that people are concerned about that, but it is one of those things that says, 'I am going to give you my credit card and my bill will probably be undetermined. It will vary on an hourly basis and I will not know necessarily what I am spending.'

Around that whole equation there are a lot of people who have the capability and the option and that is worth something to them, but they are not using it. And also because they do not see any reason to do it and it is not a priority. A good Internet access with good speed and good utilisation could easily cost you \$800 to \$1,000 a year and for a household with a median income of \$30,000, \$1,000 more or less is a lot of money. I think that is the key thing everyone forgets.

Australians are not going to get on. A \$250 Sony TV Internet computer web TV kind of device will change the equation radically. At \$250 a bucket load of people can afford to get on, but still they are going to have to pay something on a monthly basis like pay TV. Look at pay TV numbers. A lot of people got connected, they did not like what they saw and they disconnected. In fact, some numbers would suggest that percentage is as high as 30 per cent. That is a really big number. We got connected just so that if the future things improve I do not get a connection charge again, because I know I am connected. But 30 per cent have probably dropped out of the whole pay TV game. That is a huge issue.

There needs to be good transactive content and good services. At the end of day people are not getting onto the Internet to buy goods. If you ask them in terms of their primary use of the Internet, shopping and financial transactions get less than one per cent of the vote as a primary activity. I do not boot up my PC to write a cheque through my financial software. What do I do? I whip out the cheque book and I scribble it down. Maybe next month, I will put it into the computer, but I am not going to use the technology in the way that you should logically do it all the time. That is the problem.

**CHAIR**—The Department of Foreign Affairs and Trade in *The New Silk Road* said that international Internet commerce transactions today amounted to approximately \$US3 billion a year and that in two years to the year 2000 it was likely to be between \$100 billion and \$150 billion internationally. Do those numbers make sense to you?

**Mr Marzbani**—I think they are irrelevant. I do not even know what they are talking about. Let me explain. I would say that telephone commerce in the world today is probably in the trillions of dollars. I call my stockbroker and say, 'Buy this.' Or I call up and say, 'Listen, I want to order this product and here is my credit card number.' Fax orders are probably in the trillions of dollars as well. On the same basis of comparison, I would say they are saying that Internet is going to be irrelevant. We should focus on fax

and phone services.

**CHAIR**—If that \$3 billion was right, you are saying Australia is only around 30 million total transactions.

**Mr Marzbani**—That is a big difference.

**CHAIR**—If the total tax take was 10 per cent, that is only \$3 million and I begin to wonder why we are having this inquiry.

**Mr Marzbani**—Yes. I suspect that part of the issue is that we use a lot of US numbers without reference. The best example is the honourable Senator Richard Alston at Sydney's Internet World. He stood up and said that three per cent of all retail transactions in Australia today occur over the Internet. I put to you with all due respect that he may not be right. We have an issue there and that issue will carry through in policy making. If Senator Alston believes that, we have a problem. I quizzed him on that question on public TV. I said, 'Is this a typo, or are you halfway serious?' He said, 'Some people say more and some people say less.' I said, 'Thanks.' That is all the time he was going to give me on that question.

The number is irrelevant. I could, for example, say that a client of mine and I corresponded by e-mail and they decided to purchase \$7,000 worth of research. Did I do this because of electronic commerce? I put it to you that I did not. There are people in BHP or in the medical community who are using the Internet to talk to each other. Within certain industries they are bidding on chemicals, using the Internet as the medium, but that does not necessarily mean that the transaction or the products and goods and services are going through the Internet. It is just like a phone call. There is no difference.

All I can say is that, if you were to put a 10 per cent tax on people who import drugs into Australia, you would make a bucket load more money than if you taxed people making Internet transactions. It sounds a little flippant, but I am not trying to be. I just do not understand where the concern has been coming from. Trying to protect local retailers is one thing. If it is a national policy to do so, that is fine, we understand it, there is a cost to it and there is a benefit. That is a political decision. The economic equation is reasonably clear.

If what we are trying to do is understand where the competitiveness of our country goes, I do not think taxing Internet activities or reducing the tax free import threshold will cause either fewer drugs to be imported into Australia—there is a lot of money there—or fewer products by a long shot. People who cheat on invoices will continue to cheat and Customs will have a certain success rate at catching them. I suggest that Customs, for example, invests a lot more in their IT infrastructure to understand which addresses our products are being shipped to. If it starts correlating the stuff on a data mining basis, they will eventually be able to catch these people. It is a little like social security fraud.

Eventually you will run out of households to send cheques to, hopefully.

It is the same type of stuff. It is electronic warfare out there. Governments will have a tough time beating the baddies at it. It is just like drugs. You will have a tough time. You will have some success, but overall it is a losing battle. Perhaps if we can turn that into a positive and deal with the sources of the problem and the distortions in the economy we will get more success out of that.

**Senator WATSON**—But you are advocating a situation where you virtually have an industry tax free of imports. Sceptics might say, ‘Let’s look at some of our traditional industries. Take away the tax imports and you might get a far better return.’

**Mr Marzbani**—I am advocating, on a national basis, that reviewing all the import duties and taxes is something that makes sense. It is politically very difficult with what we have seen with the car industry and the footwear, textiles and clothing industry and so on. It is a tough thing. But trying to regulate the Internet will not result in significant government revenues one way or the other. The cost benefit equation is unlikely to stack up. People who will rot the system will rot the system. The government is always going to be catching up.

**Senator WATSON**—I am not talking about rotting; I am talking about taxes that normally flow to businesses.

**Mr Marzbani**—If you want to support small businesses in their competitiveness, if small businesses can find cheaper sources of supply that meet their purchasing and timetable guidelines for importation, distribution or acquisition, you would be helping them by allowing them to use this technology to cut down their costs. This is especially because small business buys in smaller quantities. A business of 10 people will not buy 100,000 staplers. They might package their requirements to save \$200 per month. That \$200 for a business of five people is not so bad. It buys them all a dinner out at a pizza joint. They can do it; that is what I think I am saying. Obviously, we are not saying anything that is in la-la-land and fairyland. It is impractical for the government to change this stuff tomorrow, even though wholesale tax reform is obviously on everyone’s agenda. This should be part of the wholesale tax reform that we look at.

**CHAIR**—Thank you very much. Your submission and presentation today were like a breath of fresh air. You will not mind if Stephen Boyd gets back in touch with you?

**Mr Marzbani**—Not at all.

**CHAIR**—We will be in touch.

**Mr Marzbani**—Thank you.

[4.01 p.m.]

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**KINGMA, Dr Onko, Assistant Secretary, Rural Issues Branch, Rural Division, Department of Primary Industries and Energy, Edmund Barton Building, Broughton Street, Barton, Australian Capital Territory 2600**

**CHAIR**—Welcome to today's hearing. We have received your submission, for which we are very grateful. Would you like to make a brief opening statement before we ask our intense questions about what you have written to us?

**Dr Kingma**—Thank you very much. We have focused, as you will have noted from the submission, on international commerce and the commercial side of things, as it relates to competitiveness of the rural industries and particularly to the changing production and marketing situation for producers. We have also focused on the requirements of farmers and of others associated with farmers to link into the new paradigm and operate in this environment. Finally, we deal with what the role of government is in all this.

We in the department see the advent of this new information technology as of particular importance in our policy work, particularly as it relates to spin-offs associated with e-commerce, awareness of producers, the impact on isolation in the bush as a phenomenon that we have to cope with in our policy work, and so on. We have generally grasped the policy nettle on this and have worked it into our work in a variety of ways.

The first is written into the corporate plan for the department, as noted in the submission. The second is that we are doing a lot of work with banks at the moment, and Mr Noel Beynon has been very involved in that area. It is a topic of research through the R&D corporations in agriculture and, in particular, through some of the partnership projects that we have been involved with, such as Farmwide, which is run by the National Farmers Federation.

We run a rural communities program, part of which is a telecentres program. Mr

Jim Graham has been particularly involved with networking and managing of that program. We have been involved with the regional telecommunications infrastructure fund and, in particular, also with the recent publication that has come out of the Department of Communications and the Arts on the needs of rural Australia in terms of telecommunications. Mr Ian Crellin has been particularly involved with helping to evolve the policy position there.

Within the department, we have got Pionet, the information network that has been developed over some years. Again, Mr Jim Graham is informed in that area. We also have our policy work under way within the ministerial council framework for agriculture and resources management, generally known as SCARM, the Standing Committee on Agriculture and Resources Management, and ARMCANZ, the ministerial council. There is a working group involved with these telecommunications issues, and Noel Beynon and I have been involved in that.

Our final comment is in terms of the role of government, which we see as very much facilitative: government input is very much needed in some areas, not so much because of market failures as because of social traps, if you like, coming about through inaction or the inability to act on the part of individual producers in the face of major change. That is really all I want to say by way of introduction.

**CHAIR**—Thanks very much for that. One of the things that this committee has really have been focusing on today is trying to come to grips with what the volume of real Internet commerce is today, and what is it likely to be in the future. We have heard such divergent views. The Foreign Affairs and Trade report, the *New silk road*, says that today there is about \$US3 billion worth of Internet commerce per year worldwide, and it might be \$100 billion to \$150 billion in two short years from now. Yet the previous witness here estimated that, in Australia, the total Internet purchasing of goods and services might be as low as \$30 million per year. Have you any idea of the use by your consumers, if you will—the farmers and miners, those out in the remote areas of Australia—of Internet commerce today, and any estimate of what it might be next year or the year after that?

**Dr Kingma**—There is absolutely no doubt that this is increasing at an exponential rate as people become more aware of the potential. In rural areas, for example, the use of computers amongst the farm sector alone has increased manyfold from a small group of 15-odd per cent in the early 1990s to 50 per cent of farmers now with computers and with the add-ons that are so important to make it work from an e-commerce point of view. From our point of view, it is increasing exponentially, but also with huge associated changes in the way in which people do business, in the role of rural communities, and in the role of distribution and middle people in the production marketing chain. I cannot personally give you a figure, but can I ask my colleagues whether they have any other feel for it.

**Mr Crellin**—Thank you, Dr Kingma. The Internet really is a communications tool.

Picking up on some of the points that the speaker before us made while we were listening at the back of the room, it is as much as anything an issue of definition as to what is Internet commerce and what is not. The thing that the Internet allows people to do is to trade with different margins structures and in different jurisdictions. The trade may well have been done previously by face-to-face meetings or by fax or by telephone, but the Internet makes this so much easier and facilitates it so much better—and it probably also has the added attraction to some people that it virtually leaves no trail that any normal organisation can follow; by that, I mean any regulatory organisation or taxation organisation.

Basically, the Internet changes the patterns of transactions. It tends to change those away from regional distributors, agents and importers, by making a direct contact between the ultimate buyer and the original supplier. It also enables transactions to be made in places outside of a particular jurisdiction, so that a trade can be made outside of a legal area—say, outside of Australia—without the two parties leaving Australia. In those sorts of cases, it is very difficult to define exactly what you mean by Internet commerce, but there is certainly a great deal of transactions attracting the attention of various people for their own particular advantage: for reducing their input costs and for getting a price advantage in their sales. There are plenty of astute business people in rural Australia who realise the advantages that this offers.

**CHAIR**—Do you mean to tell me that we have got the graziers at, say, Longreach, selling their cattle directly to a Japanese slaughterhouse and the money being paid into a bank account in the Cayman Islands, so that it disappears somewhere?

**Dr Kingma**—I am not certain of the exact example that you give, but there are people who are aware of the possibilities.

**CHAIR**—One of you said the market is growing exponentially, yet I have to say to you that the previous witness said that the Internet use growth rate a couple of years ago was in double digits—which would make it exponential, I guess—but that it has slowed now to something like two per cent per month. That seems to be in great conflict with what you are telling us.

**Mr Graham**—Yes. The evidence we have had from our programs—and I refer here to the telecentres program as one that, by good fortune in terms of timing, carried through the period when the Internet grew very quickly—is that we are obviously going through the early adopter phase. Internet commerce, I dare say, is now becoming more of a consumer type of item. In the growth of moving from the early adopter phase to the consumer phase, you would expect some roll-off because we have come off a very low base, of course—a zero base, in fact.

The evidence from the telecentres program—and I am talking about largely anecdotal evidence at this stage—is that rural people are very keenly aware of the

potential of the Internet, as my colleague Mr Crellin mentioned, and they are very keen to uptake those services. In relation to the level of electronic commerce going on on the Internet, we have actually asked ABARE, the Bureau of Agricultural and Research Economics, to undertake a survey as part of their 1996-97 farm survey. The information is just coming in on that, as we talk. Unfortunately, they do not have any analysis ready yet, and the best advice I could get before coming to this meeting was that some sort of analysis should be available shortly after the outlook conference in February next year.

The questions that were asked in the survey included: do you use a computer in your business; do you have a modem; and what do you use the modem for. There was a list of things, including electronic commerce and Internet access. We expect to get a fairly good indication—a snapshot, if you will—of the usage amongst Australian farmers as soon as that analysis is complete. We will follow up with a similar sort of survey in 1997-98. Hopefully we will then be able to see some trends emerging.

**Senator WATSON**—For livestock sales using CALM, are they also utilising the Internet or not?

**Mr Graham**—A small number are, I believe. My own observation of those who are putting such things as cattle sales on the Internet is that they are using the CALM presentation of information. In other words, they are effectively placing on the Internet a CALM sales form. The issue arises that, if the grazier makes a sale over the Internet, does he still pay commission on CALM? I am not sure.

**Senator GIBSON**—You referenced the ACIL report of July this year *Tax reform: issues for Australia's agri-food industry*. Can we see a copy of that?

**Dr Kingma**—Yes.

**Mr Graham**—We do not have a copy with us but we will provide you with a copy.

**Senator GIBSON**—If we could get copies, it would be great.

**Senator WATSON**—Technically you can make these contacts but somebody has to be there to make the arrangements to give it to the cartage contractor, to take it to the wharf and to find a ship, et cetera. Are there these middlemen who can fit in? What role is the department playing to facilitate the necessary infrastructure to enable these transactions to take place?

**Dr Kingma**—I will get my colleague to speak in a moment, but basically a lot of research is presently under way through the rural R&D corporations. It has been a big topic within the meat research corporation. I do not have the figures at my fingertips but there has been a lot of progress in trying to streamline those selling processes on farms.

**Mr Graham**—Yes; it raises the issue of Internet electronic commerce vis-a-vis earlier forms of electronic commerce such as the Tradegate initiatives of previous governments, which were really related to providing paperless transactions on the existing marketing chain. The potential, as I am sure other witnesses have mentioned in relation to the Internet, is that we could see fairly extensive restructuring of the marketing chain. The Americans have a lovely term for this; it is called disintermediation, which essentially means bypassing a lot of the existing stages in the marketing chain. I think that is an area which, as far as rural commerce is concerned, is one in which we really do not know what is going to happen yet. Certainly in niche and vertically integrated industries like the wine industry, for instance, you can already—if you have access to E-mail or to the World Wide Web—order your wine directly from, say, Donnelly River Wines in Western Australia and many others whose products, in the normal course of events, you would not be able to access so easily.

**Senator WATSON**—When you are looking at bigger volumes, in the larger primary industries such as cereals, sheep, cattle, et cetera, you are dealing with large numbers, large volumes, et cetera, so there has to be some sort of infrastructure there to try to pick up the coordination of getting it from the farm gate. Generally, most of these people want a price into Japan, Taiwan or wherever it might be.

**Mr Graham**—Certainly in the United States, if you have a look on the World Wide Web you will see organisations which are organising cattle sales over the Internet. As far as I am aware we have not progressed that far yet in Australia but I understand organisations such as CALM are looking at the future role of Internet in streamlining their operations.

**Senator WATSON**—What role has your department got in trying to facilitate these Internet transactions to minimise some of these on-costs after the farm gate?

**Dr Kingma**—The rural R&D corporations are actually part of the Department of Primary Industries and Energy. It is through that major research effort that our department is helping to progress that issue as fast as possible.

**Senator WATSON**—Have we come up with any concrete solutions yet?

**Dr Kingma**—This research has been going for some time. I do not have any research results at my fingertips.

**Senator WATSON**—Could you get it for the committee? It has great potential.

**Dr Kingma**—Yes.

**Mr Crellin**—One of the interesting things about the changes that have come with the increased use of Internet is that a lot of the structures and infrastructure that you are



referring to is in fact being substantially bypassed in the setting up of the deals. In fact, the people who are setting up the sale on the Internet are probably also setting up the transport and holding and other aspects of the collection and delivery of the—

**Senator WATSON**—If they are big enough?

**Mr Crellin**—One of the things about the Internet is that it appears to be giving a great deal more power to individual small businesses. The anecdotal evidence that we have seen would support the proposition that you can coordinate a lot of small actors much more easily over the Internet, if they are people who have adopted the Internet way of doing business, than you could with traditional coordinating structures. If you look at the people dealing in Internet trade, they tend to be less structured and sort of freer and more independent than some of the institutions they are replacing.

**Senator WATSON**—That might be easy if you are selling a bottle of wine or if you are selling a pedigree bull with high value. However, if you are selling large numbers off a property, hundreds or thousands, there is obviously a lot of organisation required in terms of getting the cattle ready and getting them to the wharves and so on.

**Mr Crellin**—These are some of the opportunities that some of the players who are taking advantage of the new technology are grasping. Often it is the new player, the person with a different vision or a different view of the way that things can be organised, who comes in and uses the Internet and offers a competitive service against the traditional infrastructure.

**Mr Graham**—You are quite correct in identifying that. At present it is the niche and vertically integrated rural industries that are getting a foothold into the Internet as a means of commerce. The bulk commodities industries are still being pretty well served by organisations such as CALM and, of course, previous initiatives such as the Tradegate initiatives. I do not think we will see a very rapid change turnaround in that. There is already a lot of commitment and organisation underlying those approaches to electronic commerce. This is the sort of paperless transaction idea. Nonetheless, we will see change over time but probably over a much longer time period than that associated with the niche industries.

Dr Cutler's report to IPAC noted a number of case studies in his report *Rural & regional.au/all*. He noted a number of cases studies and it was notable that those case studies were in niche areas like tea-tree oil and olives and wine and that sort of thing. You did not see much in relation to cattle and wheat.

**Mr Beynon**—One of the things to remember is that most of the broadacre industries, as a general rule, do not necessarily have the same technical support to make those sorts of activities. The infrastructure, the telephones lines, may not be up to scratch. So whilst they might be able to do some things by telephone and fax, when it comes to

using the computer and electronic systems for data transmission, the lines just are not suitable. They might be able to send an e-mail if they are lucky but when it comes to active interrogation, using the Internet, the lines are just not up to scratch.

Those people are behind the rest of the community. One of the things that we have noted is that just like the uptake of computers has been a bit slower than in other sectors of the Australian community, because of this infrastructure problem there will be another lag there. Within 10 years that might be overcome via alternative means of—

**Senator WATSON**—Are you suggesting the Internet is basically only available to primary producers within a couple of hundred kilometres of a capital city?

**Mr Beynon**—It is not necessarily a couple of hundred kilometres.

**Senator WATSON**—Or of a major city?

**Mr Graham**—Fundamentally, the Internet is available anywhere in Australia, provided you have the money to pay for the access. That is really the issue. If you can get access via a telephone line, which is generally available, say, out to about 15 kilometres or so from a switch, provided your service is delivered via a phone line, you probably can participate in the World Wide Web and the full range of Internet services.

Once you go beyond that distance, and it is a grey area here because it depends a lot on local line conditions and so on, the standard of the service tends to roll off quite quickly because the speed at which data can be moved along the lines is reduced at greater distances. Additionally, there are about 22,000 Australian telephone subscribers who are hooked to the national telephone network via what is known as the digital radio concentrator system. This is a wireless based telephone network in outback Australia, and that system currently has some fairly significant limitations in general as far as Internet access is concerned.

However, Telstra have assured us that technical fixes to that problem are at hand and it is now just a question of investment and getting that network upgraded. We should see many farmers able to get a much higher standard of access.

**Senator WATSON**—Investment by Telstra?

**Mr Graham**—Necessarily, I understand, it would be by Telstra. To upgrade the DRCS, we understand will cost several hundreds of millions of dollars.

**Senator HOGG**—I am interested in the impact of the Internet on rural and regional communities. Do you have any surveys under way at this stage as to the possible impact of the introduction of the Internet on rural and regional communities? I would imagine that if they are bypassing the so-called middle people in the deal—or the locals—

then there is likely to be an impact on employment in the area. Is that going to see a greater shift of people into the coastal regions of Australia? What have you got by way of survey at this stage in that area?

**Dr Kingma**—Firstly, I would like to reiterate the fact that work is going on at the ministerial council level, through a subcommittee, to look into what is happening in each of the states with regard to changes in the structure of rural areas as a result of the telecommunications revolution. That work indicates that things are very much in their infancy at this stage, but that there is a huge amount of change going on: there is new enterprise and there is a high degree of awareness—an increasing awareness now about the importance of telecommunications and change in the way people do business.

An audit was recently undertaken as part of the publication that Mr Graham mentioned, *Rural and regional: AU for all*, and that provides probably the best summary at the moment of the changes that are going on in rural areas and the impact of those changes. Mr Crellin was very involved with the department of communications in that audit. I will get him to say a few words.

**Mr Crellin**—I have had the opportunity twice in the last three years to examine the situation in the United States on this. It is said that we lag several years behind the United States and that what is happening now in Australia is similar to what happened two or three years ago in the US.

Basically, the impact that it has had on US rural communities has been twofold. One, as the question suggests, is that a substantial amount of the commercial infrastructure in traditional rural communities has been withering, shall we say. The other is that the Internet itself has given the opportunity for a lot of new people to come into those rural communities that are pleasant to live in.

If you go to places like southern Colorado, Montana, the Ozarks or upstate New York, you will find a lot of people from the city who have the sorts of careers that can be conducted by teleworking moving into pleasant rural communities and conducting things like copywriting, design or engineering studies, or those sorts of things that can be done by teleworking over long distance from rural locations. They are fairly selective in where they go to. They tend not to go to places like the flat prairie communities that are pretty well losing their populations.

The main impact of that is that it brings economic activity and economic life into those rural communities, but it tends to shift the balance between the traditional population and the newcomers. A lot of the newcomers are often very interested in local politics and it tends to lead to impacts on the community where, in some places, the traditional rural communities feel as if they are strangers in their own towns.

**Dr Kingma**—Just to elaborate on that, I will get Ian to say something about the

networking that is starting to happen in rural communities and also the issues of aggregation of demand, which might see a change in the way business is conducted in rural areas.

**Mr Crellin**—One of the features that is happening in Australia at the moment is that there is a great deal of attention being put, particularly by a number of state governments, to aggregating the demand in a particular region, from all of the state offices—education, hospitals and things of that nature—so that a big bundle of demand can be taken to a carrier and they can negotiate a deal for the supply of telecommunication services to that region.

A number of the states are attempting to piggyback community services off that. It varies from state to state as to how they have gone about this and what exactly they are attempting to do, but virtually all of them have some program in place that is attempting to use the state demand for telecommunication services to increase the availability, and lower the price, for Internet connections for people and businesses in those rural regions.

**Senator HOGG**—Can you outline for me any programs that you have available for farmers to familiarise themselves with the likes of the Internet to see its value and its purpose, or is it a matter of, if they are not interested, that is their bad luck and they will just have to survive as best they can?

**Dr Kingma**—A couple of things come to mind. First of all is our own telecentres program, which has enormous spin-offs—I will ask Mr Graham to say something about that. The second one is the work that is going on in the rural industry's R&D corporation, where they have a program very specifically addressing the sorts of issues that you are interested in. The third big project is the National Farmers Federation farmwide project, which was designed to hook up something like 1,000 farmers to computing systems as a trial to see what were the barriers, impediments and so forth. That trial has finished its phase 1 and yielded some very interesting results.

**Senator HOGG**—Are those results available?

**Dr Kingma**—For phase 1, yes, they are, definitely. The project is now into phase 2 and there is documentation on that as well.

**Senator HOGG**—Could we get some idea of that information?

**Mr Graham**—Yes. In addition to the farmwide trial, overlaid on that we have had the telecentres program operating since late 1992. A significant part of that program over the last four years has been providing Internet training and, in some cases, Internet access in rural communities with a particular focus on the farm community. I believe that has been quite successful. Many of the telecentres have run quite intensive training programs with the farm community, as well as the non-farm rural community, involved in

accessing those services.

Of course, outside the Commonwealth programs, state governments have also been very active in this area, most notably the Western Australian state government through the Western Australian telecentre's program, which is now a very sizeable program. The other state governments have also taken some interest at varying levels.

**Senator WATSON**—Are those programs run through the TAFE?

**Mr Graham**—The Western Australian state government telecentre's program was originally an initiative under the department of training. It is now, I think, run under the department of commerce and trade. In the other states, I would believe it would be correct to say, it is mostly a TAFE involvement.

**CHAIR**—Thank you very much, gentlemen. We appreciate your attendance and your frank answers to our questions. We hope we will finish by April or May and bring down a report. We will see where we get.

**Mr Kingma**—Thank you very much.

[4.37 p.m.]

**HAWKINS, Mr Clive Richard, Acting Director, Competitive Tendering and Contracting Group, Department of Finance and Administration, 4 East, 111 Alinga Street, Canberra City, Australian Capital Territory 2601**

**PEEL, Mr William, First Assistant Secretary, Competitive Tendering and Contracting Group, Department of Finance and Administration, 4 West, 111 Alinga Street, Canberra City, Australian Capital Territory 2601**

**CHAIR**—I welcome representatives from the Department of Finance and Administration. Thank you for coming, and thank you for your submission which came in the name of the Department of Administrative Services, which we understand is no longer around. You live to fight under another name.

**Mr Peel**—Yes.

**CHAIR**—I think one of the things the committee is interested in is whether you can tell us the extent currently of Internet purchasing by government, and what that is likely to be in a couple of years time?

**Mr Peel**—Mr Chairman, the extent of purchasing by the Internet for which we are responsible is zero at the present time. The development of the Transigo system, which we outlined in our submission, is really at its early stages. The capability at the moment is for departments and agencies to notify business opportunities by the Internet, but there is not yet the capacity for suppliers to respond via the Internet. We expect that capacity to be available early next year.

**CHAIR**—Any idea, or estimate, of dollars by the end of next year or in 1999 or 2000?

**Mr Peel**—It is hard to say, because it depends upon the take-up of the system by departments and by the supplying community. To give you an idea of the extent of procurement, of purchasing, within the Commonwealth on goods and services, we usually use a figure of around \$10 billion per annum. If you break that up, about \$5 billion is defence expenditure and a large proportion of that would include major acquisitions, like ships and so on, which you would not do via the Internet; you would use your more traditional tendering systems. Purchases of things like IT equipment, which you could do over the Internet, amount to around \$1.5 billion a year; I think consultancies are a few hundred million dollars a year; and our own common use arrangements that we manage in the department are around \$600 million per year.

So out of the overall \$10 billion, I would suggest that you would have about \$5 billion which would be on your traditional goods and services, which could be potentially

purchased over the Internet. But, as I said earlier, we are not actually doing that at the moment; we are just establishing the system.

**CHAIR**—You have not made any estimate of what the number might be in the year 2000?

**Mr Peel**—No, not at this stage—only the rough, ball park figures that I have just provided to you.

**CHAIR**—This inquiry arose out of ATO's interim report on tax and the Internet, and one of the things that we have been trying to come to grips with today is just what the level of Internet purchases is for both goods and services—nationally, internationally; anything that we can get hold of—and what it is likely to be in the short and medium term future, because it has huge implications for decisions or recommendations we might make. Our governments might respond to the intellectual challenge or not respond, if there is not going to be much take-up.

**Mr Peel**—The levels that I mentioned in terms of procurement—\$10 billion a year—and the breakdown I gave you are the sorts of figures that we are looking at in terms of our normal procurement. But the system that we are working on, which is being delivered to us by Telstra, has the capacity to expand into other business to business sales outside the Commonwealth and perhaps embrace the state governments as well. It is potentially very large. The sorts of figures we have seen are those that have been provided to you by the Department of Foreign Affairs and Trade and others, but we have not done our own studies on that.

**Senator HOGG**—If I could follow on from that, that is focusing on government purchasing, but what about the other way: purchases from government departments by organisations outside. Are you tackling that issue as well?

**Mr Peel**—That certainly could be included, but by far the majority of purchasing is the other way.

**Senator HOGG**—I understand the majority would be going the other way, but are you developing—

**Mr Peel**—The capacity is there. It will be for departments themselves to consider whether it is cost-effective for them to use the system for that. It will be a matter for their own judgment at the time.

**Mr Hawkins**—Transigo certainly has the opportunity to allow anyone to register as a buyer or a supplier, so a Commonwealth government agency can register as either of those.

**CHAIR**—That will be an Internet web site?

**Mr Peel**—Yes.

**Mr Hawkins**—Yes.

**CHAIR**—I assume the department is working with Telstra on developing electronic commerce. What planning are you doing to make small and medium size businesses aware of the upcoming system and how they might access it and participate?

**Mr Peel**—We have done a fair bit of that already. As part of our normal activities we engage in quite a lot of seminar work and presentations to the business community about government purchasing in general. At those events we have had demonstrations of the Transigo system. We have also used the National Procurement Board seminar series to publicise the system to the business community. And Telstra itself is using its own marketing activities, for its own commercial reasons as much as anything else, to also make people aware of the existence of Transigo and its capabilities. It recently undertook some newspaper advertisements in only the last few weeks to publicise the up and coming functionality of the system.

**CHAIR**—Two or three years ago, when I was a member of the industry, science and technology committee, we did a report on government purchasing. One of the observations the committee made was that small and medium sized business had a terrible time accessing government purchasing because something like 30,000 Commonwealth government employees or their agencies had authority to purchase. There were something like 12,000 government credit cards floating around the place as well. Small traders complained to us constantly that they had little opportunity to compete. Will this new system mean that they really need only to be registered and have access to the Internet in order to be able to compete for business?

**Mr Peel**—Essentially, yes. In relation to the other comments that you made about the number of government buyers and small business having difficulties accessing them, since that report that you referred to quite a lot of work has been undertaken within the Commonwealth in training government buyers as to how to do their purchasing better and to make suppliers more aware of the opportunities available in government for them. In the last few days the government has reaffirmed a pre-election commitment to source at least 10 per cent of its purchases from small business. We are about to embark, with the department of industry and the Department of Workplace Relations and Small Business, on a study to determine the extent of buying that is done from small business at the present time, with a view to ensuring that that 10 per cent target is achieved and, where it is not being achieved, to introduce initiatives to ensure the level is maintained.

There is a high degree of awareness since that report and in relation to other initiatives that the government has taken not just to improve our purchasing but to ensure



that an amount of it is sourced from small and medium enterprise, and that they have the opportunity to compete for work that the government is putting out to the business community generally.

**Mr Hawkins**—I would like to add that I think there are lots of opportunities there but that the small businesses have to have access to the Internet in terms of Transigo helping to solve that problem. Certainly the government has made a commitment and all Commonwealth agencies have to put all their open business opportunities onto Transigo, and that is occurring now. All Commonwealth government agencies are subscribers to Transigo and they put those business opportunities there. They are accessible if they have access to the Internet.

**CHAIR**—Have you done any surveys on what percentage of small businesses that are potential suppliers of goods or services to the Commonwealth government are connected to the Internet?

**Mr Peel**—Yes, we have some figures here that I could mention. I can certainly provide you with a copy of the report if you would like to see it.

**CHAIR**—Thank you.

**Mr Peel**—Yellow Pages undertook a technology and small business sector survey and the figures that we have are that, in May 1997, 76 per cent of small business had a desktop computer, 42 per cent had a modem and 23 per cent had an Internet connection. The comparable figure for the year earlier was 74 per cent with a computer, 31 per cent with a modem, but only nine per cent with an Internet connection. The Internet connection has grown 255 per cent in a single year, so there is evidence that small business is recognising the advantages of being connected not just to IT but to the Internet. That study seems to indicate that that is certainly a growing area.

**Senator WATSON**—I was interested in why your department has taken such a focal point in this Transigo operation. I would have thought it was more in the area of the department of industry and science.

**Mr Peel**—Certainly the Department of Industry, Science and Tourism was involved with us on the development of the system in the earlier days. I guess the reason that we were involved was that it started off in the Department of Administrative Services, which was responsible for government procurement policy and practice. Essentially, the system is about buying and selling things to the government so it fell into DAS's then role of procurement policy and practice. Now we are part of the Department of Finance and Administration—DAS not being there—the role has been transferred. Certainly, we work very closely with the Department of Industry, Science and Tourism.

**CHAIR**—Thank you very much, gentlemen, for your submission and for coming

today.

Resolved (on motion by Senator Hogg):

That, pursuant to the power conferred by section 2(2) of the Parliamentary Papers Act 1908, this committee authorises publication including publication on the parliamentary database of the proof transcript of evidence given before it at public hearing this day.

**Committee adjourned at 4.50 p.m.**