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Productivity Inquiry Secretariat
Productivity Commission
4 National Circuit
Barton ACT 2600

Lodged via the inquiry portal

Submission – Productivity Inquiry Interim Report 2: Australia’s data and digital dividend

Dear Commissioners,

As the industry association for private capital in Australia, the Australian Investment Council is pleased to provide this submission to the Productivity Commission on the second Interim Report for the Inquiry into Australia’s productivity performance. The content of this submission builds upon the Council’s submissions of [31 March 2022](#) and [29 April 2022](#).

The Council is supportive of policy initiatives and reforms that help ensure our economy is competitive, productive, innovative, and able to support Australia, now, and into the future.

Private capital investment has played a central role in the innovation, growth and expansion of thousands of businesses and represents a multi-billion-dollar contribution to the Australian economy. Australian Investment Council members are the standard-bearers of professional investment and include private equity (PE), venture capital (VC) corporate venture capital (CVC) and private credit (PC) funds, alongside institutional investors such as superannuation funds, sovereign wealth funds and family offices as well as leading financial, legal and operational advisers. Our members include both Australian domestic and offshore-based firms, who in turn invest capital on behalf of millions of Australians through superannuation funds and attract capital from passive overseas investors such as pension funds and sovereign wealth funds.

Private capital fund managers invest billions of dollars into Australian companies across every industry sector of the economy every year. Australian-based PE and VC assets under management reached \$42.2 billion in 2021¹ with an additional \$10 billion in equity capital available to be invested in the short-term. Companies that partner with private capital fund managers contribute nearly 500,000 Australian jobs and contribute approximately 3% of our nation’s GDP.² The private capital industry is a significant and growing contributor to, and driver of, Australia’s economic recovery and the development of Australia’s industries of the future.

Given the impact of the COVID pandemic and the uncertain times that lay ahead, and as a net importer of capital, Australia’s economy relies on a dependable and steady flow of foreign capital to drive economic growth and job creation. At this critical juncture, it is vitally important for our economic future, and Australian jobs, that businesses can quickly and efficiently access capital from domestic as well as offshore investors.

The Council looks forward to participating in any future discussion about the themes set out in this submission as part of the Productivity Commission’s inquiry process. If you have any questions about specific points made in our submission, please do not hesitate to contact me or our policy team at policy@aic.co.

Yours sincerely,

Dragan Mistic
Head of Policy and Research

¹ Preqin & Australian Investment Council Private Capital Yearbook, May 2022

² EY independent analysis of the Economic Contribution of Private Capital to the Australian Economy – *Funding a Brighter Future*, May 2022

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Summary of Recommendations

The Council's recommendations are outlined below:

Use of digital technology and data in the Australian economy

- Focus on technology as an enabler for building productivity and economic growth.
- Implement robust digital and data policies
- Develop digital capabilities
- Build the relevant infrastructure throughout urban and regional Australia.

Potential barriers to adopting new technologies and data

- Invest in further NBN upgrades of premises from FTTC and HFC to FTTP to provide greater connectivity and improved internet accessibility in urban and regional areas.
- Legislate the small business technology investment boost announced in the FY22 Federal Budget³ and extend the benefits for five years.
- Implement a review of the Research and Development Tax Incentive to consider the development of technologies critical for increasing productivity.
- Provide digital skills and training opportunities for small business and individuals wanting to upgrade their skills.

Targeting government investments and policy priorities

- Review and enhance international collaborations to mitigate against cyber security risks for consumers, businesses and governments.
- Unlock the transformative power of government procurement to accelerate the growth of smaller technology-enabled businesses.
- Establish an authority to ensure regulation and policy keep pace with technology developments.

³ [Budget Paper No. 2](#) Federal Budget 2022-23

Overview - Interim Report 2: Australia's data and digital dividend

The Productivity Commission's second Interim Report highlights that digital technology and data have already transformed our economy and society, but we have not yet tapped into their full potential.

A prosperous digital economy requires individuals and businesses to have access to the latest digital technologies – the keystone to productivity within the domestic economy, for exporting goods and services, and providing an environment that is attractive for investment capital.

Access to cloud services is critical for building a comparative advantage and improving productivity. Cloud services were adapted rapidly during the pandemic with more than 60 million new digital consumers joining the digital economy and 9 out of 10 intending to continue to use them.⁴ Cloud Services are pivotal in enabling businesses to digitise and innovate with cutting edge computing and technologies as we have seen with the rapid adoption of artificial intelligence, machine learning and big data analytics on a global scale. Meanwhile, data created, captured, copied and consumed globally was 64 zettabytes in 2020 – and is estimated to triple by 2027.⁵

As businesses require digital skills and look to incorporate emerging technologies, growing the Australian technology industry will be key to our nation's future. Independent research conducted by EY⁶ on behalf of the Australian Investment Council showed 80% of businesses surveyed said they were looking to adopt key technological innovations in the next five years (including cloud computing, big data analytics, connected devices and artificial intelligence).

About half of the Australian Investment Council members surveyed say their portfolio companies are involved in advanced manufacturing, while 42% are aligned with Australia's aim to build a technology-backed economy, working in fields as diverse as fintech and quantum computing. As private capital flows into these sectors, its impact goes beyond direct funding, sending signals to the business community that drive innovation and growth.

The Australian Investment Council advocates for a doubling in the size and output of Australia's technology industry by 2030. The significant benefits of this objective would flow to almost every industry in Australia through growth, improved productivity and new high-value job creation. This objective can be achieved through fostering deeper and more meaningful partnerships between industry, government and academic institutions, and increasing the skills of the workforce. Additionally, the role of technology should be central in any new regulation and legislation to help create an environment that incentivises investment and removes regulatory burdens. Government procurement should play a critically important role in supporting the growth of technology across all areas of social and business policy and programs.

The Council's recommendations in response to the second interim report in the Productivity Commission's inquiry into Productivity in the Australian economy, are outlined below.

1. Use of digital technology and data in the Australian economy

The productivity-enhancing impact of a vibrant innovation and technology sector can extend across almost all existing industries while strong domestic innovation and technology skills can support and develop new sectors, such as strategic manufacturing capabilities.

Achieving material gains in innovation and technology will generate sustainable economic and income growth for all and position the Australian market with a competitive edge against other developed economies around the world. In turn, this will enhance the attractiveness of Australia to domestic and offshore investment capital.

The pandemic has been a catalyst for businesses and individuals to rapidly deploy new technologies at an accelerated rate from enabling remote working environments, telehealth and secure payments platforms, to more flexible supply chains. Continuing to embrace the use of technology will maintain the momentum and support new technologies that will contribute to innovation and a skilled labour force with the capacity to directly contribute to economic output and to indirectly lift productivity, global competitiveness and create jobs across the economy.

⁴ [Information from Statista](#)

⁵ [Bain & Company \(2021\), e-Economy SEA 2021](#)

⁶ [Funding a Brighter Future](#), EY May 2022

Healthcare is one sector that has demonstrated the ability to innovate and use technology to improve patient care. At the Australian Investment Council's annual conference in September 2022, a panel of experts cited AI as playing a central role in the future of healthcare and will likely inform every decision about healthcare in the future. Artificial Intelligence (AI) will play a central role in activities such as diagnosing X-rays and identifying vulnerable patients in intensive care units. However, at this stage there is not sufficient scale to deliver more time to nurses and cost savings for patients.

Technologies such as data analysis, AI, robotics, automation, 3D printing, have already changed the face of healthcare and ambulances are now more equipped with medical devices such as portable CT scanners and surgical devices enabling treatment of blood clots. The sector is moving into new territory with spaces with data capture essential so the benefits of new technologies can be passed on to patients. Better use of data will allow the further development of personalised medicine and treatment for patients based around their specific needs.

While healthcare in Australia has the potential to become leading edge, as outlined by the panel of experts, there is work to be done. This is reflected in other industry sectors throughout Australia.

Focusing on technology as an enabler for productivity

Looking to the broader economy, there are three key levers that will make Australia more competitive on a global scale including: implementing robust data and digital policies; developing digital capabilities; and building the relevant infrastructure throughout urban and regional Australia.

Digital and data policies

For businesses, a clear government strategy supporting digital transformation efforts, along with a dedicated agency to drive change is critical. This effort must comprise crucial elements such as support for cloud adoption of micro, small and medium enterprises and the public sector, as well as intellectual property protection, and regulatory flexibility for new technologies.

Develop digital capabilities

To access digital technologies and opportunities, individuals and businesses should be provided with the requisite skills and support for digital adoption. To access digital technologies and opportunities, individuals and businesses should be provided with the requisite skills and support for digital adoption.

Infrastructure

Having the right infrastructure includes initiatives that lay the foundations for digital connectivity and cloud services adoption at scale, as well as initiatives that facilitate robust cybersecurity systems in the country

Recommendations

- Focus on technology as an enabler for building productivity and economic growth.
- Implement robust digital and data policies
- Develop digital capabilities
- Build the relevant infrastructure throughout urban and regional Australia.

2. Potential barriers to adopting new technologies and data

Australia's future economic, employment and productivity growth will need to be supported by the acceleration and development of domestic technology as an enabler of businesses across all sectors of the economy. Digital technology and data can directly make a significant contribution to high-value economic output and to lift productivity, global competitiveness and create jobs across the entire economy.⁷ A stronger technology capability would provide a significant new building block in designing a future-proof Australia that generates sustainable economic and incomes growth for all and makes our market competitive with other developed economies.

⁷ [Australia's Digital Opportunity](#), AlphaBeta September 2019

However, in many parts of Australia, both in urban and regional areas, internet connections are lagging behind the speed of other developed and even developing nations. In 2021, Australia ranked 59th out of 180 countries for average internet speed in the Ookla Global Internet Speed Test and 54th for median internet speed.⁸

Slow connectivity impacts the ability of companies to adopt new technologies, and in rural areas impacts the ability of agricultural and mining industries to upgrade their facilities. Slower internet speeds have an impact on productivity with businesses losing 44 minutes per day per employee, or one working week per annum due to slow internet connectivity according to a survey by UK-based company One Poll.⁹

Building a digital future will require further investment in technological infrastructure to ensure businesses and individuals have access to facilities that are world class. Upgrading the NBN to a gold and future-proof standard FTTP and building 5G and future 6G capabilities will be integral to this process.

The transition to a digital economy can be further fast-tracked through providing businesses with incentives to improve their digital capabilities and to increase digital skills through education and training programs. Research and development activity should be tailored to focus on investment into industries aligned with the future digital economy.

Recommendations

- Invest in further NBN upgrades of premises from FTTC and HFC to FTTP to provide greater connectivity and improved internet accessibility in urban and regional areas.
- Legislate the small business technology investment boost announced in the FY22 Federal Budget¹⁰ and extend the benefits for at least five years.
- Implement new determinations for the Research and Development Tax Incentive to consider the development of technologies critical for increasing productivity.
- Provide digital skills and training opportunities for small business and individuals wanting to upgrade their skills.

3. Targeting government investments and policy priorities

Cybersecurity Frameworks

In addition to investing into an upgraded NBN, ensuring that users are operating in digitally secure environments, and that they can leverage digital technologies effectively, greater concerted efforts to develop robust and relevant cybersecurity frameworks as well as participation in international cybersecurity partnerships is critical. In this context, it is important that further consideration be given to balancing the risks associated with the potential for funding to be attracted into such businesses from offshore regimes that do not exhibit the appropriate bona fides that Australia expects.

Government Procurement

Governments around the world are typically exposed to some of the most significant cyber security and data privacy threats from domestic and offshore instigators. There is a compelling argument, therefore, that government procurement can, and should, play a prominent role in Australia's digital and data strategy. There is a compelling case to build a pipeline of government procurement by having larger providers of digital technology and data services paired with smaller start-ups to combine the benefits of scale and innovation to get the best possible economic and productivity outcomes.

Policy and regulation

Policy and regulation have not kept pace with the development of digital and data technologies in recent years. Further, there has been no consistent oversight of regulations and policies that map Australia on a global stage. There is scope in this context to establish an authority with responsibility for ensuring policy and regulation keeps pace with the development of technology while ensuring innovation can succeed without posing a threat to public safety. This could be modelled on the UK's Regulatory Horizons Council for example.

⁸ [ABC Fact Check](#), 5 December 2021

⁹ Source: [Synextra](#)

¹⁰ [Budget Paper No. 2](#) Federal Budget 2022-23

Recommendations

- Review and upgrade international collaborations to mitigate against cyber security risks for consumers, businesses and governments.
- Unlock the transformative power of government procurement to accelerate the growth of smaller technology-enabled businesses.
- Establish an authority to ensure regulation and policy keep pace with technology developments.