Internet Competition Inquiry

Inquiry into impacts on local businesses in Australia from global internet-based competition

House of Representatives Standing Committee on Industry, Innovation, Science and Resources

March 2018
CANBERRA
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Members

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Ms Michelle Landry MP (to 6 February 2018)

Deputy Chair
Mr Luke Gosling OAM MP

Members
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Joel Bateman, Inquiry Secretary (to February 2018)
Tim Brennan, Inquiry Secretary (from February 2018)
Jessica Butler, Research Officer (to March 2018)
Alicia Vaughan, Secondee
Tamara Palmer, Executive Assistant
Terms of Reference

The Committee will inquire into the impacts of global internet-based businesses on local Australian business, particularly in the retail and small business sectors.

The inquiry will consider questions including:

- How has/will the existing retail industry cope with changes to the sector’s landscape brought about by the existence of global online retail business?

- What are the consequences for small businesses in terms of new competition and access to digital platforms?

- How are small businesses responding to digital change and what is their uptake of new digital business services?

- What impacts do the above have on employment, including employment levels and conditions?

- What roles can the Commonwealth Government and Parliament play in fostering innovation for Australian businesses to respond to these challenges?
List of Recommendations

Recommendation 1

3.87 The Committee recommends that the Australian Government establish a digital grants program for small business. The program should provide small businesses with grants to assist them take advantage of digital economy opportunities such as online retail. Grants should be small-scale and the businesses should be required to provide matched funding and demonstrate how the grant would increase their capacity to take advantage of digital economy opportunities.

Recommendation 2

4.68 The Committee recommends that the Australian Government establish a digital retraining fund. The fund should provide a small, means tested, subsidy to Australian workers to undertake training to improve their competency in digital skills that will assist them to find or maintain employment in the future.

Recommendation 3

4.69 The Committee recommends that the Australian Government fund the development of the nation’s forecasting capability for future digital skills needs. The funding should be provided on the condition that research findings are shared with Australia’s education sector and also communicated as widely as possible with the Australian business sector.
Recommendation 4

5.96 The Committee recommends that the Australian Government should consider future reform of competition law in light of the potential impact of digital retail platforms, taking into account the way major tech firms collect, use and monetize data in possibly anti-competitive ways.

Recommendation 5

5.97 The Committee recommends that the Department of Industry, Innovation and Science, in partnership with relevant industry associations and educational institutions, develop education materials aimed at encouraging small business to participate in the digital economy. These materials should aim to:

- Provide small business with relevant and accessible information on key emerging technologies and opportunities to collaborate with universities;

- Assist small business to understand the potential risks and benefits of using digital platforms and how to access and use the data created when using digital platforms;

- Assist small businesses to protect their data through improvements to cybersecurity technologies and processes; and

- Promote the examples of diverse Australian companies who have grown their business through successful digital engagement.
Recommendation 6

5.98 The Committee recommends that the Department of Industry, Innovation and Science ensure that legislative and regulatory changes to industry policy keep the following principles in mind:

- Digital platforms should not engage in monopolistic or anti-competitive practices;

- Regulatory settings should not create loopholes or exemptions that provide internet-based companies a competitive advantage over Australian local businesses;

- Australian consumers and businesses should be able to easily access data collected on them by digital platforms.
1. Introduction

1.1 The Australian retail sector was once relatively protected from overseas competition. This is no longer the case; Australian retailers now compete with businesses from around the world.

1.2 Recently, competition has begun to come from internet retailers based overseas. Currently, online retail accounts for just 6.4 per cent of Australian retail spending but, unlike traditional retail, online spending is growing rapidly.\(^1\)

1.3 To date, domestic retailers have accounted for the majority of online retail spending.\(^2\) Nonetheless, competition from overseas retailers is increasing and likely to intensify further due to the entrance of businesses such as Amazon into the Australian market.

1.4 Online competition is often facilitated through digital platforms, such as eBay and Alibaba, which act as intermediaries between customers and businesses. In addition, the influence of digital platforms extends beyond the retail sector, for example Expedia, Booking.com, and Airbnb all have a significant impact on the accommodation market.

1.5 While digital platforms provide an avenue for overseas businesses to sell directly to Australian consumers they also, crucially, provide an opportunity for Australian businesses to sell to overseas consumers.

1.6 As many as 90 per cent of the Australian small businesses on eBay are using the site to export their products.\(^3\) The opportunity to sell to a global market

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\(^1\) Department of Industry, Innovation and Science, *Submission 7*, pp. 9-10.

\(^2\) Department of Industry, Innovation and Science, *Submission 7*, p. 10.

of consumers has enabled the success of many small Australian businesses that would be unviable if restricted to a purely local market.

1.7 The disruption that comes when a new digitally enabled competitor enters the market can be swift and its effects transformative. Nevertheless, these disruptions are also opportunities, and how well Australian businesses can take advantage of these opportunities will have a substantial influence on the future success of the Australian economy. As Data61, the CSIRO’s digital innovation group, stated:

...digital disruption is ubiquitous and it’s just beginning [it is] set to transform practically every industry and every organisation, small to large, as well as impact the careers of the vast majority of Australian workers ... the efficiency with which a national economy transitions to digital is core to its ability to generate jobs and wealth for its citizens. 4

Conduct of the Inquiry

1.8 On 19 October 2017, the then Assistant Minister for Industry, Innovation and Science, The Hon Craig Laundy MP, referred the Inquiry into the Impacts on Local Businesses in Australia from Global Internet-based Competition (the Inquiry) to the Standing Committee on Industry, Innovation, Science and Resources. The Terms of Reference are available on page v of this report.

1.9 The Inquiry considered how Australian businesses have responded to growing competition from global online companies. The Inquiry also considered how Australian businesses can be assisted to take advantage of the opportunities presented by the digital economy. The focus of the Inquiry was primarily on small businesses and retail businesses. More specifically the Committee examined:

- Current and future technologies which may assist Australian businesses to compete effectively in a digital economy.
- The current, and expected future, impacts of increased internet competition on Australian businesses.
- The uptake of digital technologies by Australian business and barriers to greater uptake of these technologies by Australian businesses.
- The opportunities that online digital platforms create for Australian small businesses.

4 Mr Adrian Turner, Chief Executive Officer, CSIRO’s Data61, Official Committee Hansard, Canberra, 28 February 2018, p. 2.
The effects of increased internet competition on employment levels and conditions in Australia.

The existing levels of digital literacy and skills in the Australian workforce and future skills requirements.

The regulation of internet-based businesses in Australia.

Taxation issues and the compliance of internet based businesses with Australia’s taxation and regulatory obligations.

The power of digital platforms and whether this impacts on fair trading conditions in Australia.

Australia’s innovation system and how successfully it assists Australian businesses to compete in the digital economy.

1.10 The Inquiry received 16 submissions and held four public hearings between December 2017 and February 2018 in Canberra. The witnesses at the public hearings included groups that had made submissions to the Inquiry and groups that had made submissions to the Department of Industry Innovation and Science’s consultation on the Digital Economy Strategy. Witnesses included government agencies, industry associations, research institutes, and academics.

1.11 A list of submissions received is at Appendix A. The names of witnesses and a list of hearings are at Appendix B.

**Previous Reports and Research Papers on the Digital Economy**


1.12 The Australian Competition and Consumer Commission (ACCC) commissioned Deloitte Access Economics to conduct research into the regulatory impact of the sharing economy. The paper, published in October 2015 and entitled ‘The Sharing Economy and the Competition and Consumer Act’ analysed existing competition and consumer laws and determined that:

The key legislative issue relating to competition and the sharing economy is not related to the [Competition and Consumer Act] but rather to industry-specific regulation that currently restricts competition and protects incumbent operators in the traditional economy. In some cases, sharing economy businesses may be operating in breach of these regulations.\(^5\)

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1.13 Nevertheless, Deloitte Access Economics (Deloitte) suggested that regulation of the sharing economy ‘should only be promulgated where a clear problem can be identified’.6

1.14 However, Deloitte found that there may be a role for government in ensuring that appropriate standards for accessibility and transparency are met by sharing platforms, as they are by traditional businesses.

**Harper Review of Competition Policy (2015)**

1.15 In December 2013, the then Prime Minister and then Minister for Small Business announced a review of competition policy. The review was led by Professor Ian Harper and released its findings on 31 March 2015.7

1.16 One of the review’s recommendations was to make changes to Section 46 of the *Competition and Consumer Act (2010)* which deals with misuse of market power. These changes would insert into the legislation a test to determine whether corporations with significant market power were engaging in actions that had the result of substantially lessening competition.8

1.17 The government issued its response to the review on 24 November 2015.9 The government stated that it would consult further on this issue. In December 2016, following this consultation process, the Government introduced the Competition and Consumer Amendment (Misuse of Market Power) Bill 2017. The bill received royal assent on 23 August 2017.


1.18 In June 2016, the Productivity Commission (PC) released a research paper entitled *Digital Disruption: What do governments need to do?* The paper discussed ‘the potential impacts and challenges of digital technology for markets and competition, workers and society, and the way governments operate’.10

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The PC’s findings included that: governments may need to address issues relating to the ‘gig’ economy and outsourcing; the sharing economy could lead to ‘structural adjustment issues in industries that have traditionally faced little competition’; new regulatory tools many be needed to address the market power of digital firms; governments should adopt a ‘wait and see’ approach to new business models.11

The PC suggested that governments ‘show leadership in their own practices, redesign regulation to enable, rather than block, the adoption of digital technologies, and mitigate community level risks where practical.’12


1.21 On 30 June 2017, the government requested that the PC undertake an inquiry into collection models for GST on low value imported goods.13

1.22 This followed the passage of amendments to the *A New Tax System (Goods and Services Tax) Act 1999* in relation to collecting GST on low value imported goods from 1 July 2018.14

1.23 The PC considered the effectiveness of the amendments and whether the legislated model of collecting the GST on low value imported products or an alternative collection model would be most suitable.15

1.24 The PC submitted the report entitled *Collection Models for GST on Low Value Imported Goods* to the government on 31 October 2017.16

1.25 The PC found that although the ‘legislated model has limitations and carries significant uncertainty about levels of compliance’, it was the most suitable collection model.17

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12 Productivity Commission, *Digital Disruption*, June 2016, p. 3.


1.26 The PC recommended that:

The Australian Government should conduct a comprehensive review of the collection of GST on low value imported goods five years after the commencement of the legislated model, unless exceptional circumstances — such as extremely low compliance, unintended impacts on consumers or significant trade policy issues — warrant an earlier review.¹⁸

Current Inquiries on the Digital Economy

Inquiry into the Trade System and the Digital Economy

1.27 On 8 August 2017, the Minister for Trade, Tourism and Investment, the Hon Steven Ciobo MP, asked the Joint Standing Committee on Trade and Investment Growth to inquire into and report on the trade system and the digital economy.

1.28 The inquiry’s terms of reference are to inquire into and report on:

- the responsiveness of Australia’s trade architecture and regulatory system to the contemporary needs of the digital economy and disruptive technology; and
- measures to improve the cyber resilience of Australia’s trade-focused business sector¹⁹

1.29 The Committee is looking at ‘ways to ensure that Australia’s trade system can keep pace with digital innovators’.²⁰

Digital Economy Strategy Consultation

1.30 On 19 September 2017, the Australian Government announced it would develop a national Digital Economy Strategy (the Strategy) and released a consultation paper.²¹

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1.31 The objectives of the digital economy strategy are to:

- Build Australia’s competitive strengths and develop new strengths;
- Develop digital business capability;
- Develop a culture of lifelong learning and a global outlook;
- Address the ‘digital divide’ in skills to help all Australians participate in the digital economy.\(^\text{22}\)

1.32 As part of the development of the Strategy, the Department of Industry, Innovation and Science hosted an online public consultation, inviting responses by 30 November 2017. The consultation received over 160 submissions.\(^\text{23}\)

1.33 Following the consultation process the government aims to launch the Strategy in the first half of 2018.\(^\text{24}\)

**Committee Report Structure**

1.34 Chapter 2 provides background and context for the Inquiry and considers: the small business and retail sectors in Australia; innovation in Australian businesses; e-commerce in Australia; and key digital economy technologies.

1.35 Chapter 3 outlines the consequences for Australian business of increased internet competition; the take-up of digital technology among Australian businesses and barriers to further take-up; the opportunities for business presented by emerging digital technologies; and other responses to internet competition.

1.36 Chapter 4 is focused on employment and skills and considers the effects of internet competition on employment levels and conditions in Australia; the digital skills of Australia’s existing workforce; future skill requirements in the digital economy; and how skill levels can be improved.

1.37 Chapter 5 looks at the role of the government in regulating the digital economy and internet competition. This includes: consideration of current government programs; regulation of internet businesses; taxation issues; the power of digital platforms; and promoting the Australian innovation system.

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2. Background - The Digital Economy in Australia

Small Business in Australia

2.1 Small businesses are defined as those businesses which have less than 20 employees. According to ABS data, small businesses make up 94 per cent of Australian businesses with at least one employee. The majority of small businesses (61 per cent) are sole traders with no employees, while firms with 5-19 employees comprise 9 per cent of all Australian businesses.¹

2.2 The large majority (96 per cent) of retailers in Australia are small businesses.² Other industries represented by small businesses include agriculture, construction and professional services.³ The Australian Industry Group notes that food and beverages, metal products, machinery and equipment constitute the main economic base for small businesses in Australia.⁴

¹ Calculations based on ABS Data Cube 8165.01 Tables 1 - 20 of Counts of Australian Businesses, including Entries and Exits, Jun 2013 to Jun 2017, February 2018, Table 13.
² Calculations based on ABS Data Cube 8165.02 Businesses by Main State by Industry Class by Employment Size Ranges, June 2016 and June 2017, February 2018.
⁴ Australian Industry Group, Submission 4, p. 2.
Australia’s Retail Industry

2.3 The Australian retail industry accounts for 4.3 per cent\(^5\) of gross domestic product and approximately 6 per cent of businesses (over 130,000).\(^6\) It also employs 10 per cent of the national workforce (around 1.2 million people), making it the second largest employer in Australia.\(^7\) In 2017, food retailing, including cafes, restaurants and takeaway food services comprised over half of retail trade turnover. Household goods contributed the next highest turnover, followed by clothing, footwear and personal accessories.\(^8\)

2.4 Online retail still makes up a small proportion of total retail employment (less than 1.2 per cent) and an estimated 6.4 per cent of retail turnover.\(^9\) However, both turnover and employment in online retail have been growing rapidly.\(^10\) Employment in non-store retailing, which includes direct selling and internet selling, has increased by 8 per cent a year over the last decade. In comparison, growth in overall retail employment (in-store and non-store) over the past decade has been just 0.4 per cent a year.\(^11\)

2.5 Estimates suggest that online retail turnover has grown 142 per cent since 2013 (an average of 9.2 per cent a year), at almost 9 times the growth rate of the retail industry as a whole.\(^12\) Domestic retailers still receive 80 per cent of online spending by Australian consumers.\(^13\)

2.6 The retail industry traditionally involves low skilled jobs and has a high proportion of part-time employment and female employees, with a lower than average employee age. Disruption to the Australian retail industry has increased in recent decades, with the lowering of geographic barriers and

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\(^5\) Department of Industry, Innovation and Science, Submission 7, p. 8.

\(^6\) Calculations based on ABS Data Cube 8165.01 Tables 1 - 20 of Counts of Australian Businesses, including Entries and Exits, Jun 2013 to Jun 2017, February 2018, Table 1.

\(^7\) Department of Industry, Innovation and Science, Submission 7, pp 8, 18.

\(^8\) Calculations based on ABS Time Series Spreadsheet 8501.01 Table 1. Retail Turnover, By Industry Group, January 2018.

\(^9\) Department of Industry, Innovation and Science, Submission 7, p. 18 and p. 9. Number of ‘Non-Store Retailing’ workers over total number of ‘Retail Trade’ workers for 2017.

\(^10\) Department of Industry, Innovation and Science, Submission 7, p. 4.

\(^11\) Department of Industry, Innovation and Science, Submission 7, p. 18.

\(^12\) Department of Industry, Innovation and Science, Submission 7, pp. 9-10.

\(^13\) Department of Industry, Innovation and Science, Submission 7, p. 9.
the arrival of international entrants such as Aldi, Costco, Zara and Uniqlo. However, the Department of Industry, Innovation and Science (DIIS) notes, however, that ‘the emergence of global internet-based competition is proving to be more disruptive, not only [due to] increased international competition but also from the introduction of new business models that retailers need to contend with.’\textsuperscript{14}

**Small Retail Businesses**

2.7 The National Australia Bank (NAB) found that SME\textsuperscript{15} online retailers were responsible for around 36 per cent of online retail sales in the 12 months ending September 2017. According to the NAB data, the three largest categories of online spending for small businesses were: ‘homeware and appliances’; ‘personal and recreational’; and ‘fashion’.\textsuperscript{16}

**Challenges and Pressures**

2.8 Submissions to the Committee outlined a number of factors that impact the competitiveness of small retailers. Such factors are not unique to these businesses; however the burden on small enterprises is often relatively larger, due to their lower revenues. As previously noted, small enterprises are predominantly retail businesses.

2.9 The cost of wages and rents in Australia were also considered to be increasing the pressure on small businesses competing with international merchants. The Australian Retailers Association noted that Australia has roughly the third-highest retail rents in the world and much higher labour costs than the majority of other countries. Retail wages in both the UK and US are lower than those paid in Australia. \textsuperscript{17}

2.10 Other regulatory barriers include restrictions on trading hours, taxation and compliance cost pressures, mandatory transaction costs introduced by ‘tap-

\textsuperscript{14} Department of Industry, Innovation and Science, *Submission 7*, p. 8.


\textsuperscript{17} Mr Russell Zimmerman, Australian Retailers Association, *Committee Hansard*, 7 February 2018, pp 7, 16.
and-go’ technology, and vulnerability to fraud\textsuperscript{18} and cyber-crime.\textsuperscript{19} Further, small businesses are likely to feel the impact of low levels of innovation, skills shortages, cost pressures associated with modernising technology, and logistics and supply chain inefficiencies.\textsuperscript{20}

2.11 These local pressures are compounded by challenges presented by a global shift towards online trading. The DIIS notes that ‘small traditional retailers selling homogenous products which can be obtained more cheaply online are likely to face significant competitive pressure.’\textsuperscript{21}

2.12 SME retailers also face increased competition for visibility in the online space and will need to adapt to new marketing models in order to compete. New marketing strategies can be ‘costly to develop and implement’. 22

2.13 Notwithstanding these apparent challenges, it is also ‘important to recognise that global internet-based businesses have created a range of opportunities for new and existing small businesses to grow’.\textsuperscript{23} These opportunities are further examined in Chapter 3.

Innovation in Australian Business

2.14 The \textit{Australian Innovation System Report 2017} describes innovation as the ‘most important driver of long-term productivity growth and material living standards.’\textsuperscript{24} Businesses that innovate are 40 per cent more likely to increase their profits.\textsuperscript{25} In the 12 months to November 2017, 48 per cent of all employing firms in Australia have attempted to develop or introduce an innovation. Among these, the most represented industries were manufacturing, retail, and the arts and recreation services.\textsuperscript{26}

\begin{flushleft}
\textsuperscript{18} Australian Retailers Association, \textit{Submission 5}, pp. 2-9.
\textsuperscript{19} Australian Booksellers Association, \textit{Submission 12}, p. 10.
\textsuperscript{20} Australian Retailers Association, \textit{Submission 5}, pp. 7-9.
\textsuperscript{22} Australian Retailers Association, \textit{Submission 5}, p. 7.
\textsuperscript{24} Office of the Chief Economist, Department of Industry, Innovation and Science (DIIS), \textit{Australian Innovation System Report 2017}, p. 6.
\textsuperscript{25} Office of the Chief Economist, DIIS, \textit{Australian Innovation System Report 2016}, p. 22.
\end{flushleft}
2.15 The CSIRO’s Data61 research group (Data61) notes that Australia’s investment in innovation is lagging behind other countries. Concerns were also raised about the ASX 250 investing less in R&D than the Fortune 500 or other large companies in the US.27

2.16 However, the Australian Industry Group submitted that ‘Business performance is much more closely linked to collaboration on innovation than to spending on innovation.’ The group states:

Collaboration within existing supply chains is relatively common. But it is much rarer for businesses to make a strategic decision to engage in collaborative arrangements and search widely both domestically and internationally for the best partners.28

2.17 A 2015 study of 7000 Australian SMEs found that collaboration on innovation had increased annual productivity growth by 4.1 percentage points. However, Australia ranks low on most OECD collaboration measures.29

2.18 Data61 has recognised the value of business collaboration and has established a precinct in Brisbane for this purpose. Here, Data61 is co-located with a number of small start-up companies, including companies that Data61 considers to have ‘high-growth-potential’.30 Government initiatives to increase the competitiveness of Australian businesses are discussed further in Chapter 5.

2.19 Innovation is also facilitated through other collaborative mechanisms such as partnerships between industry and universities. However, there is believed to be limited awareness among SMEs of opportunities to collaborate with research organisations.31

2.20 An increased uptake of digital tools by consumers can also provide further opportunities for Australian businesses to innovate. The DIIS notes that: ‘innovative digital service providers are likely to benefit from the growth in the use of online platforms.’ As an example, the DIIS highlighted Airtasker,

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27 Mr Adrian Turner, Chief Executive Officer, CSIRO’s Data61 (Data61), Official Committee Hansard, 28 February 2018, p. 2 and p. 7.
28 Australian Industry Group, Submission 4, p. 11.
30 Dr Stefan Hajkowicz, Senior Principal Scientist, Data61, Official Committee Hansard, 28 February 2018, p. 5.
31 Mr Adrian Turner, Data61, Official Committee Hansard, Canberra, 28 February 2018, pp 5,6.
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a digital marketplace for people and businesses to outsource tasks, which has recently announced an international expansion.\(^{32}\)

2.21 One of Australia’s most successful software companies, Atlassian, was recently valued at $US10 billion and had over 100 000 customers worldwide.\(^{33}\) Data61 considers that a key question is how to ‘create a digitally enabled start-up ecosystem’ to replicate this kind of success and support innovation.\(^{34}\)

E-commerce in Australia

Use of Digital Platforms

2.22 Digital platforms can be defined as ‘an online market place, connecting buyers and sellers’.\(^{35}\) A report commissioned by eBay and produced by Deloitte Access Economics (Deloitte) has found that over 1 million Australians are offering goods or services on digital platforms such as eBay, Airbnb, Airtasker, hipages and Uber.\(^{36}\) The value of online retail in Australia has been rising steadily from $17.6 billion per year in 2015 to $23.4 billion in 2017.\(^{37}\)

2.23 Deloitte acknowledged that the rise of digital platforms has ‘posed new economic and legal questions for the Australian economy’.\(^{38}\) These platforms, which in addition to trading goods can be used to trade space, time or money, are discussed further in Chapter 3.

2.24 Online platforms can also be used for outsourcing elements of production and service delivery. For example, firms can use digital platforms to post a task or problem that needs solving. Suppliers can then bid for this work, providing firms with access to knowledge and skills from around the

\(^{32}\) Department of Industry, Innovation and Science, Submission 7, p. 15.


\(^{34}\) Dr Stefan Hajkowicz, Data61, Official Committee Hansard, 28 February 2018, p. 5.


\(^{36}\) eBay, Submission 11a: Deloitte Access Economics – Platforms, Small Business and the Agile Economy, p. i.

\(^{37}\) National Australia Bank, NAB Online Retail Sales Index: In-depth Report – September 2017, p. 7; National Australia Bank, NAB Online Retail Sales Index: In-depth Report – September 2015, p. 3.

world. These practices have contributed to the rise of the ‘gig’ economy, whose impacts are further examined in Chapter 4.

2.25 The ‘sharing’ economy is another key product of market digitalisation. This is an economic system which ‘uses digital platforms to bring together owners of assets with those who want to consume them’. Car sharing, bike sharing and home sharing services such as Airbnb have built their companies by using this economic model. In its 2016 report on digital disruption, the Productivity Commission found that:

Digital platforms allow households and non-market organisations, such as research facilities, to engage more in the market economy by ‘sharing’ access to their under-utilised assets.

2.26 The Digital Industry Group (DIGI) submitted that online platforms ‘can also be used to help workers and business owners build new skills’. For example, YouTube videos can be used to learn a new language or take a course on machine learning.

2.27 Other innovations such as distributed ledger technology platforms can enhance the security of online transactions. Data61 noted the need for businesses to keep abreast of such emerging technologies and the impact they could have, particularly on small businesses.

Benefits for Consumers

2.28 The expansion of e-commerce in Australia, particularly through digital platforms, has generated a number of benefits for Australian consumers. Deloitte estimated that the consumer benefits are worth $9.5 billion to the Australian economy.

2.29 Digital platforms lower transaction costs by ‘bringing together a larger range of offerings in the one place’ and facilitating sales that might otherwise not

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42 Digital Industry Group Inc. (DIGI), *Submission 13*, p. 4.
have occurred, for example due to geographical limitations.\textsuperscript{46} In addition, enabling buyers to compare options in one digital location promotes competition between suppliers.\textsuperscript{47}

2.30 Not only are benefits observed in terms of price, but the quality of goods and services may also be indirectly optimised through peer review systems available on digital platforms. These have increased customer access to information on the quality of products and suppliers, leading to improved ‘market discipline on poor performers’.\textsuperscript{48} Platforms also assist users in their decision-making through tools such as filters by product type, price and location.\textsuperscript{49}

2.31 Like in non-digital marketplaces, the benefits provided by digital platforms are typically dependent on the number of users (buyers and sellers) of these platforms. That is, growth in use is likely to increase options and availability, and provide better value overall for those involved. This is known as a ‘network effect’ and is observed for enterprises such as Uber and Airbnb.\textsuperscript{50}

**Key Elements of the Digital Economy**

**Artificial intelligence and Automation**

2.32 Artificial intelligence is a technology whereby ‘computing software examines numerous previous examples of different scenarios and ‘learns’ patterns to enable it to recognise likely future scenarios.’\textsuperscript{51} Artificial intelligence and automation (including robotics) increase opportunities for tasks to be performed with reduced human input or labour.\textsuperscript{52}

2.33 Machine learning is a subset of artificial intelligence. The DIGI advised that machine learning software is available for free from Google, ‘so that people can take that software, change it and build on it to create new opportunities’.


\textsuperscript{47} eBay, Submission 11a: Deloitte Access Economics – Platforms, Small Business and the Agile Economy, p. 5.

\textsuperscript{48} Productivity Commission, Digital Disruption: What do governments need to do?, June 2016, p. 61.

\textsuperscript{49} eBay, Submission 11a: Deloitte Access Economics – Platforms, Small Business and the Agile Economy, p. 5.


\textsuperscript{51} Productivity Commission, Digital Disruption: What do governments need to do?, June 2016, p. 166.

\textsuperscript{52} For further information on automation in vehicle technology, see the Committee’s report on Social issues relating to land-based automated vehicles in Australia, tabled in August 2017.
Areas where machine learning can assist include ‘time-consuming, repetitive tasks’ or ‘forecasting or analysis models’. 53

**Big Data**

2.34 Artificial intelligence is often reliant on ‘big data’, for example for its uses in predictive analytics. ‘Big data’ is characterised as data which is ‘large-scale, complex and rapidly collected’. 54

2.35 A survey by the Australian Industry Group in 2015 found that ‘only 7 per cent of Australian businesses made significant use of big data.’ 55 In its recent report on data availability and use, the Productivity Commission (PC) stated that big data, as a ‘form of capital’, is currently ‘underutilised’. 56 However, the PC predicted that in the future, firms will be more ‘able to engage in active management of their data assets’, with better access to big data analytics. 57 The PC also outlined the commercial benefits of using big data:

> Broadly speaking, data can create commercial value by facilitating innovation, and by increasing efficiency and productivity within businesses. It enables firms to create new products and services, enhance existing ones, and introduce entirely new business models. 58

2.36 In light of this, big data can provide significant advantages to businesses that are able to capture, manipulate and use it. The DIIS noted that:

> Amazon’s ownership of data on consumers and suppliers also provides it with a competitive advantage. Australian competitors will need to become more sophisticated in their use of data and networks to compete. 59

2.37 The rise in the use of big data has corresponded with the development of cloud storage. This is a remote form of data storage which users can access

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53 Digital Industry Group Inc. (DIGI), Submission 13, p. 4.
55 Australian Industry Group, Submission 4, p. 4.
59 Department of Industry, Innovation and Science, Submission 7, p. 11.
on demand.\textsuperscript{60} An Australian Industry Group survey found that 42 per cent of all participating businesses used cloud storage.\textsuperscript{61}

\textit{Cybersecurity}

2.38 Like other internet-based technologies, cloud computing must be controlled to ensure the data and digital infrastructure are protected. Cybersecurity is a growing concern for businesses not only in Australia but around the world. The Australian Cyber Security Growth Network (ACSGN) states:

\begin{quote}
Malicious cyber activity is a growing challenge for organisations worldwide. It ranges from straightforward online fraud—such as scams using email, websites or chat rooms—to sophisticated cyber espionage and calculated cybercrime, used by adversaries to steal secrets and other information stored in a digital format on systems and networks.\textsuperscript{62}
\end{quote}

2.39 Noting the heightened threat to small businesses in particular, the Australian Booksellers Association submitted:

\begin{quote}
With the expansion of the digital economy also comes the potential for the expansion of the digital criminal economy. Cyber security is paramount to small businesses conducting good and safe business with consumers and suppliers.\textsuperscript{63}
\end{quote}

2.40 In a similar vein, the ACSGN observed:

\begin{quote}
Cyber adversaries are constantly contriving new ways to exploit vulnerable systems and networks, thus forcing organisations—from banks to energy companies, from government agencies to charities—to strengthen their cyber defences.\textsuperscript{64}
\end{quote}

2.41 ACSGN identifies investment in research and development, and education as two factors in strengthening cyber security.\textsuperscript{65} The Australian education sector has recognised this need, with an announcement made in January

\begin{flushleft}
\textsuperscript{60} Productivity Commission, \textit{Data Availability and Use}, March 2017, p. 421-422.
\textsuperscript{61} Australian Industry Group, \textit{Submission 4}, p. 6.
\textsuperscript{63} Australian Booksellers Association, \textit{Submission 12}, p. 9.
\textsuperscript{64} ACSGN, \textit{Cyber Security Sector Competitiveness Plan}, April 2017, p. 5.
\textsuperscript{65} ACSGN, \textit{Cyber Security Sector Competitiveness Plan}, April 2017, p. 34.
\end{flushleft}
2018 that a standardised curriculum for cybersecurity training will be implemented across the TAFE sector.\textsuperscript{66}

**Committee View**

2.42 The Committee recognises that digital technology is advancing at a rapid speed and its development will have a significant impact on the Australian economy. These changes require Australia to keep pace with the rest of the world and exploit recent and emerging technological developments. Given the significant contribution of small businesses to Australia’s economy, it will be particularly important to ensure these businesses are supported to engage in the digital economy. The Committee also acknowledges that the retail sector is one of Australia’s largest industries and it is likely to be among those most affected by increased internet competition.

2.43 The Committee notes the evidence suggesting that Australia needs to do more to support innovation, including greater investment in innovation and incentives to encourage businesses to engage in collaborative innovation. This will be assisted by the greater adoption by businesses of big data and cybersecurity technologies. There will also be opportunities to achieve efficiencies and optimise outcomes by taking advantage of artificial intelligence and automation.

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\textsuperscript{66} Mr Adrian Turner, Data61, *Official Committee Hansard*, 28 February 2018, p. 10.
3. Response of Retail and Small Business to Internet Competition

Introduction

3.1 The growth in internet commerce resulted in significant disruption to markets in many sectors of the economy. New digital platforms have emerged as key intermediaries between customers and businesses and, in many cases, have enabled purchases to take place across international borders. This has resulted in many Australian small businesses having to directly compete with international retailers for the first time. Equally, it has enabled many small businesses to export their products to consumers overseas for the first time.

3.2 The NSW Small Business Commissioner suggested that digital platforms could offer small businesses both benefits and risks, stating:

   In the short term, global internet-based platforms enable small businesses to go online and increase their digital footprint, exposure and scale. However, over the longer term, if this results in a monopoly, small businesses could be disadvantaged.¹

3.3 This chapter outlines the impacts of increased internet competition on Australian businesses and the opportunities that increased online shopping provides for Australian businesses. In addition, it considers the take-up of the digital technologies that are key to participating in the digital economy

and the barriers that are preventing some businesses from taking up these technologies.

Review of the Evidence

Consequences of Internet Competition

3.4 The Australian Booksellers Association (ABA) stated that ‘global internet based retailers rely on being disruptive’. Internet based companies with disruptive business models often have the ability to rapidly gain market share and this rapid growth can come at the expense of existing businesses.

3.5 The Australian Industry Group (Ai Group) reported that a 2016 survey found that 89 per cent of Australian companies feared that their business could become obsolete due to digital disruption. The Ai Group added that ‘the modern catch cry for incumbent businesses is to disrupt or be disrupted.’

3.6 The CSIRO’s Data61 digital research group (Data61) described many digital technologies as following an exponential, rather than linear, growth pattern. Data61 described the risk to existing businesses from digital disruption stating that ‘platform based models such as Uber, Airbnb, Amazon and others are capable of transforming a marketplace within months and existing companies or industries may not have time to catch up’.

3.7 Data61 highlighted Uber’s sudden transformation of the taxi market stating that it provided no time for a gradual transition for existing taxi operators. Data61 added that it ‘expects Amazon to have even greater impact on the much larger retail sector as it gets established this year and next’.

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2 Mr Tim White, President, Australian Booksellers Association (ABA), Official Committee Hansard, Canberra, 14 February 2018, p. 1.

3 Australian Industry Group (Ai Group), Submission 4, p. 1.

4 Ai Group, Submission 4, p. 1.


Internet Competition in the Retail Industry

3.8 Between 2012 and 2017, the number of Australian retail businesses fell from 140,000 to 133,000. The current challenging environment for Australian retailers was described by the Australian Retailers Association (ARA) as being due, in part, to the ‘marked increase in internet competition from overseas retailers’.

3.9 The ARA suggested that the increased competition from overseas retailers was part of a fundamental shift in the Australian retail landscape. The ARA stated:

What was once a nearly closed retail market, with large margins protected by distance from the latest consumer trends, is now a very open market with considerable global investment.

3.10 Despite the increasing presence of global retailers, online shopping accounts for a small, although rapidly growing, share of the retail market in Australia. Currently, just 6.4 per cent of Australian retail turnover takes place online but this has grown by 142 per cent since 2013. In contrast, the retail industry as a whole grew by just 16 per cent in the same period.

3.11 In the United States of America (USA) and the United Kingdom online shopping is significantly more popular than in Australia, making up ‘10 per cent and 15 per cent of retail spending respectively.’

3.12 Currently 80 per cent of online spending is with domestic retailers. With increasing investment from global retailers and, especially, the arrival of Amazon into the Australian market the dominance of online sales by domestic retailers is likely to decrease. Nevertheless, it may take time for the global retailers to gain significant market share with UBS predicting that Amazon could take 5 years to reach 2 per cent of overall retail sales in Australia.

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7 Mr Russell Zimmerman, Executive Director, Australian Retailers Association (ARA), Official Committee Hansard, Canberra, 7 February 2018, p. 7.
8 Mr Russell Zimmerman, ARA, Official Committee Hansard, Canberra, 7 February 2018, p. 7.
9 Mr Russell Zimmerman, ARA, Official Committee Hansard, Canberra, 7 February 2018, p. 7.
10 Department of Industry, Innovation and Science, Submission 7, p. 9.
11 Department of Industry, Innovation and Science, Submission 7, p. 10.
12 Department of Industry, Innovation and Science, Submission 7, p. 10.
3.13 The Department of Industry, Innovation and Science (DIIS) identified a number of types of retail business as being ‘likely to face significant pressure’ from global internet-based competition. These groups included large retail department stores, domestically focused low-cost online retailers, and small retailers selling homogenous products that can be purchased more cheaply online.

3.14 The ability of Amazon to place significant competitive pressure on other retailers was, in the view of the DIIS, due to:

Amazon’s scale, lack of physical stores, membership based model (through Amazon Prime), and cross subsidisation from its hugely profitable web services business [meaning] it can offer far greater choice at lower prices than traditional retailers can offer.

3.15 In order to compete with Amazon, the DIIS suggested that large Australian retailers will need to make ‘significant investments in automation’ and ‘become more sophisticated in their use of data and networks’.

The Book Industry

3.16 Books were the first product sold by Amazon and the ABA suggested that, in relation to internet competition, the book industry is the ‘canary in the coalmine’.

3.17 The ABA stated that the Australian book industry has experienced more than twenty years of competition from Amazon and the ABA believed that Amazon (including its subsidiary companies) was now the biggest bookseller in Australia. The ABA outlined the challenge that Amazon provides to all Australian booksellers, from small local stores to chain stores and online retailers, stating that:

Their ability to undercut prices – frequently selling at below what small to medium bookshops pay at wholesale price is unprecedented. Their pricing

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14 Department of Industry, Innovation and Science, Submission 7, p. 5.
15 Department of Industry, Innovation and Science, Submission 7, p. 5.
16 Department of Industry, Innovation and Science, Submission 7, p. 11.
17 Department of Industry, Innovation and Science, Submission 7, p. 11.
19 Mr Tim White, ABA, Official Committee Hansard, Canberra, 14 February 2018, p. 5.
model suggests that books as a category have been treated as loss leaders to gain market share and to data mine. 20

Impact of Physical Stores

3.18 As the pressure on local retailers grows some may be forced to close their physical stores and this could impact the vibrancy of town centres and local shopping strips. A vicious cycle of decline can be created in a local shopping strip where each closure contributes to ‘a lack of incentives for people to go to their local shopping strip or town centre [which] decreases footfall and increases the pressure on [remaining] SME retailers’. 21

3.19 Research in the USA compared Amazon’s online sales to average sales figures for physical retail stores across a range of business sectors. The research found that Amazon sales were potentially displacing 38,669 physical stores across the USA and that there was a 25 per cent increase in the number of stores displaced between 2014 and 2015.22

3.20 The DIIS reported that in recent years Australian department stores had been increasing their floorspace. In contrast, department stores in the USA have recently decreased floorspace by 15 to 20 per cent. The DIIS suggested that with the arrival of Amazon it was likely that the ‘retail footprints of existing department stores will shrink as physical stores lose market share to online retailers.’23

Internet Competition in Non-Retail Industries

3.21 While elements of the retail sector may expect to see significant pressure due to the entrance of Amazon this may not be the case for all Australian small business. In the USA a survey found that 83 per cent of small business owners believed that ‘their business is not affected by Amazon’.24

3.22 The effect of internet competition on Australian industry is likely to vary greatly between sectors. The DIIS identified small manufacturers as businesses that could ‘benefit significantly from the use of online platforms.’

20 Australian Booksellers Association, Submission 12, p. 5.
21 Australian Retailers Association, Submission 5, p. 2.
23 Department of Industry, Innovation and Science, Submission 7, p. 12.
24 Department of Industry, Innovation and Science, Submission 7, p. 15.
The DIIS stated small manufacturers could leverage Australia’s reputation for producing ‘safe, high quality products’ and use online platforms to sell these products to global markets. The DIIS also suggested internet competition could force down prices and the savings made by consumers could benefit the ‘providers of ‘luxury’ services, such as travel, health care, and fine dining’.25

3.23 The impact of internet competition on the transport and logistics sector is likely to be mixed. The DIIS suggested that large companies directly competing with the distribution networks of major online retailers are likely to face significant pressure. In contrast, the growth in online shopping may benefit some companies, particularly those that can work as a part of an online retailer’s distribution network, or those that can serve areas beyond the reach of these networks.26

3.24 Responsible Wagering Australia (RWA) outlined the challenges that Australian licensed online wagering companies face from competitors based overseas. The RWA, reported that overseas companies are not subject to Australian regulations such as restrictions on bets being placed on a sporting event once it has started. The RWA stated that 26 per cent of Australian punters use offshore accounts. In addition, an estimated 60 per cent of the $1.6 billion spent annually on online wagering is spent with overseas providers.27

The Accommodation Industry

3.25 The Accommodation Association of Australia (AAA) stated that Australia’s accommodation industry is experiencing ‘significant disruption from online businesses, the majority of which have their headquarters overseas.’28 There are two main causes of the disruption being experienced by the accommodation industry: competition from the sharing economy platform Airbnb; and the growing dominance of online travel agencies as the source of customer bookings.29

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25 Department of Industry, Innovation and Science, Submission 7, p. 15.
26 Department of Industry, Innovation and Science, Submission 7, p. 15.
27 Responsible Wagering Australia, Submission 10, pp 2,3.
28 Accommodation Association of Australia, Submission 6, p. 4.
29 Mr Richard Munro, Chief Executive Officer, Accommodation Association of Australia (AAA), Official Committee Hansard, Wednesday 14 February 2018, p. 2.
3.26 The AAA reported that more than 80 per cent of accommodation bookings in Australia were made via the internet. Of these online bookings nearly 85 per cent are made through sites owned by two companies, Expedia and the Priceline Group. The AAA commented that these two companies had a ‘virtual duopoly in the Australian market’ for accommodation booking.

3.27 The AAA reported that the commissions charged by Expedia and Priceline Group have risen from 5 to 10 per cent in the 2000s to 20 to 25 per cent today.

3.28 The AAA suggested that if an Australian accommodation provider ‘chose not to list their properties on these websites, they risk losing a significant amount of their business’. The resulting situation is that Australian accommodation providers have ‘no bargaining power with these global giants’ and are effectively forced to accept the increasing commissions.

3.29 Airbnb is a sharing economy platform that enables house owners to lease out all, or part, of their home to short-term renters. The Australian Small Business and Family Ombudsman estimated, however, that 35 per cent of Airbnb listings are ‘commercial operators that lease out property all year round, and have investment properties designed specifically for the sharing economy’.

3.30 The AAA estimated there are currently 125,000 Airbnb properties in Australia and were concerned that Airbnb providers are not required to comply with the same regulations as traditional accommodation providers such as hotels and motels.

Take-up of Digital Technology

3.31 The DIIS stated that while the impact of global internet based competition would differ between companies, ‘what is clear is that in general, digitally enabled businesses will be better placed to succeed’.

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30 Accommodation Association of Australia, Submission 6, p. 6.
31 Accommodation Association of Australia, Submission 6, p. 4.
32 Accommodation Association of Australia, Submission 6, p. 5.
33 Accommodation Association of Australia, Submission 6, p. 5.
34 Accommodation Association of Australia, Submission 6, p. 5.
36 Mr Richard Munro, AAA, Official Committee Hansard, Canberra, 14 February 2018, p. 3.
37 Department of Industry, Innovation and Science, Submission 7, p. 16.
Retail Industry

3.32 The DIIS highlighted research by McKinsey which had found that the Australian retail sector has a ‘medium level of digitisation [but] it lags behind international peers, particularly in relation to reaching and influencing customers through digital channels.’

3.33 The DIIS also reported that medium and large retailers are less likely than equivalent businesses in other sectors to have a web presence but are ‘more likely to be using social media and placing and receiving orders via the internet’. The rates of social media use and internet ordering among small retailers are lower than among larger retailers but are higher than among other small businesses.

3.34 Master Grocers Australia (MGA) commented that the challenges facing independent grocers, including competition from larger rivals, forces them to focus on survival and has made ‘the vast majority of small retailers very hesitant to look too far into the future’.

3.35 The MGA added that while online retail as a whole is growing there has not been significant growth of online shopping in the independent grocery sector. The MGA suggested that most of its members would consider a move into online retailing but ‘not in the immediate future and maybe not even for several years’.

3.36 Nevertheless, the MGA stated that the ‘grocery supermarket industry is worth approximately $15 billion in sales and at present less than 1 per cent is online, but that could be 10 per cent in 5 years’ time.’ The MGA was concerned that ‘a period of prolonged procrastination may not be a viable option’ and that, over time, a failure to invest in online shopping could severely damage the independent grocery sector.

3.37 The ABA reported that several larger Australian booksellers such as ‘Readings, Collins Booksellers, Abbeys, Dymocks, and Gleebooks’ are engaged in online retailing. In addition, Booktopia, a solely online bookseller

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38 Department of Industry, Innovation and Science, Submission 7, p. 12.

39 Department of Industry, Innovation and Science, Submission 7, p. 16.

40 Master Grocers Australia, Submission 9, p. 3.

41 Master Grocers Australia, Submission 9, p. 5.

42 Master Grocers Australia, Submission 9, p. 5.

43 Master Grocers Australia, Submission 9, p. 5.
started in Sydney 15 years ago, now turns over ‘nearly $100 million per year’.44

3.38 The ABA added that many of the larger bookstores had invested heavily in ‘proprietary or customised digital technology’ but that most new and smaller bookstores did not have the capacity to make such investments.45

**Small Business**

3.39 The Council of Small Business of Australia (COSBOA) stated that ‘most small business owners have already made significant changes to their businesses because of digital technologies’.46 The COSBOA stated that digital and online technologies had altered small business processes in areas including business management, human resources, supplier interactions, customer relations, government relations, and online sales.47

3.40 A survey of 1500 Australian SMEs conducted by Deloitte and Google had found that Australian small businesses ‘are becoming more digitally capable over time’. The survey found that in 2017, for the first time, more than half of the participating businesses had ‘high or advanced levels of digital engagement’.48

3.41 In contrast, the Ai Group stated that ‘SMEs are lagging large businesses in the use of … now-mainstream business applications. There is considerable scope for further SME technology adoption’.49

3.42 The DIIS agreed that small business was lagging behind in technology adoption. The DIIS highlighted Commonwealth Bank of Australia research which found that ‘80 per cent of small and medium businesses are delaying the adoption of technology that could offer long-term benefits.’50

3.43 The Ai Group stated that 42 per cent of Australian businesses were using cloud storage. The Ai Group explained the value of cloud storage, especially for small businesses, stating:

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50 Department of Industry, Innovation and Science, *Submission 7*, p. 16.
Cloud usage is likely increasing because the growing services on offer enable businesses to acquire infrastructure and go to market quicker and more easily than with an internal platform. This may be particularly valuable to smaller businesses.51

3.44 The Australian Bureau of Statistics has found that 16 per cent of Australian businesses have experienced a cyber security breach.52 To illustrate the impact that these breaches can have, Data61 drew attention to a study which found that 50 per cent of small businesses who had their data stolen did not exist six months later.53

3.45 The Ai Group highlighted cybersecurity as a technology with particularly low levels of adoption among small businesses. While noting that most businesses probably used ‘off-the-shelf antivirus software’, the Ai Group stated that more advanced cybersecurity measures were used by 22 per cent of all businesses and just 11 per cent of small businesses.54

**Barriers to Going Digital**

3.46 A 2015 survey conducted by the Ai Group found that the four main barriers to Australian businesses investing in digital technologies were: ‘lack of employee skills (33 per cent of businesses), costs (31 per cent), perceived lack of relevance (24 per cent) and slow internet (23 per cent).’ The proportion of businesses that did not perceive digital technologies to be relevant was significantly higher (36 per cent) among small businesses.55

3.47 Similarly, among independent grocers, the MGA identified the main barriers to greater use of digital technologies to be ‘cost, wages, and having the expertise required to establish and control the digital platform needed to set up the system and maintain it.’56

3.48 In addition to the barriers above, the DIIS suggested that smaller businesses may feel that greater use of digital technologies would be inconsistent with

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53 Mr Adrian Turner, Chief Executive Officer, CSIRO’s Data61 (Data61), *Official Committee Hansard*, Canberra, 28 February 2018, p. 9.
56 Master Grocers Australia, *Submission 9*, p. 5.
the service levels expected by their customers. The DIIS also suggested that a reluctance to invest in digital technologies could be due to the ‘culture within a family-run enterprise, generational issues or a reluctance to depart from methods which have traditionally been successful.’

3.49 The ABA commented that expansion into online retailing can be difficult for small bookstores as ‘bookselling is a capital intensive business that requires high levels of stock/inventory to be held’. The ABA added that:

For small and micro businesses, the significant costs of creating a viable online store so as to compete with global online retailers or even large Australian online book retailers are, without significant improvements in technology and supply chain processes, unviable.

3.50 The ABA in particular highlighted the difficulty smaller booksellers have with managing the data needed for effective online commerce. The ABA added that there are already millions of books available for print in Australia, with approximately an additional one million new books published in English each year. The ABA added that:

… because of the sheer volume of the product range the customer expects from a bookstore, many of the new and innovative digital retail platforms, products, channels and technologies being trialled in other retail sectors cannot easily be adopted or are not available to booksellers.

3.51 The ARA stated that ‘Australia’s logistics and postal services need to be modernised … to keep up with demand’ for online shopping. The ARA reported that 56 per cent of Australian retailers struggled with shipping and suggested that Australia’s currently sub-optimal domestic supply chain was reducing the competitiveness of Australia retailers.

3.52 The ARA suggested that Australian stores were being hampered by customs processes delaying the importation of products they wished to sell. In addition the ARA suggested that there was a need to simplify regulations

57 Department of Industry, Innovation and Science, Submission 7, p. 17.
58 Australian Booksellers Association, Submission 12, p. 3.
59 Australian Booksellers Association, Submission 12, p. 4.
60 Australian Booksellers Association, Submission 12, p. 7.
61 Australian Booksellers Association, Submission 12, p. 8.
62 Australian Retailers Association, Submission 5, p. 8.
63 Australian Retailers Association, Submission 5, p. 8.
related to ‘planning and zoning for warehousing, logistics and transport regulations, and customs and border operations’.  

3.53 The ABA suggested that the government should ensure that all Australian small businesses can access the National Broadband Network and that the government should monitor the market for internet services and digital infrastructure to ensure that small business is paying ‘a fair price for their digital assets and footprint’.  

3.54 A lack of digital skills and expertise can also be a significant barrier to small businesses taking advantage of online retail opportunities. These issues are discussed in Chapter 4.

Digital Technologies – Opportunities for Business

3.55 The COSBOA stated that ‘small business has to embrace change. If we don’t we don’t exist.’ The COSBOA added that digital technology had played a ‘critical role’ in the creation of many small businesses and emphasised the importance of access to global markets for small business. The COSBOA stated:

Online retailing and platforms for small businesses to sell online has enabled many people to create and sell new products. Without the ability to market and sell online, many new businesses in Australia would struggle to survive.

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64 Australian Retailers Association, Submission 5, p. 8.
65 Australian Booksellers Association, Submission 12, p. 11.
66 Mr Peter Strong, Chief Executive Officer, Council of Small Business of Australia (COSBOA), Official Committee Hansard, Canberra, 14 February 2018, p. 1.
**Digital Supply Chains**

3.56 The Ai Group commented that the Australian SME sector was relatively small and remote and this made it difficult for Australian SME’s to participate in global supply chains. The Ai Group noted, however, that global manufacturing industry is ‘evolving towards smaller batches, customised products, rapid prototyping and increasing servitization – the process of adding services to a product or replacing the product with a service’. The Ai Group suggested that these changes offered Australian businesses with innovative business models an opportunity to participate in new forms of global supply chains.68

3.57 The Ai Group stated that in advanced manufacturing the ‘traditional delineation between manufacturing and services is becoming more blurred’.69 The Ai Group added that manufacturers were increasingly bundling their products with value-adding services and that 32 per cent of manufacturing exports is in the form of bundled services. The Ai Group recommended that small manufacturers continued to move into the services space.70

**Artificial Intelligence and Automation**

3.58 Data61 emphasised the importance of artificial intelligence, stating that it ‘will have profound implications for our industry, economy and society’ and will ‘enable new industries, security and a higher quality of life’.71

3.59 The ARA stated that artificial intelligence ‘is probably where the biggest growth in retail is’ but suggested that the benefits of artificial intelligence would flow more to large retailers than small retailers. The ARA stated that while small retailers may have databases of names and addresses to use for marketing the larger retailers will have access to more precise data. Larger retailers, for example, may be able to identify ‘that you are in fact a 64-year old male and you’ve entered the shop’.72

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68 Ai Group, Submission 4, p. 2.
69 Ai Group, Submission 4, p. 3
70 Ai Group, Submission 4, pp 3-4.
71 Mr Adrian Turner, Data61, Official Committee Hansard, Canberra, 28 February 2018, p. 2.
72 Mr Russell Zimmerman, ARA, Official Committee Hansard, Canberra, 7 February 2018, p. 11
Online Digital Platforms

3.60 The COSBOA suggested that for retail and hospitality businesses having a presence on online platforms was almost essential to be able to stay in business. The Australian Competition and Consumer Commission (ACCC) made a similar comment stating that many small businesses ‘consider an online presence through intermediaries to be an essential component of their marketing to potential customers’. The ACCC expected the use of online platforms to grow thus ‘creating greater risks for businesses that do not move online’.

3.61 The DIIS emphasised the importance of digital platforms by stating that ‘the main way that small retailers benefit from the growth in online selling is through the opportunity to sell through online platforms.’ In addition the DIIS stated that ‘sellers do not need to invest in highly sophisticated digital skills to use these platforms, meaning the barriers to [accessing] global markets through these platforms are low’.

3.62 The Digital Industry Group Inc. highlighted the results from a survey conducted with 5000 Australian small businesses using Facebook. The survey found that these Australian small businesses use online tools to:

1. Provide information (95 per cent);
2. Advertise to potential customers (92 per cent);
3. Communicate with customers or suppliers (92 per cent);
4. Show products or services (92 per cent);
5. Sell products or services (82 per cent); and
6. Manage internal business processes (56 per cent).

3.63 In its report on small business in the agile economy commissioned by eBay, Deloitte Access Economics (Deloitte) described four key benefits that digital platforms can provide for small businesses:

- Global Markets: Enables small businesses to reach a greater number of buyers and also enables them to purchase goods and services from a greater number of sellers;

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73 Mr Peter Strong, COSBOA, Official Committee Hansard, Canberra, 14 February 2018, p. 5.
75 Department of Industry, Innovation and Science, Submission 7, p. 13.
• Data Analytics: Provides small business with information about the customers that can be used to better target marketing campaigns;
• Network Effects: The benefits to both businesses and consumers grow as the number of people using a platform increases;
• Lower Costs: Using a digital platform is often cheaper than creating a physical store or standalone website.\(^{77}\)

3.64 Deloitte suggested that digital platforms lower transactions costs by making it easier for consumers to search for products and businesses to find potential buyers.\(^{78}\) Deloitte stated that through a combination of lower costs and access to larger markets ‘platforms allow small businesses to become viable competitors outside their local markets’.\(^{79}\)

**Global Export Markets**

3.65 The ACCC highlighted that access to global markets provided small businesses operating in niche sectors a much greater chance of succeeding. The ACCC stated:

> The markets are much, much bigger than they ever were before. There are opportunities for niche players that never really existed before, as a result of the internet. In our work we are seeing businesses that are really focusing on very, very small areas that would not have been sustainable if they only had their local geographic area to sell to, but now, because they are selling on the internet, they are sustainable.\(^{80}\)

3.66 The DIIS emphasised the importance of Australian small businesses using digital platforms to export their goods and services. The DIIS stated:

> The most positive aspect of the likely increased use of online marketplaces by small Australian firms is that businesses that use global digital platforms overwhelmingly tend to become exporters. For example, nearly 90 per cent Australian small businesses on eBay export globally.\(^{81}\)

3.67 The DIIS also explained the significance of the high numbers of small businesses using digital platforms in order to export by stating:

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\(^{80}\) Mr Marcus Bezzi, Executive General Manager, Specialised Enforcement and Advocacy Division, Australia Competition and Consumer Commission, *Official Committee Hansard*, Canberra, 7 February 2018, p. 1.

... [DIIS] research has found that Australian exporters are generally larger than non-exporters in terms of employment, value-added and capital expenditure, are generally also more productive and pay higher wages. Exporting also increases the probability of business survival.\(^{82}\)

### Review and Payment Systems

3.68 Deloitte suggested that digital platforms provide small businesses a means of competing with larger businesses who have already established a trusted brand. Deloitte stated that digital platforms provide small businesses with a ‘short cut’ to building trust with consumers. One means through which trust is built with customers is through the use of payment systems such as PayPal which can ‘create trust in the transaction as financial details are only shared with a secure third party’.\(^{83}\)

3.69 In addition, the customer review systems used on digital platforms provide small businesses the opportunity to build a reputation as a trusted business. Deloitte suggested that review systems created a ‘feedback mechanism’ which could improve customer experiences. As an example, Deloitte stated businesses listed on TripAdvisor ‘tend to take action in order to garner good reviews resulting in better services being provided and better reviews’.\(^{84}\)

### Risks in Using Digital Platforms

3.70 The COSBOA highlighted accounts of experiences of small businesses using the Amazon Marketplace overseas. The COSBOA stated that Amazon had access to significant data on the businesses using its platform. This data could enable Amazon to identify successful products, manufacture a similar product cheaply overseas, and then market the Amazon product directly to customers of the original product.\(^{85}\)

3.71 The ABA elaborated, stating that companies using Amazon Marketplace could encounter a situation where Amazon knows everything about their product, their customers, and their business. With Amazon’s access to cheaper manufacturing and distribution systems and a large customer base

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who are members of Amazon Prime they could effectively outcompete the smaller company. The ABA stated:

There are significant examples of SMEs and medium-sized enterprises in the US with single-line products that have been taken straight out of the market and sidelined in what is effectively a Wild-West-style hijacking. They did not have an opportunity to protect their product in the marketplace.86

Non-Technological Responses to Internet Competition

3.72 Data61 commented that ‘not every single Australian company has to got to become fully digital’ and provided cafes as an example, stating:

…the profession of barista is highly automatable. We shouldn’t have them anymore, according to the analysis. It’s a set of rules and procedures and there’s machinery which does it … but we still have baristas, and I think in 20 years’ time we will … [cafes] don’t need to transform and replace that barista with a machine [because it is] a more effective business model with a person because of the broader experiential good.87

3.73 Both the MGA and the ABA suggested that, despite the growth in online retail, it is still valuable for a store to maintain a strong link to its local community. The ABA highlighted the growth in ‘shop local’ movements across Australia and stated that consumers still ‘wish to shop locally, if they have the opportunity to do so.’88 The MGA stated that consumers ‘still enjoy the “personal contact” that is associated with going to the local supermarket at the weekend’ and that retailers still valued offering high quality customer service in person.89

3.74 The ABA added that bookstores are often owned and staffed by people living locally and are a key part of the ‘shop local’ experience. The ABA stated that many small to medium bookstores are ‘active cultural and social hubs for their local communities engaging with schools, young readers, community group and local charities.’90

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87 Dr Stefan Hajkowicz, Senior Principal Scientist, Data61, *Official Committee Hansard*, Canberra, 28 February 2018, pp 7-8.
89 Master Grocers Australia, *Submission 9*, pp 4-5.
3.75 The DIIS agreed that small retailers could ‘leverage local customer relationships and provide in-store services such as product advice and local expertise which many customers will continue to value’. The DIIS added that small retailers selling products not easily accessible online, such as local food products, could continue to be successful without an online presence.\footnote{Department of Industry, Innovation and Science, \textit{Submission 7}, p. 14.}

3.76 The DIIS suggested that businesses may have to shift the focus of their physical stores in order to offer customers experiences that are not available online. The DIIS stated that this could be achieved through physical stores ‘shifting from points of sale to platforms for discovery, engagement and experience.’\footnote{Department of Industry, Innovation and Science, \textit{Submission 7}, p. 12.}

**Committee View**

3.77 Australians are spending increasingly large amounts of time on the internet and new technologies are embedding internet connectivity into an ever wider array of everyday devices. At the same time, digital platforms are offering a new means for businesses to sell their products directly to consumers across the world. These trends suggest that although e-commerce currently only accounts for a small proportion of the Australian retail market it is going to grow rapidly.

3.78 The Committee was pleased to hear that 80 per cent of online spending currently takes place with domestic retailers. Although it is likely that competition from overseas retailers is about to intensify.

3.79 Several digital platforms have already made significant inroads into the Australian market. These include broad marketplaces such as eBay and more targeted platforms such as Airbnb, Uber, Expedia and Booking.com. The entrance of Amazon, the world’s largest online retailer, into the Australian market has focussed attention on the impact that digital platforms have on Australian consumers and businesses.

3.80 Amazon sales account for 5 per cent of the retail market in the United States but are growing rapidly at the expense of many traditional ‘bricks and mortar’ retailers. While it may take some time to become established in the Australian market, Amazon has many advantages that will place pressure on other businesses in the retail sector. Where it is established, Amazon’s economy of scale, automated warehousing and freight systems, data
analytics capabilities, and research and development spending have enabled it to outcompete most other retailers.

3.81 Australian retail businesses should already be considering what they can offer customers that will give them an advantage over internet competitors. It could be great service, expert advice, or local products, but competing on price alone may prove difficult.

3.82 Despite the emergence of increased internet competition, small businesses can survive and even thrive in the digital economy. Many small booksellers have been in competition with Amazon for over two decades. Nonetheless they have survived by focussing on what they can provide that customer’s value, perhaps it is a carefully curated collection, or perhaps it is a sense of community developed through being a hub for local events.

3.83 Indeed, for many small businesses the rapid growth of internet shopping, and in particular the growth of digital retail platforms such as eBay, Etsy, or the Amazon Marketplace, will offer unprecedented opportunities.

3.84 Through the use of digital platforms Australian small businesses are able to sell products to overseas consumers without the need for expensive marketing budgets or high level digital expertise. For example, the Committee was pleased to hear that 90 per cent of Australian small businesses using eBay are exporting products to consumers overseas.

3.85 Digital platforms enable specialist retailers and niche manufacturers access to a customer base large enough for their companies to succeed and grow. Without the access to global markets enabled by internet shopping, many of these businesses would not be viable.

3.86 Taking advantage of the opportunities created by internet retail can require access to some technology and staff with digital literacy. The Committee is recommending that the government establish a digital grants program aimed at assisting small business invest in their digital capabilities. The Queensland Government offers a Small Business Digital Grants Program93 which provides matched funding of up to $10 000 for small businesses to invest in hardware, software, or services that assist them to take advantage of digital economy opportunities. A similar program aimed at small businesses, and using matched funding to ensure the commitment of the business to the investment, could benefit businesses across Australia.

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Recommendation 1

3.87 The Committee recommends that the Australian Government establish a digital grants program for small business. The program should provide small businesses with grants to assist them take advantage of digital economy opportunities such as online retail. Grants should be small-scale and the businesses should be required to provide matched funding and demonstrate how the grant would increase their capacity to take advantage of digital economy opportunities.
4. Skills and Employment in the Digital Economy

Introduction

4.1 In its 2016 report *Tomorrow’s Digitally Enabled Workforce*, the CSIRO’s Data61 research group (Data61) focussed on the effect of new digital technologies on employment. In common with other periods of rapid technological development, Data61 commented, there is currently a ‘growing fear of “technological unemployment” as machines become dominant in the economy’. Data61 added that while technological development has led to long term increases in living standards in the short term it has also ‘led to considerable hardship among the workers it displaces’.1

4.2 Research indicates that increased international trade has delivered economic benefits but also has resulted in industries in high wage countries such as Australia being vulnerable to competition from overseas.2 The growth in internet shopping has opened up Australia’s retail sector, which employs 1.2 million Australians,3 to significant new competition from overseas.

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3 Department of Industry, Innovation and Science, *Submission 7*, p. 18.
4.3 This chapter considers the effects of internet competition on employment levels and conditions, and the skills required to enable Australian businesses to benefit from the digital economy.

**Review of the Evidence**

**Effects on Employment Levels**

4.4 The retail industry is Australia’s second largest employer. Compared to the overall workforce, retail employees are younger, more often women, and more likely to be working part-time.  

4.5 The Department of Industry, Innovation and Science (DIIS) stated that increased internet competition is likely to result in some retailers cutting staff and others exiting the market, resulting in job losses.

4.6 Nevertheless, the DIIS forecast the effects of internet competition were ‘highly unlikely to have a net detrimental impact on employment in the retail sector, and it’s more than likely that it will have a net beneficial influence on employment in the economy at large.’

4.7 The DIIS added that ‘while Amazon’s arrival will put further downward pressure on job growth in traditional retail. This may be offset by employment growth in other areas.’

4.8 The DIIS also drew attention to the effect of e-commerce on employment in the United States of America (USA). In the USA between 2007 and 2016, e-commerce created 355,000 jobs but only 51,000 were lost in the retail sector. The DIIS noted that as Amazon is headquartered in the USA, these figures may not directly translate to Australia, but suggested the figures ‘do suggest that fears of widespread job losses are overblown’.

4.9 The Digital Industry Group Inc. (DIGI) highlighted the potential that online platforms and digital technologies have for assisting small businesses to create jobs. The DIGI cited research by Deloitte and Google which found

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4 Department of Industry, Innovation and Science, *Submission 7*, p. 18.

5 Department of Industry, Innovation and Science, *Submission 7*, p. 18.

6 Mr Mark Cully, Chief Economist, Economic and Analytic Services Division, Department of Industry, Innovation and Science, *Official Committee Hansard*, Canberra, 6 December 2017, p. 6.

7 Department of Industry, Innovation and Science, *Submission 7*, p. 17.

that SMEs with advanced levels of digital engagement were eight times more likely than other small businesses to be creating jobs.9

4.10 In a report commissioned by eBay, Deloitte Access Economics (Deloitte) drew attention to the number of Australians who are already making use of digital platforms to attract work or business. Deloitte stated that in Australia there were currently:

- 20 000 Uber drivers;
- 28 000 small businesses using eBay;
- 80 000 tradespeople using hipages; and
- 850 000 suppliers offering to complete tasks on Airtasker.10

4.11 Deloitte also stated that many people would prefer flexible working conditions but may struggle to find suitable work arrangements. Deloitte suggested that, for these people, ‘running a small business from home, supported by various online platforms, can be an attractive option’.11

4.12 In contrast, the Accommodation Association of Australia (AAA) expressed concerns about the impact that sharing economy platforms were having on jobs in traditional industries. The AAA stated that the accommodation industry employs 82 800 people, whereas ‘sharing economy providers employ very few, if any, people directly at properties where they advertise rooms’.12

4.13 The AAA commented that the impact of sharing economy platforms was of particular concern in regional and rural regions where ‘even a minor drop in the number of guests staying at traditional hotels or motels results in job losses.’13 Regional jobs may also be at risk in the bookselling industry, as while local bookstore jobs are geographically dispersed, jobs at online book retailers are more likely to be concentrated in specific areas.14

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12 Accommodation Association of Australia, Submission 6, p. 8.
13 Accommodation Association of Australia, Submission 6, p. 8.
The Australian Booksellers Association also suggested that an increase in online shopping would result in a transfer of staff from customer facing retail roles to back-of-house warehousing and logistics roles.\(^\text{15}\)

**Increased Use of Automation**

The DIIS suggested that one of the competitive advantages that Amazon has over Australian retailers is its use of ‘sophisticated automation to improve efficiency in warehousing, logistics and distribution’. The DIIS added that Australian retailers will need to invest in automation in order to provide a similar level of service.\(^\text{16}\)

Any significant increase in the use of automation is likely to have impacts on employment in the warehousing and logistics sector. The Master Grocers Association (MGA) commented that initially the growth in online shopping could lead to an increase in warehousing jobs but, over time, tasks such as sorting and packing would increasingly be automated leaving only the delivery stage of a transaction requiring human staff.\(^\text{17}\)

Master Grocers Australia (MGA) drew a comparison between online shopping and the introduction of self-service checkouts at supermarkets. Once installed, self-service checkouts were cheaper for the supermarket and had reduced the number of staff needed. The MGA stated that if there is an increased move towards online shopping then ‘it is inevitable that the number of employees in supermarkets will decrease. They will simply not be needed in the same numbers that exist currently.’\(^\text{18}\)

Data61 cited three recent studies that looked at the likely impact of automation on employment. These studies had reported similar results, finding that between 44 per cent and 47 per cent of occupations were at risk from automation.\(^\text{19}\)

In *Tomorrow’s Digitally Enabled Workforce*, Data61 described jobs that undertake routine tasks following defined procedures as those most

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\(^{15}\) Australian Booksellers Association, *Submission 12*, p. 8.

\(^{16}\) Department of Industry, Innovation and Science, *Submission 7*, p. 11.

\(^{17}\) Master Grocers Australia, *Submission 9*, p. 7.


\(^{19}\) Dr Stefan Hajkowicz, Senior Principal Scientist, CSIRO’s Data61 (Data61), *Official Committee Hansard*, Canberra, 28 February 2018, p. 4.
susceptible to automation. Due to machine learning technologies, susceptible jobs include those that primarily undertake cognitive tasks.

4.20 The Australian Industry Group (Ai Group) agreed that the scope of jobs that will be affected by automation has moved ‘well beyond the factory floor’ and will be soon felt in the personal and professional services. Ai Group suggested that while some jobs will disappear more will be transformed ‘as workers shift focus to managing machines and programs to augment and increase their total productivity’.

4.21 Data61 added that due to automation higher skilled jobs may replace lower skilled jobs and provided the example of the introduction of automated teller machines (ATMs). Since the introduction of ATMs approximately 50,000 bank teller jobs have been lost but a similar number of higher skilled finance professional jobs had been created.

Effects on Employment Conditions

4.22 In the USA, workers in the e-commerce sector, including those working in warehousing, are paid on average 27 per cent more than those working in the traditional retail sector. The DIIS suggested that this shows that ‘the shift to e-commerce is also improving the quality of jobs’.

4.23 The DIIS did note, however, that there have been reports ‘of poor treatment of staff in Amazon warehouses overseas and significant use of temporary and “gig” workers’. Amazon has denied these reports.

4.24 The Ai Group stated that the growth of the ‘gig’ economy was a ‘major part of the change digital technologies are making to employment’.

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economy workers are freelance, employed on a task-by-task basis. The Ai Group highlighted forecasts that gig workers will exceed 40 per cent of the USA workforce by 2020 and stated that already 32 per cent of Australian workers had undertaken freelance work in 2014 and 2015.

4.25 The ACCC highlighted that one consequence of the gig economy is that some digital platforms, such as Uber and Deliveroo, could argue that they do not employ people. The ACCC added that this was a controversial issue as there are ‘certainly lots of young people who are contractors with those organisations that perhaps don’t feel like they’re running their own business, but as a matter law they might be.’

4.26 The Ai Group added that the retail and small business sectors will be affected by the growth in gig economy workers. Managing a workforce that includes a significant number of freelance workers will be ‘a new challenge for many companies and new techniques will be needed’.

4.27 Deloitte also stated that many people prefer flexible working conditions and for these people, ‘running a small business from home, supported by various online platforms, can be an attractive option’.

4.28 Two Australian companies act as digital platforms for the gig economy. Freelancer.com is used to connect freelance workers with companies and currently has over 27 million users. Airtasker is a platform people use to outsource everyday tasks to suppliers that, to date, has resulted in $81 million of tasks being undertaken at an average price of $80 - $100 per task.

4.29 As freelance work platforms emerge Australian workers may increasingly need to compete with workers operating in lower wage countries. As an example, wages paid for graphic designers on Freelancer.com are ‘far below

27 Ai Group, The Emergence of the Gig Economy, August 2016, p. 4.
28 Ai Group, Submission 4, p. 7.
29 Mr Marcus Bezzi, Executive General Manager, Specialised Enforcement and Advocacy Division, Australian Competition and Consumer Commission, Official Committee Hansard, Canberra, 7 February 2018, p. 6.
30 Ai Group, Submission 4, p. 7.
Australia’s domestic expectations’ and Data61 suggested that the gig economy is likely to ‘disrupt similar professions across Australia’.  

**Skills in the Digital Economy**

4.30 Data61 stated that it believes there will be a ‘massive transition ahead of all Australian workers into a new digital economy, where digital will affect just about every job and how it’s done, and there is a huge reskilling and education challenge.’ Data61 added that:

> Digital technology will transform the labour market, requiring new skills and aptitudes for young and old workers. The vocational education and training sector, the VET sector, has a critical role to play, along with all parts of the education system.

**Existing Skills in the Australian Workforce**

4.31 The DIIS stated that many Australian businesses were currently prevented from participating in e-commerce due to a low level of digital skills and capability. The DIIS stated that the ongoing Digital Economy Strategy consultation process would consider ways to increase the digital capabilities of Australian businesses.

4.32 The Council of Small Business of Australia suggested that ‘many small businesses are delaying the adoption of new technology and software as they have a limited understanding of technology or its long-term benefits.’

4.33 The DIIS made a similar point, stating that due to a lack of digital literacy some businesses faced difficulty understanding the choices and options available when considering purchasing digital services.

4.34 Professor Marek Kowalkiewicz agreed, noting that some businesses were making decisions in the digital space, for example around whether to use a

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35 Dr Stefan Hajkowicz, Data61, *Official Committee Hansard*, Canberra, 28 February 2018, p. 4.

36 Mr Adrian Turner, Chief Executive Officer, Data61, *Official Committee Hansard*, Canberra, 14 March 2018, p. 2.

37 Department of Industry, Innovation and Science, *Submission 7*, p. 22.


39 De Christopher Locke, Head of Division, Portfolio Policy and Innovation Strategy Division, Department of Industry, Innovation and Science, *Official Committee Hansard*, Canberra, 6 December 2017, p. 4.
digital platform to participate in an online market, without fully understanding the consequences of this decision.40

4.35 The Master Grocers Australia (MGA) stated that for independent grocers the expertise required to maintain online services was an even greater concern than the initial cost of setting up these services. The MGA stated that ‘running a supermarket does not require great computer skills or intricate knowledge of digital platforms’ and that grocery staff would need training in order to maintain online systems.41

4.36 The MGA added that ‘as technology advances so must the individual be willing to learn. It does not seem that retailers are unwilling to learn but they are concerned about the cost of the learning process.’42

4.37 The Australian Retailers Association (ARA) reported that ‘skills shortages continue to impact on the retail industry, which contributes to the disadvantages retailers face in combatting overseas competition online’.43

Future Skill Requirements

4.38 The Ai Group stated that many of the trends that would impact the workforce were already apparent. The Ai Group highlighted the sharing economy, automation, and the ageing population as being likely to have significant impact on future workforce needs.44

Forecasting Skill Needs

4.39 Data61 suggested that developing government capability in forecasting future skills requirements would help in identifying which digital skills could offer the most employment opportunities.45

4.40 Data61 added that it was hoping to soon commence research to enable it to forecast the skills that are likely to be in demand in the coming decades. Data61 hoped that this would provide valuable information to the

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40 Professor Marek Kowalkiewicz, PwC Chair in Digital Economy, Queensland University of Technology Business School (QUT), *Official Committee Hansard*, Canberra, 28 February 2018, p. 3.


Digital Literacy and STEM skills in Australia

4.41 The Ai Group suggested that all workers needed to have generic ICT skills and that ‘rapid change in computer software and hardware can make learned skills redundant, however there are likely to be enduring concepts of digital literacy that will be important for future workers to have mastered’. The Ai Group added that ‘businesses are prepared to digitally upskill their workforce through training or recruitment’.47

4.42 Data61 suggested that the Australian workforce did not have the required skills and capability in the STEM (science, technology, engineering and maths) and ICT (information communications technology) fields. Data61 suggested that digital literacy skills, including the ability to use coding to manipulate machinery, were going to be essential requirements of careers in the near future.48

4.43 The Ai Group stated that Australian SMEs were increasingly going to need workers with specialist STEM skills in order to compete in the global economy.49 In addition to STEM specialists, the Ai Group suggested that there needed to be an increased level of STEM literacy among the general workforce.50

4.44 Data61 highlighted that as more Australian businesses are becoming heavy users of data there is an increasing shortage of data scientists. Data61 suggested that there was a need for people who could not only find relevant information but also analyse and interpret the information for CEOs.51

4.45 Data61 also highlighted that despite programs to encourage girls to stay engaged in STEM subjects, there was still far too few girls and women studying STEM. Data61 provided the example of a university engineering course where only 16 per cent of the student base was female.52

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46 Dr Stefan Hajkowicz, Data61, Official Committee Hansard, Canberra, 28 February 2018, p. 10.
47 Ai Group, Submission 4, p. 5.
48 Dr Stefan Hajkowicz, Data61, Official Committee Hansard, Canberra, 28 March 2018, p. 4.
49 Ai Group, Submission 4, p. 2.
50 Ai Group, Submission 4, p. 5.
51 Dr Stefan Hajkowicz, Data61, Official Committee Hansard, Canberra, 28 February 2018, p. 10.
52 Mr Adrian Turner, Data61, Official Committee Hansard, Canberra, 28 March 2018, p. 11.
4.46 Data61 added that ensuring that teachers have the necessary skills to teach ICT, even if they were not necessarily subject matter experts, would have a significant positive impact.53

**Entrepreneurial and Business Skills**

4.47 The Ai Group also suggested that business leaders and managers would need to have the skills to manage the implementation of the ‘workforce and organisational changes that will have to be put in place as automation upends entire business processes, as well as the culture of organisations’.54

4.48 Data61 advocated helping school students develop an entrepreneurial mindset by showing that becoming an entrepreneur was a viable career path. Data61 also suggested that many Australian entrepreneurs were lacking the skills and ambition to develop global companies, stating:

>[Australian entrepreneurs are] building their business to sell it for $20 million to $30 million to an international, versus saying, as the Atlassian team did ‘actually there is a global opportunity here’. The skill set required to start a business and take it from zero to $5 million in revenue is very different than taking it from $5 million to $100 million.55

4.49 The ARA suggested that there was a need for government support for VET based retail industry training courses focussed on encouraging retail entrepreneurship.56 The ARA stated that:

>Action needs to be taken to encourage entrepreneurship in retail, and to prepare the next generation of retail entrepreneurs. Stimulating and encouraging innovation in the local retail industry begins with equipping and educating our budding entrepreneurs.57

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55 Mr Adrian Turner, Data61, *Official Committee Hansard*, Canberra, 28 March 2018, p. 11.


57 Australian Retailers Association, *Submission 5*, p. 9
Other Skills

4.50 Data 61 emphasised the importance of students learning digital skills such as coding but also pointed out that this should complement, rather than replace, social and creative skills. Data61 explained:

We want our kids to be fully up to speed with how to manipulate [machines] via coding of some sort, but once they [have a job], we found that the human skills which differentiate you from a computer, the things the computer and robot cannot do, are what grow your career most quickly: judgement, creativity, and social and emotional intelligence all become important.58

4.51 Professor Marek Kowalkiewicz also emphasised the need for skills beyond pure technological skills. Professor Kowalkiewicz stated that it there was a need for non-technology skills such as the ability to think differently, to generate new business models and to drive cultural change.59

4.52 The Ai Group suggested that workers in the retail sector and in small business ‘must develop the boundary-crossing skills of communication, leadership, problem solving and design thinking’. These skills, especially when coupled with technical skills, would assist workers to deal with the increasingly complex environment which business must operate within.60

Improving the Digital Skills of Current Workers

4.53 Data61, quoting researchers from MIT, stated that it is crucial that employees learn to ‘race with the machine, not against it. If you are doing the same thing it does, it will beat you, but if you are plugging your skills into it, it will push you along and give you a better career.’61

4.54 Data61 suggested that ‘Australia’s current and future workforce needs to be re-skilled for a future digital economy’. Data61 highlighted the role of the vocational education and training (VET) sector as being critical in providing opportunities for young and old workers to improve their digital skills.62

4.55 Data61 suggested that the Australian Government establish a digital retraining fund. Data61 stated it would recommend:

58 Dr Stefan Hajkowicz, Data61, Official Committee Hansard, Canberra, 28 February 2018, p. 4.
59 Professor Marek Kowalkiewicz, QUT, Official Committee Hansard, Canberra, 28 February 2018, p. 1.
60 Ai Group, Submission 4, p. 5.
61 Dr Stefan Hajkowicz, Data61, Official Committee Hansard, Canberra, 28 February 2018, p. 4.
62 Mr Adrian Turner, Data61, Official Committee Hansard, Canberra, 28 March 2018, p. 2.
... opening a digital retraining fund for Australian’s, so, if your job is likely to be extinguished by digital technologies in the retail sector, you are able to access modest funds but enough to give you a kick-start to early transition into something else. It’s much easier for you to get a job when you’ve got one, so we want you to make the transition sooner rather than latter. 63

4.56 The ARA suggested that small retailers, many of whom operate alone, found it particularly difficult to increase their skills without assistance to undertake training. 64 The MGA suggested that consideration should be given to grants or other forms of government support to assist retailers to improve their digital skills. The MGA stated:

Government funding for programs to learn about the procedure for setting up a digital platform or how to deliver online products would be invaluable to small businesses. 65

Committee View

4.57 New digital technologies and online platforms are changing the world of work. Automation and artificial intelligence is allowing computers and robots to undertake tasks that previously required humans, while the internet is allowing businesses to connect with customers and partners across the world. As has been the case in every preceding wave of rapid technological development this will result in some jobs being fundamentally altered and other jobs lost. These jobs will, however, be replaced by jobs in occupations that previously did not exist.

4.58 The impact of internet competition and emerging digital technologies will be disruptive, but overall is likely to be positive for the Australian economy. The experience in the United States, where online shopping is much more established, is that the jobs created by e-commerce comfortably outnumber the jobs lost in the traditional retail sector.

4.59 As an increasing number of people choose to visit a website rather than a physical store to purchase a product there will be a need for additional workers in the warehousing, transport, and logistics sectors. Regrettably, however, it is likely that some jobs will be lost in customer facing retail roles.

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63 Dr Stefan Hajkowicz, Data61, Official Committee Hansard, Canberra, 28 February 2018, p. 12.
64 Australian Retailers Association, Submission 5, pp 8-9.
65 Master Grocers Australia, Submission 9, p. 6.
No doubt this is a concerning situation for the many Australians employed in these roles in the retail sector.

4.60 There is an important role for governments to play in helping Australians, especially those in jobs at risk from internet competition, to develop the digital skills required to ensure they can take advantage of new digital economy employment opportunities.

4.61 The Committee is therefore recommending the establishment of a digital retraining fund to assist Australian workers to improve their digital literacy and develop new skills that will be valuable in the digital economy. It is preferable for Australian workers to develop these digital skills, and if necessary make the transition to new jobs, now rather than waiting until digital disruption places them at risk of unemployment.

4.62 Many Australian workers already have advanced digital skills, or have the means to comfortably support themselves to undertake training. Therefore, the funding should be targeted at Australian workers with relatively low level digital skills or in occupations at significant risk of being replaced by digital processes. This includes many Australians currently employed in customer facing retail roles.

4.63 The Committee heard from the CSIRO’s Data61 group of its desire to undertake research to develop tools for forecasting Australia’s future skill needs. The Committee believes that this research could be beneficial to the Australian economy. Without the ability to forecast future skill needs there will always be a lag between when a skill first becomes important to the economy and when graduates appear in the workforce. If future skill needs could be accurately forecast this would assist the education and training sector to prepare appropriate courses. This may also assist local Australian businesses to better prepare and train their staff to use the emerging technologies of the digital economy.

4.64 The provision of education materials and the promoting innovation and the use of digital technologies to local businesses in Australia are discussed further in Chapter 5.

4.65 A solid grounding in the STEM (science, technology, engineering and maths) subjects and knowledge of IT skills, including basic coding, is likely to be increasingly important for a wide range of occupations in the future. Australia’s education sector needs to ensure that Australian students are well equipped with these skills.
4.66 In particular, an area of current concern is the low level of girls and young women studying STEM subjects at school and university. The Committee welcomes the government’s initiatives aimed at female participation in STEM subjects in the National Innovation and Science Agenda and also notes that this is an issue that will require ongoing focus over a sustained period of time.

4.67 In the last few years there has been a rapid growth in freelance, or gig, workers. It is still unclear what impact the growth in the gig economy will have on employment levels and conditions in Australia. It is possible that workers in many occupations will face direct competition from overseas workers. All Australian Governments should carefully monitor the impact the growing freelance work has on employment in Australia.

Recommendation 2

4.68 The Committee recommends that the Australian Government establish a digital retraining fund. The fund should provide a small, means tested, subsidy to Australian workers to undertake training to improve their competency in digital skills that will assist them to find or maintain employment in the future.

Recommendation 3

4.69 The Committee recommends that the Australian Government fund the development of the nation’s forecasting capability for future digital skills needs. The funding should be provided on the condition that research findings are shared with Australia’s education sector and also communicated as widely as possible with the Australian business sector.
5. Regulatory and Governance Issues

Introduction

5.1 Recent years have seen a rapid growth in internet commerce and the entrance of new technologies that have disrupted a number of existing markets. The Department of Industry, Innovation and Science (DIIS) suggested that it would be counter-productive for governments to attempt to stop these trends, stating that ‘attempts to slow disruptive change will make Australians worse off.’¹

5.2 CSIRO’s Data61 research group (Data61) suggested that there ‘is a significant role for government in accelerating the digital transition of the Australian economy’.² The DIIS described the key elements of this role as promoting a competitive business environment and supporting business to take advantage of new technologies by being innovative and digitally literate.³

5.3 This chapter outlines current government programs aimed at business interaction in the digital economy, the role of government in regulating internet competition, relevant taxation issues, the innovation system in Australia, and other regulatory issues.

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¹ Department of Industry, Innovation and Science, Submission 7, p. 6.
² Mr Adrian Turner, Chief Executive Officer, CSIRO’s Data61 (Data61), Official Committee Hansard, Canberra, 28 February 2018, p. 3.
³ Department of Industry, Innovation and Science, Submission 7, p. 6.
Review of the Evidence

Current Government Programs

5.4 Released in December 2015, the government’s National Innovation and Science Agenda is designed to develop a ‘more innovative and entrepreneurial economy’. The Agenda involves an initial investment of $1.1 billion over four years and is based on four pillars: culture and capital; collaboration; talent and skills; and government as an exemplar. A number of initiatives within the Agenda are targeted at assisting Australian businesses, including start-ups and entrepreneurs.

5.5 The Cooperative Research Centres program, administered by AusIndustry, is a long-standing program which: ‘aims to foster high quality research to solve industry-identified problems’ through ‘collaborative research partnerships between industry entities and research organisations’. The program provides grants for up to 10 years for collaborations to support this aim. Collaborations can be international, however must have at least one Australian industry organisation and one Australian research organisation.

5.6 Other initiatives delivered within the Industry, Innovation and Science portfolio include various online platforms administered by CSIRO. Data 61’s ‘Ribit’ is one such platform that connects students with digital, STEM, research and business skills to innovative companies and startups requiring these skills. Similarly, Data61’s ‘Expert Connect’ was created to provide a service for individuals or organisations to discover and connect with

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Australian experts in their field of interest. Expert Connect provides a ‘mechanism to go in with a specific challenge or problem and … find the people with the specific capability.’ CSIRO also offers a program called ‘SME Connect’ which includes a series of dollar-matched funding and support programs to link Australian SMEs with research organisations, to provide access to expertise and facilities.

Regulating Internet Business

5.7 The speed with which technological change can disrupt existing markets is a significant challenge for regulators. The Australian Institute of Performance Sciences stated that regulation will need to be increasingly agile and:

... strike a balance, ensuring Australian businesses have a level playing field with internationally based competition, and ensuring Australian consumers are given appropriate protections. The speed and complexity of technology-enabled change will challenge existing regulatory development practices.

5.8 The DIIS stated that where a regulatory model faces rapid disruption from a new market entrant, the Government is:

... effectively left with two models, one would be to try and stop the new innovation and reinforce the current regulatory model. The other one is to adapt and change and I think the experience around the world has been that some kind of ‘adapt and change’ is where you inevitably end up.

5.9 The Australian Retailers Association (ARA) stated that the opening of the Australian retail sector to global competition had ‘exposed many legacy regulations, laws and flaws that legislators and regulators must address’.

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10 Mr Adrian Turner, Data61, Official Committee Hansard, 28 February 2018, p. 6.


12 Australian Institute of Performance Sciences, Submission 14, p. 8.

13 Dr Christopher Locke, Head of Division, Portfolio Policy and Innovation Strategy Division, Department of Industry, Innovation and Science (DIIS), Official Committee Hansard, Canberra, 6 December 2017, p. 5.

14 Mr Russell Zimmerman, Executive Director, Australian Retailers Association (ARA), Official Committee Hansard, Canberra, 7 February 2018, p. 7.
The ARA added that many of the regulations in Australia do not ‘exist anywhere else [and are] creating additional costs for the [retail] sector’.15

5.10 As an example, the ARA highlighted Australian regulations that require clothing to be labelled at the collar rather than on the left hand side of the clothing. This results in Australian businesses needing to separately label clothing for the Australian and international markets.16

5.11 In a report commissioned by eBay, Deloitte Access Economics (Deloitte) warned of the potential negative impacts that that over-regulation of digital platforms could have on small businesses. Deloitte stated:

The regulation of digital platforms needs to be considered very carefully because of the dynamic nature of digital business, and weighed up against how constraints on platforms may reduce their role in helping small business grow.17

5.12 In contrast, the Australian Booksellers Association (ABA) suggested that global internet retailers rely on being disruptive and look for an advantage by actively seeking legislative loopholes. To help ensure that internet retailers comply with Australian law the ABA recommended that additional support be provide to State and Federal Small Business Commissioners.18

5.13 Professor Marek Kowalkiewicz called for governments to act more proactively in the digital economy and suggested that ‘tiger teams’ be established to proactively investigate regulatory options. These tiger teams would explore emerging technologies and the potential regulatory impacts prior to disruptive new businesses entering the market.19

5.14 Professor Kowalkiewicz also recommended that governments, particularly local governments, should more actively play a partnership role with potential high-growth firms. For example a government could invite a firm into its procurement processes or act as the first customer of a firm.20

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15 Mr Heath Michael, Director, Policy, Government and Corporate Relations, ARA, **Official Committee Hansard**, Canberra, 7 February 2018, p. 9

16 Mr Heath Michael, ARA, **Official Committee Hansard**, Canberra, 7 February 2018, p. 9.


18 Australian Booksellers Association, **Submission 12**, pp 9-10.

19 Professor Marek Kowalkiewicz, QUT, **Official Committee Hansard**, Canberra, 28 February 2018, p. 1.

20 Professor Marek Kowalkiewicz, QUT, **Official Committee Hansard**, Canberra, 28 February 2018, p. 8.
Jurisdiction of Australian Law

5.15 The Australian Competition and Consumer Commission (ACCC) reported that for approximately 25 years it has been dealing with technology companies disputing the jurisdiction of Australian law to regulate their activities. The ACCC reported that it had, in the past, won legal disputes with Visa International relating to jurisdiction, and, more recently it had successfully taken Valve, an online supplier of computer games, to the Federal Court.21

5.16 The ACCC described its position on the jurisdiction of Australian law by stating that it takes ‘a very, very strong view that, if you’re accepting money from Australian consumers … if you’re engaging in business in Australia, then you have to comply with Australian law.’22

Treatment of Digital Products under Australian Law

5.17 Dr Benjamin Hayward drew attention to the classification of digital products under Australian Consumer Law. Dr Hayward commented that digital products are not subject to the same legal obligations as physical goods under Australian Consumer Law. Dr Hayward stated that:

Australian businesses dealing in physical goods, competing with global internet-based businesses dealing in equivalent digital products, are subject to additional regulatory costs, and are therefore at a competitive disadvantage.23

5.18 Dr Hayward stated that under Australian Consumer Law the sale of computer software is considered to be a sale of goods regardless of whether the software is located on a physically tangible object (such as a CD) or digitally downloaded from the internet. Other digital products such as e-books and digital music, however, are not considered as goods under Australian Consumer Law.24

5.19 Dr Hayward drew attention to the recent court case of ACCC v Valve Corp (discussed above). In this case Justice Edelman ruled that a computer game consists of software (a good) as well as other assets, such as music and

21 Mr Marcus Bezzi, Executive General Manager, Specialised Enforcement and Advocacy Division, Australian Competition and Consumer Commission (ACCC), Official Committee Hansard, Canberra, 7 February 2018, p. 3.
22 Mr Marcus Bezzi, ACCC, Official Committee Hansard, Canberra, 7 February 2018, p. 3.
23 Dr Benjamin Hayward, Submission 1, p. 1.
24 Dr Benjamin Hayward, Submission 1, pp 5-6.
image files, ‘which accompanied, and was incidental to, the computer software [and] was not a good although it is hard to see how it could be decoupled from the computer software.’

5.20 Dr Hayward recommended that the definition of goods in Australian Consumer Law be amended to include computer software and other types of digital products.

Taxation Issues

Business Tax Rates

5.21 The ARA suggested that Australia’s company tax rates were making it difficult for Australian businesses to compete with overseas retailers. The ARA stated:

It’s impossible for retailers to compete fairly against companies which operate out of lower tax jurisdictions, as the higher cost and regulatory burden hampers reinvestment and innovation … The simple truth is high tax rates are driving investment and profit overseas and there is nothing government can do to stop it without further harming the economy, other than have a competitive tax rate.

5.22 The National Retail Association (NRA) and NORA explained further the impact that company tax rates have on the competitiveness of Australian businesses, stating:

Lower tax rates in competitor jurisdictions overseas mean that rival businesses can retain the same level of net income from a lower profit margin. This in turn means that they can charge lower prices for their goods, giving them a competitive advantage over Australian businesses.

GST on Imported Products

5.23 Currently goods costing under $1000 imported from overseas are exempt from paying GST. On 21 June 2017, the Treasury Laws Amendment (GST Low Value Goods) Bill 2017, which will remove this exemption, was passed.

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25 ACCC v Valve Corp [No 3] (2016), 679 [156], in Dr Benjamin Hayward, Submission 1, p. 6.
26 Dr Benjamin Hayward, Submission 1, p. 4.
27 Mr Russell Zimmerman, ARA, Official Committee Hansard, Canberra, 7 February 2018, p. 8.
28 National Retail Association and NORA, Submission 16, p. 3.
The Treasury advised that from 1 July 2018 the GST will apply to goods costing under $1000 which are imported from overseas.29

5.24 Businesses with an annual turnover of more than $75 000 will be required to charge GST on the sale of low value imported goods. Digital platforms (such as eBay and Amazon) will be treated as the supplier of goods for taxation purposes and therefore be required to charge GST on products imported using their platforms.30

5.25 The DIIS stated that the change would ‘level the playing field for Australian sellers who are required to pay GST on the goods they sell locally’.31

5.26 The ABA supported the implementation of the legislation ‘as soon as possible’ and explained why the change was significant for Australian retailers, stating:

> Until 1 July 2018, offshore providers get an automatic 10 per cent ‘discount’ on retail prices by not having to pay GST on purchases of less than $1000. This is unfair, inequitable, and has created a significant black hole in the Australian economy over the past 17 years.32

5.27 Following the passing of the Treasury Laws Amendment (GST Low Value Goods) Bill 2017 the Productivity Commission (PC) conducted an inquiry to consider the most appropriate model for the collection of GST on low value products. The model included in the legislation, known as the ‘vendor collection model’, requires that overseas suppliers ‘that make sales of more than $75 000 to consumers in Australia each year would be required to register for and collect GST.’ The PC considered other potential collection models, in particular two ‘transporter models’ that require the agent delivering the goods to collect the GST.33

5.28 The PC considered the legislated vendor collection model to be the ‘most feasible among the imperfect alternatives at this time’. The PC stated this was because the revenue obtained would outweigh the administrative and

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29 Treasury, Submission 15, p. 3.


31 Department of Industry, Innovation and Science, Submission 7, p. 21.

32 Australian Booksellers Association, Submission 12, p. 10.

compliance costs and it would avoid major disruption to consumers importing goods.  

5.29 The ARA acknowledged that the vendor collection model is the ‘quickest and easiest to implement’ but was concerned that ‘loopholes will continue and capture rates will remain low’. The ARA stated that Australian retailers will remain at a competitive disadvantage with ‘overseas retailers who market products to Australian consumers if loopholes and exemptions remain low’.  

5.30 The ARA instead recommended the implementation of the ‘modernised transporter model’ which would require transporters and postal services to take responsibility for taxes and duties on the products they are transporting. The ARA suggested that the modernised transporter model would allow the Australian Government to collect GST on 95 per cent of low value goods entering Australia as opposed to just 50 per cent under the vendor collection model.  

5.31 Deloitte also expressed concerns with the implementation of the vendor collection model, in particular relating to the treatment of digital platforms as the suppliers of the goods being imported into Australia. Deloitte stated that:

…if platforms do not hold or process the goods or services, or process transactions, they may be unable to collect the GST on behalf of the government.  

5.32 The PC stated that as transporter collection models do not place ‘the liability for assessing and collecting the GST on entities outside of Australia’s legal jurisdiction … [they] are likely to achieve higher compliance and collection rates than the legislated model.  

5.33 Despite this, the PC did not recommend the implementation of a transporter collection model due ‘higher administrative and compliance burden’. This compliance burden was due to ‘the legacy paper-based declaration processes still in operation for most goods sent by international mail’. The PC added

35 Australian Retailers Association, Submission 5, p. 4.
36 Australian Retailers Association, Submission 5, pp 5-6.
that the modernised transporter model would also require Australia Post to ‘negotiate agreements with overseas postal operators to facilitate collection’.39

5.34 The Treasury also advised that the Australian Taxation Office (ATO) has undertaken a ‘considerable international awareness campaign’ and expected that major suppliers will comply with the changes ‘in order to protect their brand and reputation’. The Treasury also added that the ATO is ‘equipped with a range of tools to pursue companies that do not comply’.40

**Tax Avoidance among Global Internet-Based Companies**

5.35 A number of inquiry participants raised concerns about the quantity of tax paid by global internet-based retailers selling goods and services to Australian consumers. The ABA stated that ‘global internet-based retailers have rarely, if ever, disclosed a taxable profit’.41 The ABA further stated that law enforcement regimes must be in place to ensure that global businesses operating in Australia:

> ... do not use ‘transfer pricing’ laws to send money that should be going to the Australian Tax Office to their overseas companies in low tax collecting countries. The current legislative efforts of Government are a good step in the right direction but there is a lot more work to be done.42

5.36 The Accommodation Association of Australia (AAA) suggested that Airbnb has ‘constantly dodged questions about how much tax it pays in total in Australia.’43 Similarly, the AAA suggested that the two big online travel agents, Priceline and Expedia, pay ‘little or no tax in Australia’.44 The AAA estimated that, in the case of the online travel agencies, $400 million to $450 million was leaving Australia untaxed each year.45

5.37 The Treasury reported that Australia had played a leading role in the development of a G20/OECD action plan to address multinational tax

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44 Mr Richard Munro, Chief Executive Officer, Accommodation Association of Australia (AAA), *Official Committee Hansard*, Canberra, 14 February 2018, p. 2.
avoidance. The Treasury advised that in the wake of the global action plan Australia had enacted laws to ensure that: Australia’s transfer pricing rules were consistent with other countries; multinationals report to the ATO the income they earn and the tax they pay for each country in which they operate; the GST will be extended to imported digital products.\textsuperscript{46}

5.38 The Treasury advised that the Australian Government has also introduced other measures to address multinational tax avoidance including: a Diverted Profits Tax, which introduces a ‘new 40 per cent penalty rate of tax to apply to multinationals avoiding tax by diverting profits offshore’; and a Tax Avoidance Taskforce to ‘strengthen the ATO’s capacity to identify and crack down on tax avoidance by large corporates, multinationals, and high wealth individuals’.\textsuperscript{47}

**Other Tax Issues**

5.39 Responsible Wagering Australia (RWA) drew attention to a new point-of-consumption tax (POCT) on online gambling in South Australia. The RWA suggested that the combination of the POCT, the GST, and other fees paid to sport and racing bodies, results in an effective tax burden exceeding 40 per cent of revenue. The RWA stated the offshore online gambling providers were not subject to these costs and this made it difficult for Australian-licensed operators to compete.\textsuperscript{48}

**Power of Digital Platforms**

**Digital Platforms and Competition**

5.40 The ACCC commented that digital platforms allow small businesses to access consumers in markets that otherwise would be difficult and costly to access.\textsuperscript{49} The ACCC reported that many of the small businesses it engaged with considered maintaining a presence on a digital platform to be an ‘essential component of their marketing to potential consumers’.\textsuperscript{50}

\textsuperscript{46} Treasury, *Submission 15*, p. 1.

\textsuperscript{47} Treasury, *Submission 15*, pp 1-2.

\textsuperscript{48} Responsible Wagering Australia, *Submission 10*, p. 2.

\textsuperscript{49} Australian Competition and Consumer Commission, *Submission 2*, p. 3.

\textsuperscript{50} Australian Competition and Consumer Commission, *Submission 2*, p. 1.
5.41 The ACCC suggested that there is a ‘network effect’ with online businesses where a platform becomes more valuable to users as more people use the platform. Popular platforms can therefore exert significant market power.\(^{51}\)

5.42 Professor Marek Kowalkiewicz expanded on this idea by stating that there is beginning to be an:

… emergence of monopolies among online marketplaces. If it’s not winner takes all, then it’s a few winners in the marketplace … there is a particular type of dependency being created between the … participants of the market and the owners and operators of the marketplace.\(^{52}\)

5.43 The ACCC observed that in some instances digital platforms have been able to increase their margins due to limited competition.\(^{53}\)

5.44 The ACCC stated that it undertakes monitoring to ensure that platforms are not misusing their market power and that there are not inappropriate barriers preventing other companies entering the market.\(^{54}\)

5.45 The Australian Small Business and Family Enterprise Ombudsman stated that ‘as the number of global internet-based businesses increases and they continue to disrupt established markets, they cement their market dominance through favourable contract terms, market practices, and payment times.’\(^{55}\)

5.46 Professor Kowalkiewicz suggested that there are also new competition issues that are just beginning to emerge, for example:

… self-replenishing fridges that many Australians will soon have that might prefer particular brands. This is, without a doubt, a space for the government to look into and try to understand whether there is equity in terms of access to the market.\(^{56}\)

5.47 Data61 emphasised the importance of small businesses having access to the data that digital platforms collect and that it is not ‘locked up in that [digital


\(^{52}\) Professor Marek Kowalkiewicz, QUT, *Official Committee Hansard*, Canberra 28 February 2018, p. 3.

\(^{53}\) Australian Competition and Consumer Commission, *Submission 2*, p. 4.


\(^{55}\) Australian Small Business and Family Enterprise Ombudsman, *Submission 8*, p. 3.

platform] so that we don’t end up in situations where there are de facto monopolies and the only route to market is through a single marketplace’.57

5.48 The DIIS highlighted recent research by the Grattan Institute that found that in most sectors of the Australian economy there were low barriers of entry and businesses were making normal (rather than supernormal) profits. The DIIS, however, noted that United States regulators were looking closely at whether the big technology companies had too much market power and there was debate about whether a ‘new era’ of anti-trust regulations was warranted.58

5.49 The NSW Small Business Commissioner suggested that the Government should review anti-competition legislation to ‘ensure there is no gap which can be exploited or which allows anti-competitive behaviour’.59

5.50 The Treasury stated that an independent review of competition policy was recently led by Professor Ian Harper. Following the review, the Competition and Consumer Amendment (Misuse of Market Power) Act 2017 was introduced to prevent the misuse of market power by large businesses.60 The ACCC suggested that this amendment will provide it with ‘effective mechanisms to address anti-competitive conduct by global internet based competitors affecting markets in Australia’.61

5.51 The ACCC advised that actions that may contravene consumer protections against misleading and deceptive conduct can be very different online and in the physical world. The ACCC highlighted the power that comparison websites, ratings, and reviews have in influencing consumer decisions. The ACCC stated that comparison websites should be transparent about whether they are comparing across the market or just businesses with which they are aligned.62

5.52 The ACCC suggested that if consumer ratings are distorted, for example if negative ratings are not shown, this could be misleading or deceptive

57 Mr Adrian Turner, Data61, Official Committee Hansard, 28 February 2018, p. 3.
58 Mr Mark Cully, Chief Economist, Economic and Analytical Services Division, Department of Industry, Innovation and Science, Official Committee Hansard, Canberra, 6 December 2018, pp 3-4.
60 Treasury, Submission 15, p. 5.
61 Australian Competition and Consumer Commission, Submission 2, p. 3.
62 Mr Bruce Cooper, General Manager, Advocacy, Competition, International and Intelligence Branch, ACCC, Official Committee Hansard, Canberra, 7 February 2018, p. 4.
conduct. The ACCC advised that it was successful in court proceedings taken against the accommodation provider Meriton which was found to have been distorting the TripAdvisor ratings and reviews about their accommodation services.\(^{63}\)

### 5.53 The ACCC also reported that platforms are beginning to play a role in educating businesses about Australian law and monitoring their compliance.\(^{64}\)

#### Unfair Contract Provisions

### 5.54 The Australian Small Business and Family Enterprise Ombudsman stated that unfair contract terms legislation provides ‘some level of protection for small businesses although the matter still has to go to court for a ruling to determine if a term is unfair’.\(^{65}\)

### 5.55 The AAA stated that its most serious concern in relation to internet competition is that its members cannot set their own room rates due to the rules insisted upon by online travel agencies (OTA). The two largest OTAs, the Priceline Group (which includes Booking.com) and Expedia, insist upon ‘price parity’ clauses that prohibit hotels and motels from advertising a room rate which is lower than the rate provided on the OTA website.\(^{66}\)

### 5.56 In September 2016, the ACCC reached an agreement with Expedia and Booking.com to make amendments to the price parity clauses in their contracts with Australian accommodation providers.\(^{67}\)

### 5.57 As a result of this agreement accommodation providers can provide room rates that are lower than those available on the OTA site to customers who walk in or phone the accommodation provider.\(^{68}\) Accommodation providers are still restricted from advertising a lower price online, including on their own websites. The AAA stated that:

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\(^{63}\) Mr Bruce Cooper and Mr Marcus Bezzi, ACCC, *Official Committee Hansard*, Canberra, 7 February 2018, p. 4.

\(^{64}\) Mr Bruce Cooper, ACCC, *Official Committee Hansard*, Canberra, 7 February 2018, p. 4.

\(^{65}\) Australian Small Business and Family Enterprise Ombudsman, *Submission 8*, p. 3.


\(^{68}\) Mr Richard Munro, AAA, *Official Committee Hansard*, Canberra, 14 February 2018, p. 8.
Given the internet accounts for more than 80 per cent of all bookings made in accommodation businesses in Australia today and internet booking were not part of the (secret) deal between the ACCC and the global online travel agencies [the agreement] has had little or no impact on the behaviour of Expedia and Priceline.69

5.58 The AAA suggested that, despite OTAs advertising that they have the lowest prices, in reality price parity clauses were ‘hindering consumers from accessing lower room rates’. The AAA provided an example of a room that is advertised at $200 on Expedia or Booking.com. If the room is booked on the OTA site then the online travel agency receives $40 as a commission. If a customer could instead book the room on the hotels own website for $180 this could result in both the customer and the hotel being $20 better off. 70

5.59 The AAA added that if a hotel offers a better price on its own website the travel agency may ‘darken’ the hotel which means they are placed at the very bottom of search results. The AAA reported that if a hotel is darkened they can lose 30 per cent of their business.71

5.60 The Australian Small Business and Family Enterprise Ombudsman reported that an accommodation provider had attempted to negotiate a better contract with an OTA but had been told to ‘take it or leave it’ and threatened with legal action.72

5.61 The ACCC advised that it is continuing to investigate the operations of OTAs and in particular whether price parity laws were anti-competitive. The ACCC also stated that it had a range of tools it could use to make these organisations change their rules if necessary.73

Promoting Innovation and Providing Information to Local Businesses

5.62 The ARA stated that ‘Australian retailers have been slow to innovate’ and suggested that internet competition was placing pressure on local retailers, ‘which hinders their ability to re-invest in innovation’. As an example of the potential dangers of neglecting innovation, the ARA highlighted Belgium.

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69 Accommodation Association of Australia, Submission 6, p. 7.
70 Mr Richard Munro, AAA, Official Committee Hansard, Canberra, 14 February 2018, p. 8.
71 Mr Richard Munro, AAA, Official Committee Hansard, Canberra, 14 February 2018, pp 7-8.
72 Australian Small Business and Family Enterprise Ombudsman, Submission 8, p. 3.
73 Mr Marcus Bezzi, ACCC, Official Committee Hansard, Canberra, 7 February 2018, pp 2-3.
where many local consumers now use foreign websites due to the Belgian retail sector being slow in adopting e-commerce.\textsuperscript{74}

5.63 The ARA called for the government to assist ‘small businesses to create e-commerce platforms and help to develop IT and marketing expertise’.\textsuperscript{75} The ABA suggested that without ‘government action, innovation and support Australian booksellers like many Australian small businesses run the risk of being overwhelmed by global internet based competition’.\textsuperscript{76}

5.64 Data61 highlighted artificial intelligence (AI) as a rapidly advancing technology that will have ‘profound implications for industry, economy, and society’. Data61 suggested that Australia must stay at the forefront of AI capability and that AI will enable ‘new industries, security and a higher quality of life’.\textsuperscript{77}

\textit{Funding Research and Development}

5.65 The Australian Government’s primary mechanism for supporting business innovation is the Research and Development (R&D) Tax Incentive. A 2016 review of the R&D Tax Incentive found that it supported $19.5 billion of research and development at a cost to government of $2.95 billion.\textsuperscript{78}

5.66 Data61 advised that Amazon ‘invests more in digital R&D than Australia’s public and private sector combined’. Australia’s total spending on R&D was $32 billion per year but digital R&D represents ‘only a fraction of this amount’. By comparison, Amazon invested just under $23 billion on R&D over the 12 months to March 2017.\textsuperscript{79}

5.67 Data61 added that the arrival of Amazon with its ‘massive expenditure on R&D’ and sophisticated tools such as Alexa\textsuperscript{80} leaves Australian businesses vulnerable. In Data61’s view, Amazon will not necessarily use these tools in the interests of Australian businesses but rather ‘competitively, in their own

\textsuperscript{74} Australian Retailers Association, \textit{Submission 5}, p. 7.

\textsuperscript{75} Australian Retailers Association, \textit{Submission 5}, p. 7.

\textsuperscript{76} Australian Booksellers Association, \textit{Submission 5}, p. 13.

\textsuperscript{77} Mr Adrian Turner, Data61, \textit{Official Committee Hansard}, Canberra 28 February 2018, p. 2.


\textsuperscript{79} Mr Adrian Turner, Data61, \textit{Official Committee Hansard}, Canberra 28 February 2018, p. 2.

\textsuperscript{80} Alexa is Amazon’s virtual assistant tool that uses speech recognition technology.
interests, and we will lose our understanding of the data algorithms and the artificial intelligence – what’s going on behind the scenes’.81

5.68 Data61 stated that ‘industry needs to take the lead’ in funding R&D but that many valuable breakthroughs are the products of 10 to 15 years of research. Government support, therefore, is needed where the market cannot or will not fund such long-term research.82

5.69 The ABA recommended that the government should promote digital innovation in retail businesses by providing ‘innovation grants, tax benefits or low-interest loans for businesses wishing to develop e-commerce on their website’.83

5.70 Data61 recommended new debt-finance funding for high growth small business that addressed the ‘gap between a venture capital firm that will fund a very narrow class of small business and a bank that may be completely risk averse’.84 Data61 also recommended that there further financial incentives ‘for high-growth firms, with incentives to reinvest those funds back into R&D and drive growth’.85

Innovation and Collaboration in Small Business

5.71 The Ai Group stated that ‘innovation has never been so important for Australian businesses, as they confront fierce global competition and rapidly changing markets and consumer preferences’.86

5.72 The Ai Group added that it was difficult for SMEs to acquire the knowledge and skills to effectively innovate and therefore undertaking innovation in collaboration with other organisations was beneficial. The Ai Group described the benefits of collaboration as including: ‘increased comfort with risk taking; exposure to new approaches; potential for specialisation; reduction in costs and time to market; and increased persistence of innovation’.87

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81 Dr Stefan Hajkowicz, Senior Principal Scientist, Data61, Official Committee Hansard, Canberra 28 February 2018, p. 7.
82 Mr Adrian Turner, Data61, Official Committee Hansard, Canberra 28 February 2018, p. 6.
83 Australian Booksellers Association, Submission 12, p. 11.
84 Mr Adrian Turner, Data61, Official Committee Hansard, Canberra 28 February 2018, p. 12.
85 Mr Adrian Turner, Data61, Official Committee Hansard, Canberra 28 February 2018, p. 7.
86 Ai Group, Submission 4, p. 11.
87 Ai Group, Submission 4, p. 11.
5.73 Data61 suggested that many small businesses are not engaging in innovation to develop new products and commented that many SMEs did not know how to engage research institutes in collaborative innovation projects.\footnote{Mr Adrian Turner, Data61, \textit{Official Committee Hansard}, Canberra, 28 February 2018, pp 5, 6.} Professor Marek Kowalkiewicz suggested that, in particular, small businesses in regional and rural areas were not aware of opportunities to collaborate with universities.\footnote{Professor Marek Kowalkiewicz, QUT, \textit{Official Committee Hansard}, Canberra, 28 February 2018, p. 6.}

5.74 Professor Kowalkiewicz added that the current framework for collaboration and budget constraints both at universities and among businesses often make it difficult for university researchers to collaborate with small businesses.\footnote{Professor Marek Kowalkiewicz, QUT, \textit{Official Committee Hansard}, Canberra, 28 February 2018, p. 5.}

\textbf{Providing Information to Small Business}

5.75 The DIIS acknowledged that not all Australian businesses are well placed to take advantage of the opportunities in the digital economy. The DIIS therefore stated that it is ‘important that the Australian Government play a role in lifting business capabilities and innovation where market failures exist’.\footnote{Department of Industry, Innovation and Science, \textit{Submission 7}, pp 21-22.} In November 2017, the government established the Small Business Digital Taskforce, which aims ‘to ensure that more Australian small businesses can thrive in an increasingly digital economy’.\footnote{Department of Industry, Innovation and Science, \textit{Submission 7}, p. 22.}

5.76 The DIIS stated that it hoped that the taskforce would be able to provide insights into the challenges faced by small business. Additionally, the DIIS hope that the taskforce will act as vehicle to convey information relating to what the government can offer small businesses to help them build their digital capacity.\footnote{Dr Christopher Locke, DIIS, \textit{Official Committee Hansard}, Canberra, 6 December 2017, p. 6.}

5.77 Professor Kowalkiewicz suggested that many businesses appreciate the government sharing the success stories of innovative Australian businesses and that the more the government talks about these cases the ‘better the culture and the more the focus on growth’.\footnote{Professor Marek Kowalkiewicz, QUT, \textit{Official Committee Hansard}, Canberra, 28 February 2018, p. 8.}
Professor Kowalkiewicz also suggested that governments should help business to understand the impact of emerging technologies and ‘what it might mean for them and what they might need to do’.\(^95\)

**Other Regulatory Issues**

The NRA and NORA described selling products to international tourists visiting Australia as ‘one area in which Australian retailers have an advantage over foreign internet businesses’.\(^96\) In the view of the NRA and NORA retailers were not able to fully capitalise on this advantage due to the ‘complicated nature of the Tourist Refund Scheme’. The NRA and NORA recommended that the scheme should be opened to private refund providers as this could ‘drive new and innovative shopping arrangements for international visitors to Australia’.\(^97\)

**Postage and Logistics**

The ABA raised concerns that overseas retailers may be receiving a competitive advantage in shipping costs due to Australia’s membership of a long-term postal treaty as part of the Universal Postal Union. The ABA explained that because of the treaty if the Book Depository ships a book to Australia it is able to charge Australia Post, as opposed to the customer, for the cost of shipping.\(^98\)

The ABA stated that it believed the costs to Australia Post to deliver international packages to be in the vicinity of $300 to $400 million. The ABA stated that Australian small businesses were ‘effectively subsidising the Australian freight cost for large businesses’.\(^99\)

**Planning and Local Government Regulations**

The AAA highlighted that its members deal with substantial ‘red tape’ related to local government regulations.\(^100\) In contrast, the AAA drew

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\(^96\) National Retail Association and NORA, *Submission 16*, p. 4.

\(^97\) National Retail Association and NORA, *Submission 16*, p. 4.

\(^98\) Mr Tim White, President, Australian Booksellers Association, *Official Committee Hansard*, Canberra, 14 February 2018, pp 4-5.

\(^99\) Australian Booksellers Association, *Submission 12*, p. 11.

\(^100\) Mr Richard Munro, AAA, *Official Committee Hansard*, Canberra, 14 February 2018, p. 6.
attention to the lack of regulation applied to accommodation offered via the Airbnb platform. The AAA stated that Airbnb is:

… facilitating non-compliant accommodation … its properties do not meet the same standards that our members have to meet for building and fire safety. They don’t have insurance coverage, they do not comply with planning laws, and they are not providing disability access. This is not a level playing field.101

5.83 The Australian Small Business and Family Enterprise Ombudsman added that traditional accommodation providers pay commercial council rates whereas sharing economy providers only pay residential rates. This is despite approximately 35 per cent of the accommodation listed on Airbnb being ‘commercial operators that lease out property all year round, and have investment properties designed specifically for the sharing economy.’102

Committee View

5.84 Online shopping has grown rapidly in recent years and it unlikely that this growth trend will cease anytime in the near future. Similarly, increased internet connectivity has enabled the growth of many new, and often disruptive, apps and digital platforms.

5.85 Governments cannot stop these trends. Neither should they try, as the digital economy is likely to benefit Australians overall.

5.86 The role of government is, therefore, to ensure that the digital economy has a level playing field and that Australian businesses are equipped with the skills and technologies to take advantage of emerging opportunities.

5.87 The Committee recommends that the Department of Industry, Innovation and Science continue to take an active role in preparing Australian business to compete in the digital economy. The department is currently developing the government’s Digital Economy Strategy and the Committee recommends that as part of the strategy the department develop education materials aimed at small business. These materials should help small business owners and managers, most of whom are time poor, to evaluate how emerging technologies and popular digital platforms might affect their business.

101 Mr Richard Munro, AAA, Official Committee Hansard, Canberra, 14 February 2018, p. 2.

5.88 These education materials should also include information to help Australian businesses strengthen the protection of their data by improving data security processes and adopting appropriate cybersecurity technologies. The importance of cybersecurity and the serious impact that a data breach can have on a small business is discussed further in Chapters 2 and 3.

5.89 The growing influence in the Australian market of retailers operating from overseas makes the regulatory task faced by governments more complex. The Committee was pleased to hear, therefore, that it is the Australian Competition and Consumer Commission’s strong view that all companies operating in Australia, regardless of where they are based, must comply with Australian law.

5.90 A primary focus of this Inquiry was the effects of increased internet competition on Australian retailers. There is also increasing concern, however, that a lack of competition between internet based businesses could lead to negative impacts in some industry sectors.

5.91 In some industries, one or two digital platforms are beginning to dominate the market. There is a risk that monopolies or duopolies could form and potentially distort the market. For example, two companies have come to dominate the market for making accommodation bookings. As they have increased their market power they have also rapidly increased the commissions they charge accommodation providers placing pressure on many Australian businesses.

5.92 In addition, these two companies insist on accommodation providers signing contracts with price parity clauses that do not allow the providers to advertise lower room prices on their own websites. These clauses are a source of significant frustration for many small hotels and motels. Due to the power of the online travel agencies, however, they have no choice but to sign the contracts. The Committee does not see any benefit for Australian consumers or businesses from the use of these price parity clauses.

5.93 The Committee also heard that in its operations overseas Amazon has used data collected on small businesses using its Amazon Marketplace platform to directly compete with these businesses. The Committee does not believe that it is appropriate for digital platforms to use data collected on small businesses in any way that is detrimental to these businesses’ operations.

5.94 The Committee notes the work undertaken in 2015 by the Harper Review into competition policy. The Committee also welcomes the introduction of legislation last year to prevent the misuse of market power by internet based
businesses. Nevertheless, as the example of Uber transforming the taxi market in a matter of months shows, internet businesses can create rapid and unforeseen change. Governments must remain vigilant to ensure that digital disruption does not result in internet based businesses gaining an unfair advantage over existing businesses.

5.95 The exemption from GST for low-value imports is an example of a regulation that has unintentionally benefitted overseas businesses at the expense of Australian businesses. The Committee is pleased this loophole will soon be closed and urges the government to ensure that there is no delay in implementing the change. As internet competition grows ensuring that regulation does not unintentionally put Australian businesses at a competitive disadvantage will become increasingly important.

Recommendation 4

5.96 The Committee recommends that the Australian Government should consider future reform of competition law in light of the potential impact of digital retail platforms, taking into account the way major tech firms collect, use and monetize data in possibly anti-competitive ways.

Recommendation 5

5.97 The Committee recommends that the Department of Industry, Innovation and Science, in partnership with relevant industry associations and educational institutions, develop education materials aimed at encouraging small business to participate in the digital economy. These materials should aim to:

- Provide small business with relevant and accessible information on key emerging technologies and opportunities to collaborate with universities;

- Assist small business to understand the potential risks and benefits of using digital platforms and how to access and use the data created when using digital platforms;

- Assist small businesses to protect their data through improvements to cybersecurity technologies and processes; and

- Promote the examples of diverse Australian companies who have grown their business through successful digital engagement.
Recommendation 6

5.98 The Committee recommends that the Department of Industry, Innovation and Science ensure that legislative and regulatory changes to industry policy keep the following principles in mind:

- Digital platforms should not engage in monopolistic or anti-competitive practices;

- Regulatory settings should not create loopholes or exemptions that provide internet-based companies a competitive advantage over Australian local businesses;

- Australian consumers and businesses should be able to easily access data collected on them by digital platforms.

Hon Barnaby Joyce MP
Chair
28 March 2018
A. Submissions

1 Dr Benjamin Hayward
2 Australian Competition & Consumer Commission
3 Office of the NSW Small Business Commissioner
4 Ai Group
5 Australian Retailers Association
6 Accommodation Association of Australia
7 Department of Industry, Innovation and Science
8 Australian Small Business and Family Enterprise Ombudsman
9 Master Grocers Australia
10 Responsible Wagering Australia
11 eBay
12 Australian Booksellers Association
13 Digital Industry Group Inc (DIGI)
14 Australian Institute of Performance Sciences
15 The Treasury
16 National Retail Association and NORA
B. Public Hearings

Wednesday, 6 December 2017, Canberra

Department of Industry, Innovation and Science

- Mr Mark Cully, Chief Economist, Economic and Analytical Services Division
- Dr Christopher Locke, Head of Division, Portfolio Policy and Innovation Strategy Division

Wednesday, 7 February 2018, Canberra

Australian Competition and Consumer Commission

- Mr Marcus Bezzi, Executive General Manager, Specialised Enforcement and Advocacy
- Mr Bruce Cooper, General Manager, Advocacy, Competition, International and Intelligence

Australian Retailers’ Association

- Mr Russell Zimmerman, Executive Director
- Mr Heath Michael, Director Policy, Government and Corporate Relations

Wednesday, 14 February 2018, Canberra

Accommodation Association of Australia

- Mr Richard Munro, Chief Executive Officer
Australian Booksellers Association

- Mr Tim White, President
- Mr Joel Becker, Chief Executive Officer

Council of Small Business of Australia

- Mr Peter Strong, Chief Executive Officer

Wednesday, 28 February 2018, Canberra

Commonwealth Scientific and Industrial Research Organisation’s Data61

- Mr Adrian Turner, Chief Executive Officer
- Dr Stefan Hajkowicz, Senior Principal Scientist

Queensland University of Technology Business School

- Professor Marek Kowalkiewicz, Professor and Chair in Digital Economy