The Formulation of Government Policy for the Internet

At a recent e-business symposium, Dr Rod Badger discussed some of the key drivers for the formulation of Government policy for the Internet.

The portfolio of Communications, Information Technology and the Arts was created after the 1998 election, reflecting the Government's wish to ensure a more co-ordinated and integrated approach to all aspects of the developing information economy: infrastructure, services, the domestic IT sector, electronic commerce and content and cultural issues.

I want to discuss the key elements of the Government's agenda for the information economy as it affects the subject of this conference: *"e-business"*.

That agenda is one which continues to change, and is perhaps permanently shifting in this area. This is a reflection of several factors:

- the rapid changes in technologies based around the interconnected computing platform we call the Internet;

- disagreement amongst stakeholders on the appropriate model for Government to adopt in key areas such as authentication;

- global factors which may be beyond Australia's control but not beyond our influence, for example the complex but important issue of domain name management at the international level.

E-commerce takeup in Australia has been steady rather than spectacular, but still very good by world standards. Business-to-consumer expenditure is running at around $150-200 million by most estimates, although one report last week put it at 4 times that. Business-to-business is more difficult to estimate, but global trends suggest it might be in the order of $1 billion. Our overall rate of Internet penetration sees Australia consistently ranked third or fourth behind the USA, Canada and the Scandinavian countries.

REALITY CHECK

Before looking at e-commerce drivers and enablers and the role of Governments, both State and Federal, can I suggest a three-point reality check. Not because of any negative aspects of e-commerce potential. Quite the opposite. If the potential is to be realised we must remain hard headed and with our eyes on the main game.

So, some issues to bear in mind.

Firstly, the full economic benefits of e-commerce are still mostly down the track. Two key studies in the past 12 months - conducted by the OECD and the US Department of Commerce - suggest that:

- the macro-economic impact of business-to-consumer e-commerce will be positive but is unlikely to be significant for some time;

- the impact of business-to-business e-commerce is much more significant;

- the contribution of "the information economy" to US economic performance rests largely with the IT sector rather than the more recent phenomenon of e-commerce.

This is not to say that we can ignore the very real commercial drivers for the uptake of e-commerce. Governments are rightly interested in encouraging electronic transactions by business as the wave of the future and one all businesses need to take into account in their business strategy. It is a new form of structural adjustment. But its full effects are just starting to be measured.

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Secondly, the current hype surrounding all things Internet may actually be counter-productive. A recent survey of company directors by KPMG found that this hype - the stock market effects which caused Alan Greenspan earlier this year to liken Internet stock investment to a lottery - ranked as one of the top 10 reasons adversely affecting investment in e-commerce. Company directors and executives will take notice when inventory and transaction costs can be reduced through common electronic cataloguing and ordering across an entire industry, as is occurring with Australia's major supermarkets and the automotive industry. But simply mentioning the words "Internet" and "website" - or suggesting a company add "dot.com" to its name - are not enough.

And thirdly, the Internet is not a universal communications medium. It is a medium for access and use by the better educated and better off in the world's more affluent countries, and to some extent by the middle classes of some developing countries. This might not be an issue for businesses who want to focus on these markets. There is nothing wrong with that. But it is an issue for governments, and while I will talk in a moment about

the benefits of government services online it would be a strange policy which did not ensure that the needs of the offline population continue to be served equally.

Let me now turn to the key forces driving the takeup of e-commerce in Australia, and the key factors in enabling that takeup to happen. Broadly speaking, the former tend to be the outcome of commercial and technological developments, while the latter is where government is concentrating its efforts.

E-COMMERCE DRIVERS

There appear to be three broad factors driving the takeup of e-commerce in Australia and most OECD countries.

The first two are fundamental commercial considerations: reducing the cost of business transactions, and increasing revenues through new markets.

With regard to new markets, the distinction between firms who have only ever existed on the Internet and existing firms seeking to position themselves in a virtual marketplace becomes clearer. The issues are generally not ones for

Government policy, but do raise very real challenges for existing contractual and financial structures. For example, how does a travel agent franchise based on geographic regions cope with franchisees entering the lucrative world of online travel where it would not make sense to confine your customers to one city.

The third driver is, I suggest, an odd mixture of fear and envy.

Fear of being left behind in what is clearly a phenomenon of major proportions. Because the growth trends for Internet usage are very high by any standards: there are now around 170 million Internet users worldwide, and Cisco systems tells us that there are seven new people on the Internet every second. The growth in specific sectors is equally rapid, for example the number of Internet banking users in Australia has doubled in the last 3 months, to around 300,000.

And a vague envy of what is occurring in the United States under the banner of "e-commerce", be it share floats, retailing or investment, together with an equally vague idea that it must be all connected to that country's startling economic

performance in recent years. Except that US Internet stocks are now coming under severe market scrutiny, online retail purchases in the US are still less than mail order catalogue purchases.

So maybe the envy is partly misplaced, although it can be put to good use in bringing about a more positive attitude to electronic business in the more conservative Australian firms.

E-COMMERCE ENABLERS

Infrastructure

Of course the entire structure of the Internet will not work unless there is sufficient capacity to carry traffic at high speeds and low cost. The Government has established the National Bandwidth Inquiry to examine the issue of bandwidth availability and pricing on "backbone" networks within, and to and from, Australia. Within Australia, the inquiry is considering availability between the rural and remote areas and the capital cities as well as inter-capital and international availability.

The Inquiry has been set up within the Department of Communications, Information Technology and the Arts under the auspices of the Australian Information Economy Advisory Council ("AIEAC"). The AIEAC is made up of company executives, industry and consumer peak bodies and academics involved in the information economy to provide high level industry and community input to Government decision making on information industries and information economy issues. A Sub Committee of AIEAC has been formed to provide expert input to the work of the Inquiry.

The main issues the Inquiry will report on are:

- the drivers of demand for bandwidth;

- potential constraints on bandwidth availability, including pricing within Australia and to and from Australia and key overseas markets; and

- relevant commercial and regulatory issues.

A discussion paper was expected to be put out in mid-September for public comment. The inquiry is expected to be completed towards the end of 1999.

One factor in Australia's high rate of home Internet usage (22% of households in capital cities) is the statutory requirement for residential users to have an option of untimed local calls. We sometimes take this for granted, but untimed call regimes are rare in Europe, where Internet users have recently staged a series of demonstrations - online of course - to protest at timed local call costs which they say are inflating the cost of home Internet access.

Legal and Regulatory Framework

The term "legal and regulatory framework" for e-commerce is a bit misleading. The legal and regulatory barriers to widespread use of electronic transactions are actually very few, a point made by the Attorney-General's Expert Group on E-Commerce in their report last year.

There are two key areas I would highlight.

Firstly, the *Electronic Transactions Bill 1999* was introduced into the Parliament earlier this year. It provides for recognition, under Commonwealth laws, of:

- information provided in electronic form;

- electronic "signatures" (by whatever technology);

- production and retention of documents electronically;

- rules for sending and receiving documents, and attribution.

The Bill, if enacted, will be complemented by State and Territory legislation.

Secondly, the Government has announced its intention to legislate for a national privacy scheme extending privacy safeguards to data collected in the private sector. We know from recent surveys that prospective online buyers are concerned not only with security of their transactions, but also with what happens to data about themselves gathered both voluntarily and semi-voluntarily through the likes of "cookies". The legislation, to be introduced during the Spring sittings of Parliament, will enable enforcement of National Principles for the Fair Handling of Personal Information. This will occur through industry codes of practice and, where necessary, through the Privacy Commissioner and the Federal Court.

Things are moving so fast in the e-commerce area that industry suppliers, users and government have in some cases agreed that specific regulatory structures be avoided to allow time for market solutions to develop, consistent with the "light touch", co-regulatory approach.

One example of this is authentication, where the Government is in the process of establishing a National Electronic Authentication Council ("NEAC"). The NEAC, chaired by the National Office for the Information Economy but with wide industry and user membership, will:

- oversee and facilitate standards development in authentication;

- provide information and advice to industry and users on technical and commercial developments;

- co-ordinate Australia's national and international work in these areas.

One final area of some importance and some complexity is the administration of Internet domain names, in particular the "dot.au" space. Domain names are a crucial component of "Internet infrastructure", both nationally and internationally.

The Government has encouraged industry to develop its own arrangements, and the establishment of the industry body auDA is a positive step. As auDA moves towards its first full AGM later this month, the Government will be monitoring developments closely.

Awareness Raising and Consumer Confidence

Getting the legal and regulatory framework right is a necessary but not sufficient step. Information and assistance for users and potential users of e-commerce will remain an important need for some time yet.

The Online Australia program is the Government's major awareness raising initiative, not just for e-commerce but for the wide (and apparently ever expanding) range of other social and personal uses to which the Internet can be put.

Online Australian initiatives, all in conjunction with major business and Government sponsors, include:

- a range of schools-based curriculum programs and competitions;

- major home Internet user 'expos" in Sydney and Melbourne next month;

- an agenda series of forums bringing together key industry players to identify issues and solutions in areas such as health, education, skills, e-commerce and metrics;

- a survey of the attitudes of Australian company directors towards e-commerce.

Consumer confidence in online transactions depends on reliable information and appropriate safeguards. The National Office for the Information Economy and the Treasury have jointly issued a series of consumer fact sheets dealing with topics such as credit card security and payment of duties and taxes. The most recent of these fact sheets deals with Internet banking.

Earlier this year the Minister for Financial Services and Regulation released a draft policy framework for consumer protection in e-commerce, and work is proceeding in consultation with industry on a draft model code of practice dealing with key consumer issues.

The National Office for the Information Economy has established a highly successful consultative group dealing with e-commerce assurance, in particular website "seals of approval", and there seems to be industry and consumer support for NOIE convening groups such as this on "neutral ground."

Government Online

The Commonwealth has a firm commitment to excellence in online services, both in terms of delivery to the public and internal efficiencies.

A review is currently being conducted of the overall Government online strategy by the Office for Government Online, with options available for consideration by the Government in the near future.

A number of specific initiatives are already underway, and it is significant that they all involve a high degree of co-ordination and, in some cases, co-operative delivery with State and Territory governments. The real opportunities for electronic services delivery, payments and procurement will not be realised unless there is substantive co-operation across all levels of government. The Online Council, chaired by Senator Alston and including State and Territory Ministers responsible for the information economy, is a valuable mechanism for achieving this.

Some of the initiatives are:

- a review of Commonwealth electronic payment and purchasing, with an exposure draft document now available for industry comment until 24 September;

- linked with this, the Commonwealth and States are working within the framework of the Australian Procurement and Construction Council to ensure interoperability of the Government e-commerce framework across jurisdictions;

- the Government Information Centre pilot in Launceston - the aim of the centre is to provide information about Commonwealth and State services, but not the services themselves;

- the GOVERNET (Government Electronic Resources Network) project, another joint initiative among the Commonwealth, State and Territory Governments, which aims to provide online users, regardless of their location or entry point, with fast and easy navigation, discovery and access to government services across jurisdictions;

- local government services will be improved as part of the Trials in Innovative Government Electronic Regional Services (TIGERS) program.

Last year the Government established the Business Entry Point as the major transactions platform with small business (again, in co-operation with States and Territories) and the BEP will play a significant role in the rollout of the new tax system to business.

International Framework

It is a truism that the Internet is a global phenomenon (albeit one more prominent in the more advanced economies), but what this means in practice for e-commerce is still being played out on a number of fronts.

Traditional inter-governmental forums are tackling the issues in a positive way.

World Trade Organisation ("WTO") services negotiations are to commence by 1 January 2000. Australia has offered the view that the negotiations should be comprehensive, covering both basic and value-added telecommunications services.

Australia has proposed that the WTO's work on electronic commerce should be confined to areas where the WTO has a clear contribution to make to the legal framework for the conduct of global electronic commerce. Care is needed to discriminate between those areas where electronic commerce represents no more than a new way of doing familiar things, and those areas where it introduces significant change. Overall, the outcome should be based on the principle of a light-handed and industry-driven approach to regulation of the Internet.

The OECD has agreed on, or is actively developing, guidelines for the key e-commerce issues of taxation, privacy, authentication and consumer protection. It is also pursuing its traditional research and analysis role with regard to the economic impacts of e-commerce, and Australia is a major contributor to its work on business-to-business e-commerce.

But we are also seeing the development of international governance models which feature a joint role for governments, business and consumers.

Early initiatives from the private sector have included the e-commerce business rules developed by the International Chamber of Commerce, and the statement on the role of business issued by major industry bodies as part of the OECD Ministerial Conference on E-Commerce last year.

Much more ambitious is the establishment of the Internet Corporation for Assigned Names and Numbers ("ICANN"). ICANN is the non-profit corporation that was formed to assume responsibility for the IP address space allocation, protocol parameter assignment, domain name system management, and root server system management functions formerly performed under US Government contract. An Australian, Greg Crew of ACIF, is one of the founding voting members of ICANN.

UNDERSTANDING WHERE WE ARE HEADING

In e-commerce, of course, there is never enough data. There seems to be an insatiable demand for statistics, let alone any serious analysis. The Government, in partnership with industry, is attempting to rectify this by undertaking a major study on the economic impacts of e-commerce.

This project will pilot the modelling of impacts at the macro and micro levels of the Australian economy, assessing the effect of e-commerce from the present to 2009-10.

Scenarios and qualitative data are being developed in conjunction with expert industry input from the Industry Reference Group (a group comprising 13 industry partners to the project, including Telstra, IBM, Australia Post and Unilever).

KEY ISSUES GOING FORWARD

As we enter the new millennium what are the key issues for business, for consumers and for government? May I suggest the following:

* Mainstreaming within business : That is, recognition of e-commerce as a core business strategy issue

rather than an IT issue. We have seen this change occur with the Y2K challenge. For SMEs the question is a simple one: what will e-commerce contribute to the bottom line? For larger firms, "back end" supply chain management will be just as important as "front end" marketing and sales over the Internet.

* Mainstreaming within government: Much the same considerations apply within government. Electronic procurements, payments and service delivery need to be seen as the norm. But this must not be at the expense of those who cannot or will not choose online interaction with government.

* Rural infrastructure and access: There is no doubt that access to online services in some rural and remote areas of Australia remains expensive and technically difficult in comparison with capital and regional cities. The Government is addressing this through targeted expenditure on infrastructure in regional areas, and is also exploring ways in which greater levels of service and price competition can be achieved. A co-ordination process with State and Territory governments has been established in this area.

This paper was an address to the e-business Symposium in Melbourne on 1 September 1999. The paper was written by Neville Stevens and was delivered by Dr Rod Badger. Dr Badger is the Acting Executive Director, Information Technology, Telecommunications and Broadcasting. Neville Stevens is the Secretary to the Department of Communications, Information Technology and the Arts.