

ECONOMICS AND INDUSTRY STANDING COMMITTEE

**INQUIRY INTO THE STATE GOVERNMENT'S ROLE
IN DEVELOPING AND PROMOTING
INFORMATION COMMUNICATIONS TECHNOLOGY (ICT) IN WESTERN AUSTRALIA**

**TRANSCRIPT OF EVIDENCE TAKEN
AT PERTH
WEDNESDAY 16 MAY, 2007**

Members

**Ms J.A. Radisich (Chair)
Mr G.A. Woodhams (Deputy Chair)
Dr J.M. Edwards
Mr M.P. Murray
Mr A.J. Simpson**

Hearing commenced at 10.30 am

BURNAGE, MR TERRY JAMES

General Manager, Department of Industry and Resources, examined:

GROCOTT, MR STEPHEN GEORGE

Director/General Manager, Department of Industry and Resources, examined:

MATTHEYS, MS DANIELA

Manager, ICT and Nanotechnology Industry Development, Department of Industry and Resources, examined:

De JONG, MS JULIE

Acting Director, Innovative Industries, Department of Industry and Resources, examined:

The CHAIR: Thank you for coming to the Economics and Industry Committee hearing today on behalf of your department. We appreciate your time and ongoing contribution to this inquiry, which we are very much looking forward to finalising. Mick Murray has been detained and may not be able to join us this morning; and Judy Edwards sends her apologies.

First, I will need to read the standard procedure for examination of witnesses. This committee hearing is a proceeding of Parliament and warrants the same respect that proceedings in the house itself demand. Even though you are not required to give evidence on oath, any deliberate misleading of the committee may be regarded as a contempt of Parliament. Have you completed the details of witness form?

The Witnesses: Yes.

The CHAIR: Do you understand the notes at the bottom of the form?

The Witnesses: Yes.

The CHAIR: Did you receive and read an information for witnesses briefing sheet regarding giving evidence before parliamentary committees?

The Witnesses: Yes.

The CHAIR: Do you have any questions relating to your appearance before the committee today?

The Witnesses: No.

The CHAIR: Thank you for your submission, which we received a long time ago and have been using as a reference tool for some months. Are there any amendments you wish to propose to your submission at the outset?

Mr Grocott: Amendments in the sense of corrections? No.

The CHAIR: Okay. I think the way we should proceed is to ask you if you have any general comments that you want to pass on to us in reference to your submission or on things that have happened since that time - I know there has been a lot happen. We have a number of questions for you and we will launch into them after we have given you the opportunity to have your say.

Mr Grocott: We will be brief because we understand that time is limited. The main thing that has happened since we presented our evidence in August last year is that we have completed the

conduct of the industry audit with the cooperation of the ICT industry. We are very pleased with the level of participation and the quality of the contributions we received. We believe that what we have now are the essentials for an approach for the future. Some very clear priorities have come out of the audit for our attention and, therefore, for the government's attention. It is our intention to take the audit findings to our minister, Fran Logan, for his consideration. Once he is happy with the wording and the content of what we intend to put forward, we will put that forward to the industry for their ratification. We would then work with the industry to develop a range of specific initiatives.

Mr G. WOODHAMS: Could you elaborate a little more on that audit process and the information you were able to obtain?

Mr Grocott: The audit consisted of traditional survey methods. We emailed questionnaires to companies and we supplemented that with face-to-face interviews. As findings began to emerge we then moved to a series of focus group meetings. We now have a draft report. In that draft report, as I said, there are very clear priorities as far as the industry is concerned. Some of those priorities are beyond the reach of DOIR or the state government and they relate to things like the impact of the boom on input costs. Some of the things, of course, are within our reach and they relate to the issue of the availability of skills. There is a definite shortage of skills within the industry at the moment.

Mr A.J. SIMPSON: If I could clarify - you are short of skilled labour in the IT industry?

Mr Grocott: Yes. Secondly, they are very interested in increasing their activity overseas and they are looking at how they can get into international supply chains. Thirdly, they are very interested in the state government as a provider of common use infrastructure.

Mr A.J. SIMPSON: Could you give me an example of common use infrastructure?

Mr Grocott: Common use infrastructure may be things simply like incubator units at Technology Park. It is usually buildings or equipment that are open to the industry as a whole to use. They might be quite straightforward things such as the department holding regular monthly forums at Technology Park, where there is the opportunity to network. Even though Perth is a very small town, you would be surprised at the lack of mingling and interchange, even within an industry. One of the important things that we can do that does not cost a lot of money is to provide a conduit for contacts. Another area they are interested in is, of course, government purchasing. Our view is that the penetration of the government market has gone about as far as it can go unless you want to contravene the government procurement agreement and some other international agreements that we have. However, we remain convinced that contract management is a key issue in government purchasing. We think that what we said in our submission in August 2006 has been borne out with the example of shared services and the problems they are experiencing. We expect that until something is done that this situation will repeat itself because you cannot expect mid-level public servants to deal effectively with the sort of people that multinationals can wheel in at contract negotiation stage.

Mr G. WOODHAMS: How elaborate is the document with respect to identifying export markets?

Mr Grocott: It is not so much about export markets in the traditional sense of countries. It is about export markets in the sense of our international expertise in this specialised area. I am not saying that we want to export to the UK or the United States; we want to sell to multinationals - targeting companies rather than countries. That is the difference in how to promote export. There is the traditional way of going to trade fairs in a country, but we are now looking at a company, whether it is IBM or CSC or whomever, that has markets already established. You want to become a supplier into those markets and you do not do that through government-to-government anymore; you do it through the multinationals.

Mr G. WOODHAMS: Is the document going to help you identify Western Australian-based ICT companies that you might be able to marry up with an international company? Can it achieve that?

Mr Grocott: Yes, very much. One of the things that we said in our initial submission was that we thought we had missed a generation of ICT companies because we had been dealing almost exclusively with the industry associations and there were companies outside the associations, and that is what this audit has revealed. There is a whole range of very dynamic companies that are already internationally competitive that we were not across in the sense of day-to-day contact.

Ms Mattheys: If I could elaborate on what Steve has said. Backtracking, in terms of the process of the audit, we targeted 450 ICT companies that value add; they actually input intellectual property or create intellectual property, and that is out of the approximately 1 800 companies represented in Western Australia. Some of the characteristics that we have identified out of this process are that there are very strong governance and management structures in place within the industry, and strong sales revenue. Some of the companies - 35 per cent of respondents, actually - noted that they had had sales increases of over 25 per cent just in the last year. Some of them had had increases of over 80 per cent in that period.

[10.40 am]

In terms of cost increases, some of the concerns were relating more to labour cost increases rather than per unit cost increases. One of the things that was highlighted by a number of the companies and that was a growing concern in Western Australia was not only being concerned with co-location necessarily or clustering of ICT companies, but in Western Australia and the concern about locating in the state due to increases in labour costs, labour shortages, the increase in rental and the availability of rental property for IT companies. Companies also outlined a very strong export capability. Sixty per cent of respondents were exporting either interstate or internationally. At this stage, even though, as Steve said, we are linking in with international companies, a lot of the companies are exporting to India, China and Japan, being major markets, and Malaysia, and those are also the markets that they are targeting for future expansion. The US is another market. We will have all those statistics in the report. In terms of staffing, 70 per cent of businesses have grown by more than 20 per cent over the last three years and 50 per cent of businesses have recruited staff from outside WA in this period. That highlights the issue of the skills shortage once again. Investment in research and development has been really dramatic. Over 60 per cent of respondents have an R&D program in-house and many of these programs are directly linked to the products that are being developed by the clients. I think there is a very strong capability within the industry. Interestingly enough, more than 60 per cent of respondents also are members of IT professional associations but only 40 per cent of them were members of ICT industry associations. That ties in with what Steve was saying that we were missing a generation of companies.

The CHAIR: What would you call a professional association versus an IT industry association?

Ms Mattheys: A professional association is the people who deal with the legal aspects of the industry -

The CHAIR: A bit like AIM?

Ms Mattheys: Yes, exactly.

Mr Grocott: Disciplinary based.

Ms Mattheys: Disciplinary rather than promoting the industry and developing initiatives - more regulatory functions.

The CHAIR: By email, or something like that?

Ms Mattheys: Potentially, yes. The Australian Computer Society probably has a stronger advocacy role as well, whereas you have your traditional industry associations which are more industry development focused.

Mr Grocott: It is a horizontal sort of association rather than a vertical one.

Mr A.J. SIMPSON: Do you find that there are too many associations out there at the moment?

Ms Mattheys: Indeed there are a number.

Mr A.J. SIMPSON: We have come across presentations and we hear the same thing: how many associations for one industry are there?

Mr Grocott: It is a reflection of the chronology of the development of the industry. We have been trying to break that down through ICTIC. We have persisted with ICTIC. It has taken a long time but we are starting to see that happen, at least around the table at the meetings. I do not know whether we are ever going to entirely break down the professional jealousies which exist within the industry.

Ms Mattheys: Without getting into too much detail in this forum, ICTIC has new chair in Valerie Maxville. I believe you have had a presentation by them. They are involved in quite a number of initiatives at the moment, trying to develop focus groups, focusing on specific aspects of the industry. There is one on education and training and one on government, etc.

Mr A.J. SIMPSON: A far better use of resources, yes.

Ms Mattheys: Focusing on the benefits for the industry as a whole rather than the individual industry associations.

Mr Grocott: I will finish with the major outcomes of the audit in terms of future direction - there are only three left. The industry is also really interested in the state government assisting them with access to commonwealth government funding. Western Australia has done exceptionally well in that area for the last couple of years both in terms of research and development and company specific grants. With the renewed interest in the manufacturing industry that came out of the government's budget and the recent Labor Party conference at a federal level, and after a hiatus of a couple of years, a lot of new programs have been put on the table. They will be looking to us to help guide them through the maze of how they actually access that money. They are also interested in the state government promoting their industry as an enabler, as an effective tool of business efficiency and business productivity. Lastly, the square kilometre array - since we spoke to you last, Western Australia, as you probably know, has been selected as one of the two short-listed sites. We have had developments that Terry can talk about in terms of the site in the Midwest and the announcement by Julie Bishop in the budget about the state-of-the-art telescope being established at the site. There are, undoubtedly, industry development spin-offs to come out of that site, not just around the square kilometre array project but other activities. As I say, the industry wants to learn more and become more involved in that area.

Mr G. WOODHAMS: What is the status of the audit at the moment? Has it been finalised?

Mr Grocott: We are finalising the wording. We are word-smithing it at the moment, then it will go to our minister's office for his okay. If he is happy with it, we will then hold an industry seminar in about July.

Ms Mattheys: We are hoping to present the industry audit findings at a function, which will be hosted by ICTIC in mid to end July, and to dovetail that with the launch of an ICT industry capability directory. One of the outcomes of the audit was that with, dare I use the word fragmented, the industry being fairly fragmented and diverse, there is a need for significant marketing material for the industry -

Mr Grocott: Comprehensive.

Ms Mattheys: Comprehensive marketing material both for overseas use through the Western Australian overseas office network and for internal marketing - so, both locally and nationally. For this purpose, we are creating the industry capability directory in which the companies that participated in the audit will be profiled as well as additional ones that had chosen not to participate.

Mr Burnage: I might just add that that will be supplemented as well by some extra work that has been done in Parliament to specifically identify the companies that have an interest in becoming part of the radio astronomy industry here, and also for the square kilometre array. There will actually be two different capability directories come out.

The CHAIR: I think that is probably enough on the audit. We have questions for you in seven groupings: programs, intellectual property, some things specific to the ICT industry, digital content, export, infrastructure and then a few general things at the end. We will start working through those.

Mr A.J. SIMPSON: The Department of Industry and Resources submission speaks of a SoftwareMark certification project as being of assistance to local companies to help them gain formal certification in business and software development skills. Funding was available to the first 10 eligible Western Australian businesses to apply for the SoftwareMark training and reduced their participation in the program from \$28 000 to \$18 000. While the submission's discussion of this is brief, our reading is that it implies that the project is continuing. However, the "Enabling Future Prosperity" progress report says that due to the low level of interest the balance of funding was transferred. The questions are: has this program been permanently discontinued and what reasons might you suggest for the lack of uptake?

Mr Grocott: This was SoftwareMark?

Mr A.J. SIMPSON: Yes.

Mr Grocott: The SoftwareMark, in our opinion - I am talking nationally and internationally - has not yet really had an impact where it has achieved the status, let us say, of the International Standards Organisation series of quality assurance, and until it has, there is not much point in our putting money into this initiative.

Mr A.J. SIMPSON: So we have not got a quality assurance?

Mr Grocott: We have not got a formal status for the SoftwareMark. It is not like ISO 9001 or the 1400 series or anything like that. It seems to me, at the moment, to be something nice to have as a marketing tool but nothing that has anything like the significance of market acceptance.

[10.50 am]

The CHAIR: If I may say so, the focus of the question was - we are interested in the lack of take-up. Is that because the industry was not interested or a lack of awareness? What is your assessment?

Mr Grocott: I think the industry's view is similar to ours in that this initiative did not really have the support of the market nationally and internationally. It was not something that was being specified in government contracts or in major contracts by national governments or by large customers such as resource companies. It was something that had come up as an idea and the idea had simply not taken off.

The CHAIR: Has it been permanently discontinued?

Mr Grocott: We have not heard anything about it for a considerable period of time so I would suggest that that probably would be the case.

The CHAIR: Do you not have funding in your budget?

Mr Grocott: One of the characteristics of our budget, in terms of our programs, is that they tend to be short rather than long term, depending on whether they are working or not.

The CHAIR: In our research, we have found that there has been a level of disinterest, I suppose, with some other government programs and initiatives, which we are concerned about. Again, we do not know whether it is because there has not been proper market analysis about what the market's interests and needs are, or whether there is simply a lack of awareness or lack of desirability. What do you have to say about that?

Mr Grocott: One interesting example recently outside of the ICT industry was the Collie coal future fund. Through our Bunbury office, we launched a small grants program funded out of that Collie coal future fund money and, as I understand it from speaking with the man who drew up that program, they did not get a single response from companies saying yes, we want to participate in this program. Our reading of the situation is that, generally, companies are so busy at the moment that they are not interested. They have not got the time and the resources to pursue these opportunities. They are focusing very narrowly on their day-to-day business. That was also borne out by the response to emails we sent out about participation in CeBIT both in Germany and in New South Wales. How many emails did we send out?

Ms Mattheys: To the entire database, which is about 680 companies and we received one positive response, which really did not warrant the department to take across a delegation.

Mr Grocott: We got four responses back. Three were noncommittal and one was positive.

The CHAIR: In your experience, could you comment on whether there is a trend that when the economy is more flat, there is a greater interest in these kinds of government programs?

Mr Grocott: Absolutely. It is not just government programs, it is government purchasing as well. In times of spare capacity, we have more approaches from industry for funding and we have more complaints about government purchasing. At the moment, to an almost unprecedented level, we have had no complaints about government purchasing decisions and, as I have said, with the examples of the CeBIT and the Collie coal future, in all the years I have been in the department I have never seen anything like it, to be honest. When you have an economy that is running at under three per cent unemployment - the issues that came out of the February workshop that we did with the Western Australia Manufacturing Council, reflected this sort of situation. Their concerns were input concerns - concerns about labour supply, land availability and input costs. Only after getting down to about the fifth level of concern did we start to get into the traditional ones: we need money from government.

The CHAIR: Earlier in your commentary about the audit you mentioned that the industry had said it wants your help with accessing federal government opportunities. We have found that there is quite a lack of coordination in what we offer and what the federal government offers and it really is a minefield to navigate. Do you think there is a lack of coordination? What efforts are being made to make things fit better and work better for industry?

Mr Grocott: Yes, in the past there definitely has been a lack of coordination. We have found this administration at the federal level the most distant, in my experience, in terms of wanting to talk to the states about programs. We have found a lot of the programs, the so-called action agendas that the federal government focuses on, are developed without much consultation with the states. That is certainly true. What we need to do at a micro level is coordinate our efforts better with the local commonwealth offices. Now, as I said, that there is a whole suite of new programs on the table there is an imperative to do that. It was not there before, because, frankly, there was not that much new that was difficult and available to industry. The sorts of things that have been on the table at the commonwealth level had been there for some years.

The CHAIR: Most of the IT funding comes out of the Department of Communications, Information Technology and the Arts and Department of Industry, Tourism and Resources and those sorts of bodies. You mentioned that you want to coordinate more with the people on the ground here. I do not think there are too many decision makers here in Perth. How would you attempt to facilitate that kind of -

Mr Grocott: I am not talking so much about decision makers but the people who go out and promote the program to the companies.

Ms Mattheys: We are embarking on a program of company visits not only within the ICT area but across the whole of the Office of Science, Technology and Innovation whereby we are looking to

identify the exact requirements of companies in terms of funding requirements or whatever it might be.

The CHAIR: Did that not happen in the audit?

Mr Grocott: Not face to face.

Ms Mattheys: Not face to face.

Mr Grocott: The face to face were about 10 per cent.

The CHAIR: Were the questions asked in the audit?

Mr Grocott: Not to the same level because we covering more in the audit. This will be the next step on from the audit. We will go out and ask them, "What can we do for you in terms of skills? What can we do for you in terms of infrastructure? What can we do for you in terms of accessing commonwealth funding?" It is about focusing on the priorities that have come out of the audit.

Ms Mattheys: It is more a mentoring role, essentially. One of the aspects is identifying both state and federal programs and how the companies' requirements would fit in with those programs, identifying needs and providing relevant information.

Mr Grocott: We would agree, certainly, that better coordination is something that came out of the audit for us that we need to address.

The CHAIR: I am not sure if this is accurate or not, but evidence suggests to us that there is little assistance offered by DOIR to companies that are trying to get private equity investment to get venture capitalists to, essentially, fund their innovations. What help does the department offer to create these relationships between VCs and innovators?

Mr Grocott: The scarcity of venture capital is a very interesting topic. If you were to talk to the companies that are attempting to raise venture capital, the failures will always be on the provider's side. If you talk to the provider, the failure to supply capital to a particular company is because that company is not investor-ready. Our view is that, by-and-large, at the moment, there is an adequate supply of capital in the market. What we have focused on is getting companies investor-ready rather than introducing them to venture capitalists and saying, "There they are." We are one step back from that point. You have to be very careful when you listen to the industry talk about venture capital because there is a very strong element of self-interest there.

The CHAIR: True. What opportunities are there for the department to introduce these companies to VCs, or to identify VCs that companies could approach themselves?

Mr Grocott: How far do we go in the market? How far do we address imperfections? How far do we hold the hand of industry? There is a free market out there and if people are not capable of identifying venture capitalists, maybe they should not be in business. I do not think it is that difficult. What is difficult is understanding what the venture capitalists want in terms of you meeting their eligibility criteria.

[11.00 am]

Mr G. WOODHAMS: Is it a matter of the ICT industry being attractive enough to venture capitalists, given the boom that we have at the moment, and that the money could be spent better elsewhere, if I could be so crude?

Mr Grocott: Venture capitalists are about commercialisation and new ideas. It is a separate segment of the capital market. The problems that we have had, and we have had attempts at this in the past, is that companies that are looking to commercialise, or individuals looking to commercialise, do not want to let go of the management of that idea. In other words, they want the capital at below the market rate but they want it so that they still control the development of the product, even though they do not have the business skills necessary to do it. It is very rare to find the research and product development skills, business skills and marketing skills in the same person.

Mr A.J. SIMPSON: Very rare. I understand where you are coming from.

Mr Grocott: To come to a point, it is probably one of the most difficult issues we could tackle, and with limited resources, we cannot do everything.

Ms Mattheys: Within the research and commercialisation area within OSTI they do have a venture capital database, which is provided to companies on request.

The CHAIR: Is that updated regularly?

Ms Mattheys: Yes, it is.

The CHAIR: How do you define regularly?

Mr Grocott: Twice a year. But it comes down to this: what we are really saying is that we want cheap money with no strings attached.

The CHAIR: Let us move on to IP. We note there has been a bit of a shift in the state's policy, although in practice it probably has not changed very much in terms of the default position. The industry has asked for the default position to be with them rather than with the government. Do you think this should be changed or pushed more as an issue? Where do you think we are at with IP ownership?

Mr Grocott: I looked at the submissions that the industry associations had about intellectual property. It is certainly an area that needs revisiting. The position we have at the moment is one which was developed during the Second World War.

Mr A.J. SIMPSON: A few things have changed since then.

Mr Grocott: Yes. Our position is that yes, it needs to be critically reviewed. We are sympathetic to what industry is saying. However, in all the years that I have been involved in government purchasing, which is about 20, I am yet to see a significant example where government possession of IP has hampered the development of a product. Equally, in the submissions that the industry associations put to you where they cited other jurisdictions as having more conducive environments on IP, they did not furnish one example of where that ever led to a significant product breakthrough. I am a little bewildered why the industry pushes so hard on this one because we do not see much evidence to support their contentions that it is a major barrier to growth. Given that they have made so much noise about it for so long, it is definitely worth revisiting.

Mr G. WOODHAMS: Do you have a position on the capacity or ability of staff, particularly in the procurement area? Given your background of working at this for so long, I imagine that you have some tremendous capacity. Is the turnover such that there are not the staff on the ground who have the capacity to understand and perhaps reach that policy practice cap, if you like?

Mr Grocott: Do you mean in terms of development of intellectual property acquired through contracts?

Mr G. WOODHAMS: Certainly, that would be a starting point.

Mr Grocott: The development of the IP would fall with the contract management and not the procurement staff. Once the procurement process gets to the point of finalisation of the contract, the management of the contract passes to the users within the department. The users within the department almost inevitably will be concerned with their prime business and their prime business is to manage the successful outcomes of the contract, not to look at spin-offs to the state from intellectual property inherent within the contract. The government has had a policy on development of intellectual property since 1998, I think, and we had an officer for some time who was fully engaged in going out to government agencies and promoting the idea of developing the IP that was coming out of the contracts. With one or two minor exceptions, those efforts came to nothing. One of the reasons they came to nothing is that it was not within the brief of the contract manager to look at IP. The agency did not give that a priority.

Mr G. WOODHAMS: Should it have?

Mr Grocott: It is a bit of the chicken and egg, but if we can prove that there are dormant intellectual property opportunities that can be developed to the benefit of the state, then yes. The functioning of the IP policy that we have had since the late 90s would suggest that there is not much there because very little has come out of it.

Mr G. WOODHAMS: Is it worthwhile you taking your procurement staff and giving them some training in contract negotiation or risk assessment?

Mr Grocott: No, you would need to go to the top. You need to build it into the chief executive officer's performance agreement and then let it cascade down. There are very few grounds for autonomy in the public service or independent action.

The CHAIR: In terms of digital content, your "Enabling Future Prosperity" progress report talked about developing digital content capability. There was a recommendation about a facility being established to coordinate and facilitate the development of digital content for education and training. The Department of Education and Training said it was not its core business. I thought about that and I probably am inclined to agree with DET. I am wondering what efforts have been made to see whether some tertiary institution or a private provider, or somebody other than DET, might be able to take on that mantle.

Mr Grocott: If I could respond to that with a preamble: I was interviewed about two weeks ago by a consultant who is reviewing how DET is working with the industry councils on determining training requirements and it is my opinion that the methodology that has been used has worked in the past but is not working at the moment. One of the reasons it is not working at the moment is that the focus of those councils is not changing. The government-funded provider is not looking at the future; it is still looking at building, construction, food, printing and all its traditional clients. It has not broadened its clients' base, in my opinion.

The CHAIR: Are you talking about technical and further educations?

Mr Grocott: No, I am talking about the industry councils. There is one for printing, for building and construction, but to the best of my knowledge, you do not have one for ICT and you certainly do not have one for digital content. I do not know why anyone else would take that on without being paid for it. Someone has to pay. The industry is not going to pay because the industry is still at the stage of coming out of people's bedrooms, by and large.

The CHAIR: It is funny to put it like that, but it is very true.

Mr G. WOODHAMS: We accept that.

Mr Grocott: Why would such an infant industry be expected to pay for something that others are getting on a subsidised basis? I do not accept that argument.

Mr A.J. SIMPSON: Is there anywhere else in Australia that has taken that on?

Mr Grocott: To my knowledge, there are some significant initiatives in the eastern states, particularly in Victoria and Queensland.

Mr G. WOODHAMS: Two in Queensland that have actually done specific TAFE-university type subsidies on the IT industry?

Mr Grocott: Yes, definitely.

The CHAIR: Do you still have the cross-agency group going? We have listed DOIR, DET, the Department of Culture and the Arts, the Film and Television Institute and ScreenWest for the digital content sector.

Mr Grocott: No. That was an initiative that was coming from Department of the Premier and Cabinet, and with changes in personnel, that initiative went with it.

Mr A.J. SIMPSON: You did not find it productive?

Mr Grocott: It was in the too early stages to say. It was looking at creative industries, of which digital content was only one. I think it is a pity that we seem to have lost the capacity to work across agencies. I think the creative industries are an important element of the economy that is undervalued.

[11.10 am]

The CHAIR: Absolutely. That was a surprise. If that type of cross-agency grouping were to be re-established, would that be something that should be coordinated by DOIR?

Mr Grocott: Whoever it is coordinated by, again, it needs to be supported by government.

The CHAIR: What do you mean by that?

Mr Grocott: I mean two things: it has to have blessing at a ministerial level and it has to have a focus within the director general's performance agreement that it becomes part of core business. If it is not part of core business, it will get ignored, for a range of reasons - one, it is not resourced, and two, it could be open to censure because you are off there not doing your mainstream job. There is not a vision for creative industries by government at the moment. Without that foundation, you cannot expect mid-level public servants to take the initiative, because they will not.

The CHAIR: That is right. We will move on to the assistance given to Interzone.

Mr A.J. SIMPSON: How did you actually identify they were the ones that needed funding? I guess there are a lot of game makers in Australia but none in Perth. What made you think that Interzone was the one that was worth the funds? I imagine you had other people knocking on your door, saying, "Hey, if you go for them, why can't you give it to us?"

Mr Grocott: It is an interesting question because, really, it was the other way around; Interzone approached us. Government does things in different ways. Sometimes we have an open competitive round of funding assistance where everyone gets an open go and it goes to an assessment process and at the end there are some winners and losers. In other cases, it is first in best dressed. That is what happened with Interzone. Whether that is an issue or not, is probably beyond your terms of reference. There are some inconsistencies on how we assist industry.

The CHAIR: We are more keen to focus on what benefit that investment has brought to the state.

Mr Burnage: I came back from the United States on Monday, and, certainly, the lead was actually generated through David Doepel in the United States. I suppose from the capacity within their company, it would not have shot up on the radar screens as a winner, but in terms of the personalities and the track record that they all brought to the party, then that was something that was significant and exciting. For them to be looking at Australia as a location in itself, but then to be considering between Victoria and here -

Mr A.J. SIMPSON: That is when you saw the opportunity to jump in?

Mr Burnage: It was a great opportunity to have a flagship but also to have the capacity come here. They want to achieve many things in the future; in fact, they employ about five people a week at the moment. They are going through a rapid growth phase during their establishment and one of the things they want to do is to work with the education establishment to build a capacity so that they have an ongoing supply of skilled people to meet their expansion objectives.

Ms Mattheys: In essence, it was to build a games and digital content significant capability within Western Australia, because we have been left behind by especially Victoria.

Mr Grocott: From our perspective, the government's commitment to Interzone was an important signal to the industry to say that the government was interested in this form of development and that was not there before.

The CHAIR: We have received evidence from others which essentially says that Queensland and Victoria have the monopoly on gaming and that Western Australia should find another niche within digital content. I have a view about that; what is your view?

Mr Grocott: Digital content is so broad that that is a ridiculous statement. It is changing so rapidly. It is like saying you could have a monopoly on the wireless 100 years ago; it is crazy.

Mr A.J. SIMPSON: What is a wireless?

The CHAIR: Do you think that there are specific niches within digital content that should be focused on, for example, the creative industries that we have talked about already?

Mr Grocott: It is too early in our relationship with the industry to give that a definitive answer. We have come across examples where digital content is working with some of our traditional world-class domestic customers, such as mineral projects that do things like 3D imaging and design. It is certainly making inroads in areas such as architecture. We need to do more work on that.

Mr G. WOODHAMS: Last year, DOIR took some people overseas to an international -

Mr Grocott: An international conference on Intelligent Transport Systems.

Mr G. WOODHAMS: Yes. Is that the name of it?

Mr Grocott: Yes, ITS - in London.

Mr G. WOODHAMS: There was a games technology conference - I do not whether any members here went to that.

Ms Mattheys: E3 no longer exists. Apparently, they went -

Mr G. WOODHAMS: You went last year?

Ms Mattheys: No, I did not.

Mr G. WOODHAMS: Did someone from DOIR go last year that you are aware of?

Mr Grocott: No.

Ms Mattheys: No.

Mr Grocott: No. We underwrote the cost to a certain extent for the companies attending.

Mr G. WOODHAMS: Given that E3 does not exist, did anything come back to DOIR about those companies that did go with your support?

Mr Grocott: Since then we went to Melbourne. Do you want to talk about the Melbourne show?

Ms Mattheys: Which one in Melbourne?

The CHAIR: The crux is: we know you are either attending or supporting companies to attend all these things around the place. What expectations or requirements do you have from these people about their experiences?

Mr Grocott: It is a condition of the assistance that we provide to them that they report back at regular intervals on outcomes achieved in terms of sales, partnerships formed, or technologies transferred, that sort of thing.

The CHAIR: Correct me if I am wrong: you would give them a one-off assistance to attend, for example, E3 in May 2006, but then in that agreement you say you want information at regular intervals in the future?

Mr Grocott: Yes.

The CHAIR: Is that not excessively onerous on those companies?

Mr Grocott: We have to justify the use of the money, especially with things like trade missions where we come under very heavy criticism. The word junket recurs in possibly a Las Vegas way.

The CHAIR: What are you talking about? Do you have something to say, Stephen?

Mr Grocott: No!

Mr A.J. SIMPSON: To follow on from that, I was in Los Angeles in January and I was surprised to be told about Interzone and what was being done then, and then I saw it come to fruition, and it was quite interesting. I want to touch on one issue; that is, the Department of Industry and Resources. You cover a wide spectrum and DOIR is not the name I would think of to look for help on information technology. Do you come across that as well?

Mr Grocott: Not with the established IT industry; we tend to carry them around on our back wherever we go. Certainly, we have had to do that with digital content and the games people. That has been basically through one or two individuals' interest and commitment to that area that they have convinced us that it is worth doing; at least having a look at. We have to be very careful about promoting ourselves because at the moment I think it is fair to say we are experiencing a period of considerable uncertainty about levels of resourcing and what we can offer these people in the future.

Mr A.J. SIMPSON: One minute you are giving Interzone money, then trying to do other things. We hear about the industry trying to get money and so forth, but is DOIR the right front door to go in? I was trying to think a bit outside the square. We are talking about purpose-built university-TAFEs. The next level would be an actual government ministry that reflects that industry at lot more instead of just being under the one umbrella of DOIR.

Mr Grocott: DOIR is being reviewed at the moment and one of the questions is: does it retain its current structure or does it metamorphose into something else?

The CHAIR: Back a couple of questions, when I was talking about the feedback from companies that you support, how long do you expect the reporting back to go on for?

Mr Grocott: Probably 24 months - six months, 12 months or 24 months. We need to show some evidence - if they are not working, then we need to change them. It is not just for trade shows, for any form of assistance, people will be required to do one of two things; that is, keep performance indicators to get their money, or -

[11.20 am]

The CHAIR: Would that be applicable for, say, a \$10 000 -

Mr Grocott: If it was a \$10 000 sponsorship, no.

The CHAIR: What level of assistance would require this report back?

Mr Grocott: Do you mean funding?

The CHAIR: Yes.

Mr Grocott: It would depend on the program. I cannot give you a single figure for that; there is not one. Sponsorship is a one off; it is over in a day. It is where we are supposed to be assisting a company or an industry to achieve some sort of ongoing or longer-term benefit - we want to try to capture that. We are required to capture that to justify to the Department of Treasury and Finance, the minister and other parts of the department that what we do is worthwhile.

Mr G. WOODHAMS: What is the assessment process? How do you follow that through?

Mr Grocott: In most cases we rely on the company. If it involves a large-scale operation, we seek independent audit assessment for confirmation of what the company or the owner is telling us.

The CHAIR: Who pays for that?

Mr Grocott: We would pay for that.

Ms Mattheys: It is specifically relevant in situations where we provide some sort of export assistance because companies usually have a long lead time to develop those international

relationships and the outcomes are often achieved only after approximately two years. That is why we have the requirement for longer reporting.

Mr Grocott: Treasury has said to us, “We don’t want you to measure inputs; we want you to measure outputs.”

The CHAIR: Reference was made earlier to the Consumer Electronic Show in Las Vegas. People from all over the world attended that show, but when we met Americans we identified a culture that, I think, exists in Silicon Valley and other tech-heavy locations in the states; that is, a person has not really succeeded unless he has gone bankrupt or failed three times. Whereas if a person fails once in Perth, it seems as though he is kind of black-banned and nobody wants to know him. Do we have that cultural stigma; and, if so, is it changing? What is your perception?

Mr Grocott: I do not think the stigma is like it used to be; that is, if a person was made bankrupt, he was bankrupt for life. We have just had a front-page story in *WA Business News* about an individual in the area of ICT who started a business last year and has just become solvent. As a judge on the *WA Business News* rising stars panel, some entrants went through the process you just described, including the people who were short-listed. Yes, we have become more sophisticated and more tolerant in our attitude and accept that we learn through failure. It is not quite as puritanical as it used to be, whether it is marriage or business.

The CHAIR: Is there anything else you need to talk to us about?

I move on to export. We notice that the TradeStart bid was won by the SBDC. It is the sole providers now.

Mr Grocott: In Western Australia?

The CHAIR: Yes. You do not have a role any longer.

Mr Grocott: We do actually have a role. What happened is that we lost the TradeStart bid on a technicality in that the commonwealth has an online lodgement of tenders. The system crashed. Our stuff got lost and, without going into the detail, we were, basically, unsuccessful. However, we have since been successful in winning another TradeStart contract for the support of export of what is generically known as the mining support services industry.

The CHAIR: When is the next round?

Mr Grocott: These contracts are for four years.

The CHAIR: What is your perception about the delivery capabilities of SBDC’s area, given that you are involved in only a certain part of it?

Mr Grocott: We were involved in a very broad part. Mining services can be anything you like, including ICT, which is a very important element of it. We have a lot of professional respect for SBDC. There is a lot of ex DOIR people in SBDC. We enjoy a good relationship with them. Whether it is on this issue or skills migration, I am sure they will do a good job. The KPIs that the commonwealth put on these contracts, correct me if I am wrong, are not particularly onerous ones.

Mr Burnage: There is actually more than one TradeStart contract in Western Australia; for example, there are TradeStart people in Albany and Bunbury, from Austrade, and from the SBDC in Carnarvon, Geraldton and, I think, Broome. There is actually a network of TradeStart contractors, all directly employed people throughout the state.

Mr G. WOODHAMS: Is that through the development commissions?

Mr Grocott: In the south west I think it is through the South West Development Commission.

Mr Burnage: The south west is part of that, yes.

The CHAIR: Is DOIR still supporting Anzatech?

Mr Burnage: No.

Ms Mattheys: Not at this point.

The CHAIR: Was it in 2004-05?

Ms Mattheys: That is correct, yes. The parameters had changed in terms of what the program was going to deliver. Industry felt that it did not really suit their requirements anymore

The CHAIR: Has there been any feedback from Palm Technology about the successes it had from being involved in Anzatech?

Ms Mattheys: I have not heard anything.

Mr Burnage: I have not had contact with it for maybe nine months. In fact, the reason for the contact was to understand what its experience had been with Anzatech. We were trying to work out whether or not we should proceed with it. From memory it had established an office in the states.

The CHAIR: San Francisco.

Mr Burnage: Yes, San Francisco. At that point its position was that everything was all looking very rosy for it. So that was a success story that came out of Anzatech. On the other side of the coin, we met with several companies that felt that the business matching had not been appropriate for what their requirements were. At that point, looking at the product offer from Anzatech and our budget situation, it was probably quite appropriate to put our relationship with Anzatech on hold and look at what other options there were that would deliver a better bang for the buck for Western Australian SMEs. In fact, last Friday was our meeting with David in Pasadena, USA. We went out to a business, Incubator. It is very keen to work with Western Australia to try to develop a program that will be targeted similar to what Anzatech was doing in terms of the introduction of VCs, boot camping them and also offering the capacity to actually house companies for a period of anything from a month up to six months in their business park at very reasonable rates. Therefore, they would actually not be working on a fly in, fly out basis but would have a presence there to develop their business in a very strategic manner. They can make the assessments that they need to make on the ground.

While Anzatech is on hold at the moment, we are actually looking at supplementary opportunities to try to deliver a better outcome than was the objective for Anzatech.

The CHAIR: I might move on to a different line of questioning.

Mr G. WOODHAMS: I have a question on infrastructure. One of the things in your submission is that you recognise that communications between infrastructure and the ICT's industry development is essential. As a committee, we certainly recognise your role in enabling that to occur, particularly through the policy of developing a connected community. Would you like the opportunity to prioritise some of the projects that are ongoing and that you believe are working to the best of their ability.

Mr Grocott: Is that in the communications area?

Mr G. WOODHAMS: Yes, if you want to pick a couple of those. I am thinking of the Wireless North project. You do not have to touch on that project, but it is something that I am interested in.

[11.30 am]

Mr Grocott: Sorry to cut across you. That area of activity has moved to a different division or group within the department, so I cannot speak with complete authority on that. I would suggest our number one priority at the moment is to work through the implementation of the state broadband network, which was launched by the government in November last year. That is still in a very generic phase and it may yet come to nothing; we do not know. It is dependent on the sort of response we get from the providers. We are continuing to attempt to access funds from the commonwealth through the various rounds it has made available and I understand we have just been successful in receiving funding for a common-use network for emergency services of various sorts,

both government and private providers. I cannot comment specifically on Wireless North, but we can put take on notice. I would like to put this whole question on notice because, as I say, Sheryl Siekierka, who came to present evidence to this hearing last year, is not with us in this OSTI area any more. It still remains an important area for the department and we would be happy to contribute a written answer.

Mr G. WOODHAMS: Thank you.

The CHAIR: Just on the infrastructure issue, which country provides the fastest broadband speed?

Mr Grocott: Korea.

The CHAIR: How fast is that?

Mr Grocott: It is about five to eight times faster than we have. That is off the top of my head. I am quoting a program I saw on SBS about this.

The CHAIR: If the SDN plan is successful, what speed would that deliver?

Mr Grocott: That would depend on the tender response. It depends on what Telstra says because we are going to run up against the same issue that the commonwealth is running up against, which is the degree of cooperation we are going to get from Telstra for this, because of the innate nature of its monopoly. We need to do something; we cannot ignore the issue because, as we have discussed before, it is going to be this century's equivalent to rail and road.

The CHAIR: I would like to move on to the role of the Office of e-Government. I would like to know what DOIR's perspective is about the function that e-Government provides and whether there is an overlap between what you do and what you perceive that they do.

Mr Grocott: The Office of e-Government is charged essentially with progressing adoption of advanced telecommunications and data management technologies across the public sector. We cooperate with them in terms of funding commonwealth projects. All I can say is that I know that the private sector has expressed some concerns about the Office of e-Government's effectiveness. Because it is not within our jurisdiction, we have not really looked deeply into that, so I cannot comment.

The CHAIR: I am not asking you to really tell us about them so much as to tell us about your perceptions about any interactions that your department has had with them, or any overlap or assistance that you have experienced.

Mr Grocott: The main areas of interaction are when we have commonwealth-state ministers' meetings and joint briefing notes will be prepared for meetings. On certain occasions if the main category of client for the bid is government, we will put in joint submissions to the commonwealth for funding. We meet with them relatively regularly, but I cannot really comment beyond that. They are not charged with an industry development function per se; they are about efficiencies and productivity gains within the public service. We believe there is an obvious synergy between that role and industry development because we believe that in the vast majority of cases, the value-for-money solution for an agency will come from a local source rather than a package from the eastern states or overseas. That is really all I am capable of saying about that.

Ms Mattheys: If I may elaborate on just one aspect, I actually sit on the .NET funds steering committee, which is administered by the Office of e-Government. I suppose one of the concerns that I have with the projects that it rolls out is the lack of strategic direction some of these projects have. I do not know if you are aware of the workings of the .NET fund. Essentially six per cent of the sales revenue from the sale of Microsoft products to state government goes into this fund, which is being utilised by state government agencies to develop, just to proof of concept stage, projects that require some sort of IT or communications focus. A lot of the projects have not been very strategically focused targeting specific internal process issues within -

Mr Grocott: That is probably within the province of Microsoft rather than the Office of e-Government, though.

Ms Mattheys: Possibly.

Mr Grocott: Are you aware of that program?

The CHAIR: I was not.

Mr Grocott: Can we send you some details?

The CHAIR: Thank you.

Mr G. WOODHAMS: I know it is a sensitive area in respect of who you are and who you represent, but is there a real need for e-Government to be more closely related to the ICT industry; that is, to be more connected with it? Would that be a positive development, a positive role?

Mr Grocott: That is very strongly the industry's perception of the situation. They feel their capabilities and their aspirations are not fully addressed by the Office of e-Government. Not having sat in meetings as an observer between the industry and the Office of e-Government, it is difficult for us to comment from the perspective as to who is right or wrong in those circumstances. The views of the industry have been so pronounced and so long-lived that it would suggest there is something worth investigating there.

The CHAIR: Given OSTI's and the department's connection with the industry and your inevitable role with procurement and your relationship with Treasury and the State Supply Commission, is it not possible that DOIR could do what the Office of e-Government does?

Mr Grocott: I am not sure at all we would want to do that, because the Office of e-Government has a long heritage. You can go back to the Department of Computing and Information Technology established by Mal Bryce in the mid-1980s as the first in a series of attempts to impose on government intelligent solutions to the management of telecommunications and information technology, none of which has been a resounding success because of the reluctance of agencies to cooperate. The greatest success to date has been with the Department of Treasury and Finance because it has been able to do it through mandated common-use contracts. That has worked to the extent it can work. But to go beyond that would be very difficult because there would again be resistance from line agencies. It is a classic public sector management issue.

The CHAIR: Sure. We are aware that the ICT industry development forum considers a lot of procurement issues on a monthly basis. Are there any particular issues on the table that you are in a position to tell us about that we might find interesting or useful?

Mr Grocott: Having helped set up that forum some years ago, I have not attended it recently. The Department of Treasury and Finance have been very good in working with the industry to give the industry appropriate warnings, if that is the right term, of upcoming procurement or policy changes. Industry's response has always been, "Well, we are the local industry, we want a larger slice of the cake; you've got a buy local policy, why don't you apply it to support local industry?" The problem has been that the definition of "local" is "sourced within Western Australia". It has nothing to do with ownership. So, there has been a long-term stand-off between the two parties on that matter of principle. However, on day-to-day issues, the fact that that forum still exists - it was set up in about 1997 - and it still meets regularly shows that it is working.

[11.40 am]

The CHAIR: You are aware of our terms of reference. As I said at the outset, there have been a lot of changes and a lot of initiatives by your department and a lot of action in the industry generally in the past 12 months that this project has been embarked upon. Are there any final comments that you wish to make or any final things that you think we should be cognisant of before we deliver our report, findings and recommendations?

Mr Grocott: There are a couple of things, if I may. First, with the economy as it is at the moment, we are in a very remarkable set of circumstances. The sorts of issues that are confronting our clients are not the usual issues. One of the things that we had to do as agencies and government is to be quickly responsible for change and even have an ability to anticipate change. The view of industry is that we have not done a very good job to date on that, and that has been reflected in issues such as skills shortages and a shortage of infrastructure. The second point I would like to make is in terms of where DOIR is planning to go with the industry. That will depend not just on the acceptability of the audit and its recommendations to the industry, but then on the acceptance of those recommendations by the government in terms of funding any initiatives out of the money that was announced for science and innovation initiatives in the May 2006 budget. If we do not secure that funding, our approach to the industry will be very different from our approach if we did.

Ms Mattheys: Certainly, we consider the industry audit as one component only of developing an ICT industry development strategy to 2010. We are in the process of developing a draft discussion paper at this point. We obviously welcome the findings of the inquiry -

The CHAIR: You may or you may not!

Ms Mattheys: I do believe that it is essential that we are all on the same page so that we can tailor make a program that is in line with industry requirements and what we can deliver.

The CHAIR: One criticism of not necessarily DOIR, but government that we have had from industry is that it feels that on occasion it gets the run-around. No matter where they are in their enterprise or their invention or whatever stage of ambition they might have, people have said to us that they do not know where to go and are not getting direction, that they want a chance to participate in procurement opportunities or to get help to get their new business from A to B, from B to C or from C to D, and that they feel that the government spends too much time reporting, reviewing, analysing and surveying without doing and helping. Given that you are the people on the ground doing both of those functions, how do you feel about those comments?

Mr Grocott: There are a couple of things to say. First, I think the constant reporting in *The West Australian* of the budget surplus has generated very unrealistic expectations in the private sector. We have received an unprecedented level of requests for funding for inventions, private development, tours and a range of things. People are writing us one and a half page letters, saying, "Hand over \$2 million; we want to do this." That is the first point. We have to show probity and we have to deal with an almost endless supply of opportunist demands with comparatively very limited resources. Secondly, we have had trouble with this industry - we said this last year - in developing a vision for the industry. It has taken a long time. It took 12 months to develop the bio-industry strategy. The industry is not an industry in the sense that it is a coherent whole; it is a heterogeneous collection of companies that may agree on some things and differ drastically on others. Yes, we acknowledge that we probably need to do more, as Daniela was talking about - going out and talking to companies and providing companies with a road map of where they can obtain assistance, whether it is from us or whether it is from the commonwealth or wherever, through a chronology of the business journey, and we intend to do that.

The CHAIR: How?

Mr Grocott: By making it a priority. It does not cost a lot of money to do that; you do not need big funding from government to go out and say to industry, "If you're at this stage of commercialisation, this is what's available. If you're interested in export, this is what's currently available." We are not promising anything new; we are just giving people a complete picture of what they can access. That will be one of our responses if we do not succeed in securing additional funding; that will become the priority for us and we will act as a source of advice, rather than money.

Ms Mattheys: As an example, I think that only about 25 per cent of the companies we targeted with the audit were aware of the fact that there is an overseas office network. That is a significant resource that can be tapped into. Those are the types of issues that we would try to identify and address.

Mr Burnage: Essentially, through this company visit program, we are going to try to work out, as Steve calls it, the road map or the stage of development and prepare products for different stages that are on offer for these different companies. For example, at the commercialisation stage, it may be guidance on IP protection; if a company wanted to get the export market, it would be who provides what funding, what are the essential skills that are needed in terms of knowledge of export documentation and those types of things and also the services that are available through maybe TradeStart or through the WAGON. We are trying to make it simple - a fool's guide, if you like - to work in with the state government to take you from A to B.

The CHAIR: You might have mentioned this earlier, but I cannot recall it. How many company visits do you anticipate undertaking?

Ms Mattheys: It is 500 across OSTI, with a per annum. We are looking at about two to three company visits per area per week.

The CHAIR: That is a big investment of staff resources.

Mr Grocott: Yes, but we have staff, so we can use staff. That is different from money. I do not want to stress money too much, but this year our budget for ICT in terms of assistance to the industry was well under \$500 000. We are trying to do a lot with that money.

Ms Mattheys: And also in terms of investing in your staff to build that corporate knowledge. There are positives on a number of sides.

The CHAIR: How many staff would DOIR have who are committed to ICT either full time or for some of the time?

Ms Mattheys: At this point there are eight people in my team, so the ICT industry development area. However, as Steve mentioned, there are other areas. There is the investment attraction area, which focuses on aspects such as interzones. I think it has two people dedicated to ICT part time. Then there is the communications team for SPN. I think there are about five people in that team at the moment.

Mr Grocott: Are you counting the square kilometre array people in your eight?

Mr Burnage: No. There are probably about another eight in that as well. The science project is also probably the biggest ICT project the world has seen for a long time. It is not just the vision of SKA in the next decade; it is happening now. For example, the Massachusetts Institute of Technology is already deploying its first project up at Boolardy at the moment. That has immediate requirements for infrastructure, for people here to work on the ground with it, putting together infrastructure, and we are looking forward to the supply of different componentry into the project. That is an immediate opportunity within the past week. The federal government has increased the funding for the MIRA xNTD project up from about \$50 million to \$106 million. It is a matter of urgency now that we work with industry here to show that it is a real and current opportunity and also to work with them to build the capacity so that when these tenders come out, they are well positioned and they know who the strategic partners are that they have to work with and they can put together a credible bid to get the work.

Mr Grocott: What Terry says is important, again, in the context of ordering our priorities. Sometimes we cannot make snap decisions; we have to say, "Okay, you are seeking assistance, but in three to six months' time this huge project is coming down the tunnel and I need to husband my resources to meet the needs of that, rather than be able to assist you." There are timing and planning issues associated with what we can and cannot do.

The CHAIR: Thank you all very much for your time and for your ongoing contribution to our work. We hope that what we produce will be of some use to you and to the industry. A transcript of this hearing will be forwarded to you for the correction of minor errors. Please make these corrections and return the transcript within 10 days, and if it is not returned, we will deem it to be correct. Thank you again for attending.

Hearing concluded at 11.50 am
