



**Submission to Productivity Commission
“Boosting Productivity In the Services Sector”
report**

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**NZRise - the association of NZ-owned Digital
companies**

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1. INTRODUCTION

NZRise represents the interests of New Zealand owned digital companies. All our members have experience supplying government agencies, corporates and the private sector, both in NZ and overseas. Our members are also in the “services sector” and had looked to this report to provide clear and appropriate direction on how this sector can become more efficient and contribute more to the NZ Economy.

We welcome the focus on ICT and how increased use of technology can help our services sector improve their competitiveness through intelligent adoption of technology. We also point out that the technological landscape is fast changing and that adoption needs to be light, lean and agile.

However, we have some grave concerns about this report and the policy advice that flows from a misunderstanding of the nature of technological opportunities; the lack of application of a New Zealand context; and some basic statements of fact and assumptions that are simply wrong.

Such a dense and long report takes time and effort to distil. The following sections present an overview of the main areas of concern with the report. However, we would welcome the opportunity to present to the commission in person and have a more in depth conversation about the detail of this report.

2. COMMENTARY

2.1. Lack of NZ Context

Whilst the report quotes widely from economic research we find that it lacks coherency and direction. Much of the research quoted is based on a study of economies that are very different from New Zealand. There is little or no attempt to relate this research to an NZ context and understand how, for example, the introduction of policies based on that research might play out in a small but quite developed economy such as our own.

Perhaps the Commission could consider whether we want a “Walmart” economy or a Wellington café culture one? Consumers in Wellington certainly have more choice and quality than the Starbucks dominated coffee economies of many overseas cities.

2.2. No reference to open source technologies

One of the most egregious omissions from the report is any discussion on a phenomenon that has revolutionised technology based opportunity: open source software. In the last 20 years there is hardly a single major success story in the technical and services revolution that is **not** based on open source software and the opportunity that software provides organisations to make giant steps forward. Google, Facebook, Rackspace, Amazon and indeed the Internet itself, owe their success to open source and open protocols.

There should be some very serious analysis about how the NZ services sector can make similar leaps in capability and whether the NZ government has been dragging its heels in the adoption of open source software. Government inaction has a flow on impact in stimulating the availability of local open source services companies that can supply and support open source solutions to the wider SME service community.

There are plenty of economic and other studies that demonstrate the value of open source, and some clear direction from other leading OECD governments, such as the UK, France and Germany, on the use of open source software.

We would bring your attention to an European Union study, carried out as long ago as 2006, which noted the following:

Looking at the impact of FLOSS [free, libre open source software] on European competitiveness in ICTs, the study finds that such software is of great importance to the digital industry in Europe [...]

Findings include:

- FLOSS applications are top rung products in terms of market share in several markets.*
- The existing base of quality FLOSS applications with reasonable quality control and distribution would cost firms almost Euro 12 billion to reproduce internally. This code base has been doubling every 18-24 months over the past eight years.*

- *The notional value of Europe's investment in FLOSS software today is Euro 22 billion (36 billion in the US) representing 20.5% of total software investment (20% in the US)*
- *While the US has an edge in large FLOSS-related businesses, Europe is the leading region in terms of globally active FLOSS software developers, and leads in terms of global project leaders, followed closely by North America. Asia and Latin America face disadvantages at least partly due to language barriers, but may have an increasing share of developers active in local communities.*
- *By providing a skills development environment valued by employers and retaining a greater share of value addition locally, FLOSS can encourage the creation of SMEs and jobs.*
- *Defined broadly, FLOSS-related services could reach a 32% share of all IT services by 2010, and the FLOSS-related share of the economy could reach 4% of European GDP by 2010.*
- *Though FLOSS provides ample opportunities for Europe, it is threatened by increasing moves in some policy circles to support regulation that seeks to protect old business models of creative industries, making it harder to develop new ways of doing business.*

http://ec.europa.eu/enterprise/sectors/ict/files/2006-11-20-flossimpact_en.pdf

Open source allows for the perfect free market. The capital costs of entry into the market are non-existent and barriers to entry are based on technical capability rather than artificial licence fees. Along with the Internet, open source has been a major force to ensure global technology transfer takes place without the need for self-interested multi-nationals to intercede.

Adoption of open source by service providers is also cheap and, given the lack of licence costs, highly scalable in both directions. A more informed analysis of this in the report, particularly section 6, would provide a more balanced and realistic picture of global trends and opportunities in the IT sector.

2.3. Misrepresentation of New Zealand Technical Capability

Chapter 6 of the report is of some concern to NZRise members as it seems to misrepresent our technical capability. The report makes reference to "information spillovers" as a reason to use overseas companies (page 125).

We see this reasoning as outdated and ignoring the impact of globalisation, the Internet and open source software in creating information spillovers. NZRise would argue that information spillovers are more likely to occur when governments seeks services from a very wide range of suppliers. In many reports, such as the UK's "Better for Less" (see attached) it is clear that governments have been captured by a very few large multinationals. Their hegemonic dominance has lead to much of the stagnation and misappropriation of tax payers' money that is described in the areas of section 6 which cover government adoption of ICT. It is not the New Zealand ICT service providers that have lead to headline projects failures such as Novopay, but a persistent use of large offshore companies pushing outdated technologies, moribund capability and expensive business models.

Government use of ICT, along with its procurement policies, does have an impact on the wider services community. Governments can both stimulate or inhibit local capability, which in turn becomes available to the wider business community.

As an aside, NZRise could not find what NZRise reference the Productivity Commission was dismissing on page 125. It would be useful to expand on whatever points it is that you disagree with us on.

2.4. Cloud Computing

This chapter contains some fundamental data flaws and makes some erroneous basic assumptions that lead to policy recommendations which, in turn, could be highly damaging to the opportunities being created by New Zealand cloud providers, both in New Zealand and overseas.

The report makes the repeated statement that massive scale is required to create cost effective cloud services. This statement is at odds with the definitions of cloud computing also contained in the report, none of which refer to scale.

The core recommendation in the report is that government and businesses should start using cloud infrastructure overseas. This is based on the reports claim that large cost savings are only available using overseas infrastructure. The basis for this claim are two price points, one from "OpenHost"- a local provider, and the other being the IaaS providers to the NZ Government, Revera and Datacom.

With open source technologies, such as OpenStack and Ceph, causing massive and rapid disruption, it is the smaller data centres that are able to roll out new services, applying new techniques and technologies at a far faster speed than those that have been built at very large scale. Local NZ cloud providers are now able to offer cloud computing infrastructure at prices that are lower than both Rackspace and Amazon. The OpenHost/Rackspace comparison used in the report is overly simplistic (as the tiny compute options are usually over stacked) however, even at that entry point local prices are below \$30/month and when scaled up to high capacity requirements significantly cheaper than Amazon and Rackspace.

The government's IaaS offering is symptomatic of poor procurement and lack of vision. The levels of service and the design requirements of those offerings exceed what Amazon offers and are overpriced as a result. The government also failed to consider what impacts open source offerings might have on cloud computing when they first started their rounds of consultation on cloud computing.

There are undoubtedly overseas Internet based services that NZ business should be--and are-using. As indicated above, diversity is important and the Internet allows opportunities across the globe to be leveraged. But to suggest that government and businesses should abandon NZ based cloud offerings based on a misunderstanding of the impact of scale on cost would be a grave mistake.

3. CONCLUSION

NZRise welcome the initiative and scope of the Productivity Commission's report but are very concerned about many aspects of its execution. This feedback highlights the more glaring omissions and mistakes but there is more we would discuss and understand.

We also note that whilst Microsoft and Google have been included in the “ICT Reference Panel” there are no representatives of of the NZ ICT sector. This may account for some of the omissions in the report. We welcome the opportunity to work with you to rectify that and to contribute to a final report that does accurately capture the views of the local sector and technology opportunities available to all New Zealand businesses.