

SUBMISSION TO 'TOWARDS A DIGITAL STRATEGY FOR AOTEAROA'

November 2021

BACKGROUND

WeCreate is the alliance comprising forty of Aotearoa's major creative industry associations and organisations (representing 30,000+ Kiwi creators, support people, and creative businesses), which was founded in 2014 to propel growth in the sector and increase its contribution to New Zealand's social and economic wellbeing.

In 2016 WeCreate commissioned NZIER to produce a valuation of the creative sector which estimated its **contribution to GDP at \$17.5bn and employment at 131,000 people** – one third of whom work outside the creative industries.

The creative sector has been at the forefront of digital transformation since the 1980s when screen and music production began to embrace digital and we saw the advent of digital video games. Internet piracy became an issue for the sector in the late 1990s when illegal file sharing decimated the music business in particular. The creative industries were among the first to adopt the 'direct to audience' marketing techniques which are now commonplace, utilising early forms of online social media such as My Space. **In the 2020s most creative businesses are highly digital in how they produce content, provide services, market, distribute and earn.**

Creative tech (CreaTech) is the rapidly growing genre of activities in which technology enables creativity to produce new value-added products, services or experiences – and vice versa. In CreaTech a creative element – such as the use of design, story-telling, audio-visual material or performance – is the key constituent in achieving the final output and its desired benefits. The fusion of creativity and technology is revolutionising how we learn, live and work – particularly given its exponential growth due to the COVID 19 pandemic¹ – and is increasingly being applied to the transformation of other sectors such as tourism, health care, aged care and education.

Creative tech and intellectual property are among the **hottest investment classes internationally**. Creative tech companies in the UK raised nearly £1bn in VC investment in 2020, a 22% increase from 2019, and we have recently seen the Universal Music Group IPO boost the company's value by 39% to US\$53bn.

VISION, GOALS & MEASURES

WeCreate welcomes the Digital Strategy as a cross-government initiative developed alongside communities and business and we recognise that the discussion document is a proposed initial framework for the Strategy.

- The discussion document implies that the digital age is in its infancy or yet to arrive – '*digital ways of doing things*' **will help improve lives, expand consumer and career choices, and contribute to solving wider issues like climate change' and '*technological change and innovation will transform many industries*' - when digital transformation is already well entrenched in, and is rapidly evolving, multiple aspects of the lives of New Zealanders.**
- Digital, like creativity, is not a sector vertical but a horizontal enabler of social, economic, educational and cultural wellbeing. As outlined above, the New Zealand creative and cultural sector has been an early adopter of digital, and in several segments is among world leaders (visual effects, video games, music streaming uptake). As it has for technology businesses, COVID-19 has accelerated the growth of digital creative products and services (including for traditional art forms), as the sector has been forced to adapt

¹ <https://www.pwc.com/gx/en/industries/tmt/media/outlook.html>

to online creation and delivery more rapidly than many others and has found new markets as a consequence.

- There are substantial and transformational digital developments emerging or on the horizon - such as cryptocurrencies and Web 3.0 or the 'metaverse'² - which will likely significantly impact Aotearoa, yet do not appear to be anticipated in the strategic framework.

We submit that the framework of the Strategy reflect the above points.

The 'vision' currently appears to be a mission statement - '*All of Aotearoa NZ flourishes and prospers in a digital world*' would be a valid vision.

We agree with the goals of:

- Mahi Tika - Trust - although as explained later in this submission we would question how much control New Zealand has in some aspects of this.
- Mahi Tahi - Inclusion - and would note that the digital creative sector offers an opportunity to support this.
- Mahi Ake – Growth - but we believe that it would exponentially benefit Aotearoa if this was more ambitious and broader in industry scope.

Success measures

Both the tech and creative sectors suffer from an **ever-worsening lack of reliable data** due to statistical codes and methodologies for measuring the value of digital occupations, industries and exports not keeping pace with the rate of change in our industries - or because of the discontinuation of key sector surveys such as Screen.

Immediate action needs to be taken to establish new measurement models and data collection systems that accurately reflect the digital and creative ecosystems locally and globally, and are used to underpin policy. We acknowledge that this is a worldwide issue, and would welcome the opportunity to participate in developing local solutions with MBIE, Stats NZ and others.

The strategy will benefit from reliable and ongoing statistical analysis of:

- New Zealanders' access to and use of digital tools and services (eg. for education, work, entertainment, social connection, information)
- The NZ digital economy (not limited to ICT)
- Digital exports

The United Nations Conference on Trade and Development (UNCTAD) Digital Economy Report 2021³ states:

It has been estimated that about 80 per cent of all Internet traffic relates to videos, social networking and gaming. Monthly global data traffic is expected to surge from 230 exabytes in 2020 to 780 exabytes by 2026.

MAHI TIKA – TRUST

The primary risk factor which we believe has been omitted from the discussion document lies with the **unregulated power of global internet service providers and platforms** which is beyond New Zealand's jurisdiction and who often act autonomously.

² <https://www.dw.com/en/what-exactly-is-the-metaverse/a-59553740>

³ <https://unctad.org/webflyer/digital-economy-report-2021>

The UNCTAD Digital Economy 2021 report says:

In the absence of global governance of digital platforms, self-regulation has led to market structures defined by platforms that predominantly benefit themselves, with various development and policy implications. The increasingly global reach and influence of major platforms makes it even more difficult for any single country to address related policy challenges.

Platforms offer both opportunity and risk as they are the gatekeepers of much of the global digital economy; they contribute little to local economies (despite recent OECD measures to increase the global corporation minimum tax rate); and their business practices are often opaque, particularly in relation to the use and monetisation of the data they collect.

While digital technologies and the internet offer new and exciting opportunities for New Zealand creativity to find new audiences, these come with significant risk of infringement of creative rights including copyright, moral rights and cultural rights. Copyright underpins our creators' ability to earn a living. The risk of online copyright infringement, and the absence of any meaningful and accessible remedies for that infringement, reduce the trust that creative professionals have in the internet. None of the government agencies that provide information or services relating to cyber security respond to intellectual property infringement.

Opportunities to improve trust also include strengthening consumer rights for customers using digital storefronts, and strengthening rights for small businesses transacting via digital storefronts.

Many storefronts are already subject to data privacy laws such as GDPR, and these (or similar) need to be enforceable in New Zealand with appropriate penalties. Other consumer protections, such as fair trading, accurate and true product information, fraud prevention and refund and return policies need to be similarly enforced – possibly across international jurisdictions. Consumers are not always aware of what personal information storefronts collect on them.

Small businesses selling via digital storefronts (eg, Amazon, Apple App Store) are at the mercy of the storefront's policies and practices which can change without consultation or notice. Individual small businesses, including content creators, have little collective bargaining power to effect change. In addition, many may rely on a platform's 'algorithm' to make their product discoverable, yet these algorithms are opaque and have unknown rules that may favour particular vendors over others. The Apple App Store and Google Play have recently lowered their commissions on app subscription services, and overseas there have been industry legal challenges about app store commission rates and the ability to use third-party payment systems (eg, Epic Games vs Apple).

Commission rates for IP and royalties on some digital platforms can differ significantly from real-world industry standards (eg. music royalties on Google's YouTube).

Often small business vendors do not have the ability to record end-customer data, making them locked in and dependent on the platform for repeat sales or to provide customer support.

The audience data generated by creative content is often retained solely by the platforms for their own use and/or for on-selling. The same is true of user-generated content. **Data has become a tradeable commodity** yet the opportunities and risks of this for Aotearoa are not covered in the document.

Social media in particular can also drive social and political polarisation - New Zealand has invited global thought-leader Jonathan Haidt, who specialises in this topic, to give a keynote address at the upcoming APEC CEO Summit.

International platforms have responded to local Government regulation, and international pressure such as the Christchurch Call, when it has been introduced or championed - for instance, modifying their systems to support the collection of NZ GST on digital sales.

MAHI TAHI – INCLUSION

WeCreate agrees with the goal and proposed approach to Inclusion but suggest it could be enhanced.

Creating digital content, not just consuming it, can be a powerful opportunity to improve digital inclusion. This is especially so for local content produced by Māori and under-represented groups. However, there are gaps and exclusions in the Government's arts, culture and media programmes that discourage digital adoption. The independent review of NZ On Air's NZ Media Fund (Hal Crawford, November 2020) found that "digital projects remain under-represented in funding. This is a natural consequence of history and platform capacity."

Interactive media, such as apps and video games, are our fastest growing audience medium and fastest growing creative industry, yet content production funding currently excludes much local cultural and artistic interactive content and games. Digital inclusion should also mean seeing more of our own stories on digital screens and platforms.

MAHI AKE – GROWTH

There is a huge opportunity for a **broader and more ambitious Digital Industry strategic approach** to leverage economic growth across other highly digital, and adjacent, sectors to Digital Technologies, which would not require stretch of capacity and resource.

As the document states under the goal of 'Our vibrant tech sector is a growing contributor to our economy', digital businesses outside of the ICT sector also:

- Create high value jobs
- Generate low emissions export revenue (weightless exports)
- Are less constrained by physical and natural resource limitations

It is important however to clearly differentiate the differences in opportunities and challenges between:

- e-commerce of physical goods and services,
- and digital trade in 'weightless' digital goods and services.

For example, there are significant differences between the supply chain required to produce physical vs digital goods, the value produced, distribution logistics, and trade barriers.

The Digital Boost initiative focusses primarily on adding digital capability for physical businesses. There is a missed opportunity to provide a similar programme for digital-first businesses such as creative content producers.

The focus of the Digital Technologies ITP is on a limited number of industries – SaaS, Interactive Media and Artificial Intelligence. With the exception of Interactive Media, the market focus of the DTITP is Business to Business. As the PwC Entertainment & Media Outlook referred to earlier predicts, there is enormous potential for growth in digital Business to Consumer markets:

The pandemic induced contraction of 2020 is giving way to a strong rebound this year and a return to continued growth above global GDP over the coming five years. The central role that the ever-expanding array of media experiences plays in consumers' lives is set not just to endure but to strengthen over time.

UNCTAD also says:

The digital economy is increasingly being defined by intangibles, where new aspects of organizations – such as knowledge, intellectual property and digital code – are now central to competitive advantage.

We are already seeing leading players in New Zealand cross previous tech-creative boundaries with ICT companies like Spark and Vodafone becoming content providers, and media companies such as Sky providing ICT services.

Digital and creative innovation is often ineligible for existing Government business growth programmes. Despite good intentions, Callaghan Innovation and the R&D Tax Incentive are not designed with the wider digital economy or digital services in mind and many digital businesses find them not fit-for-purpose. For example, a business developing an innovative consumer app is frequently ineligible for support.

Both Callaghan's Ministerial Mandate and the RDTI guidelines define eligible R&D as "resolving scientific or technological uncertainty." This is a very narrow definition originally designed for physical products and services, not digital processes or intangible IP.

In a digital economy, the R&D for creative software such as an app creates value and innovation, and meets the OECD Frascati Manual definitions of R&D requiring novelty, creativity, uncertainty, systematic process, reproducibility and transferability. Digital businesses, especially Business to Consumer ones, often innovate by providing better customer interactions or by being the early adopters solving new problems on innovative platforms. Virtual and augmented reality are good examples of where New Zealand innovators have developed world-firsts using new platforms, but were ineligible for R&D funding as they did not create the technology platform itself, only the valuable end-user applications on top. We recommend that Government R&D programmes adapt to support 'design-led innovation' in addition to 'tech stretch.' In the UK, NESTA (National Endowment for Science, Technology and the Arts) has researched policies on how digital and creative innovation should be included in Science-led Government R&D programmes.

There are many examples of alternative digital innovation funds around the world in addition to traditional R&D programmes. A flagship initiative of Australia's Digital Economy Strategy is the Digital Games Tax Offset, a 30 per cent refundable tax offset for eligible video games and interactive media businesses. It recognises that the digital intellectual property and job creation provided by the interactive media sector is not supported by existing R&D or screen policies. In order to remain competitive. This creates risks of brain-drain and business exodus that New Zealand needs to respond to as part of the Digital Technologies ITP.

We understand that The Digital Strategy and DTITP are starting points, but believe there are sufficient similarities of opportunity and need, and ample connection points, to warrant a broader approach from the outset.

The creative sector is an obvious place to start by reinstating the Creative ITP (proposed in 2019, and put on hold due to COVID-19 in 2020) as a complementary strategy alongside the Digital Strategy and Digital Technologies ITP.

- All creative industries have a digital element with some being almost entirely digital – borders between the sectors are becoming increasingly blurred.
- There is a loud call for a national strategy from all parts of the creative and cultural sector.
- The sector is increasingly well-organised with clear channels of communication.
- The WeCreate Action Plan (2019 – please see below), Screen Sector Strategy (2020), Interactive Aotearoa (2019) and various regional arts & culture/creative industries strategies provide well-informed foundations for the development of the Creative ITP.
- An industry-government strategic approach that encompasses both the digital and creative & cultural sectors has been proven in the UK – this has seen their sector grow five times faster than the average rate of the UK economy (pre-COVID) and increase their contribution to GVA by 60.5% in eight years. www.thecreativeindustries.co.uk
- Many creative businesses are purpose-driven, low carbon and positively impact both economic and social wellbeing.

There are multiple synergies between WeCreate’s Action Plan and the Digital Strategy and Digital Technologies ITP, with the Action Plan focus areas being:

- Connection & Collaboration
- Measurement & Research
- Regulation
- Education
- Skills, Talent & Capability
- Capacity & Investment
- Export

Recommendations

1. Reinstate the Creative Industry Transformation Plan as a complementary strategy to the Digital Technologies Industry Transformation Plan.
2. Collaborate with other highly digital industries – including creative – to work towards a fit-for-purpose data and measurement model for Aotearoa’s digital economy (encompassing digital exports).
3. Thoroughly analyse and seek to address the risks posed to New Zealand businesses and individuals by global internet service providers and platforms.
4. Adapt government R&D investment to support creative innovation alongside ‘tech stretch’.

WeCreate’s Members & Friends appreciate their inclusion in the mahi to progress the Digital Strategy and the Digital Technologies ITP to date, and are dedicated to seeing the creative sector make its optimum contribution to these opportunities for Aotearoa to flourish in the digital world.

Ngā mihi maioha,

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WeCreate

GROWING OUR CREATIVE SECTOR

www.wecreate.org.nz

The WeCreate Action Plan

Between 2017 and 2019 WeCreate undertook extensive consultation across the sector, via hui and specific working groups (some of which are ongoing), resulting in a primary objective of partnering with government in a pan-Ministerial approach to an Action Plan to boost economic development and growth in the sector. A draft Action Plan was delivered to government in March 2019, and the sector was delighted to learn that it would be included in MBIE's Industry Transformation Plan programme from 2020.

The development of the WeCreate Action Plan included officials from MBIE, MCH, MFAT, NZTE, MoE, Stats NZ, and Callaghan Innovation. Regular hui were held to connect these Ministries and agencies with industry, and with each other, in a more 'joined-up' approach to the sector.

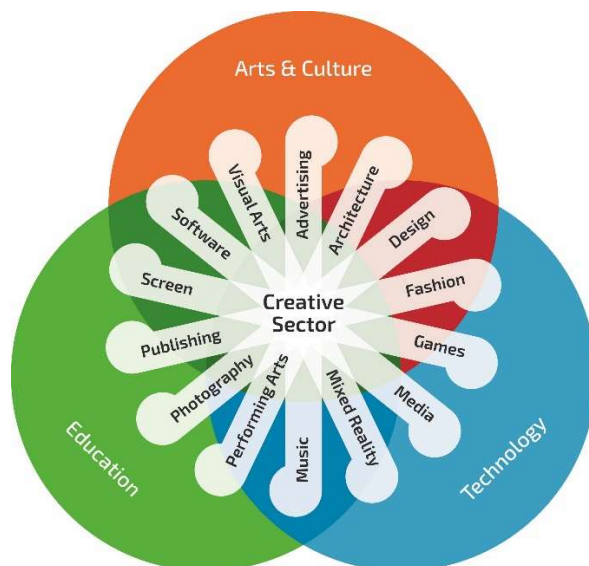
Alongside the sector-level Action Plan, WeCreate has been closely connected to the development of the Interactive Aotearoa report, the Screen Sector Strategy, and a variety of regional creative industries and arts strategies – all of which share strong similarities of intent and make recommendations to maximise opportunities and solve issues, and which could be most effectively addressed in a pan-sector approach.

With the advent of COVID-19, WeCreate consulted its Members & Friends on the impacts of the pandemic on their industries, and adapted the Action Plan to a Recovery and Renewal Plan, to address the immediate needs of the sector and lay the foundations for the ITP. The Recovery & Renewal Plan was delivered to Ministers in early April 2020.

In late July 2020, WeCreate was informed by MBIE and MCH that the Industry Transformation Plan for the creative sector would not be progressing for the foreseeable future, in light of the significant Budget 2020 investment made by government to support the Arts, Culture and Heritage Sector through its recovery from COVID-19.

WeCreate's current work-streams on behalf of the sector include:

- On-going liaison with government departments relevant to the economic development of the sector – including MBIE, MCH, MoE, TEC, MFAT, NZTE, NZ Story, MSD, Stats NZ, Callaghan Innovation.
- Working closely with NZ Tech/MBIE on the creative tech aspects of the Digital Industry Transformation Plan, and the NZ Tech & Innovation Story.
- Advising MCH on the development of a new measurement model for the sector.
- Participating in the Review of the Copyright Act from a sector-level perspective.
- Participating in the Reference Group for the design of the Workforce Development Councils in the Reform of Vocational Education, liaising between industry and the Toi Mai WDC, and liaising with central and local government on several other projects related to skills, capability and business development.
- Providing industry advice and connections to MFAT (including APEC/ABAC) regarding current and forthcoming trade negotiations and development of policy on digital trade.
- Providing industry advice and connections to the Productivity Commission in respect of its 'Frontier Firms' enquiry.
- On-going liaison with other strategic work in, or relevant to, the sector including the Screen Sector Strategy, Interactive Aotearoa, Te Taumata Toi a Iwi, Create Auckland 2030 and other regional arts/creative strategies – all of which have many commonalities with WeCreate's Action Plan.
- On-going liaison with CreaTer – the alliance of creative tertiary educators.



WeCreate’s Members and Friends are:

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| Advertising & Illustrative Photographers Assn | APRA AMCOS NZ |
| Auckland Unlimited (formerly ATEED/RFA) | Australia & NZ Screen Association |
| Christian Copyright Licensing International | Commercial Communications Council |
| Copyright Licensing NZ | Creative NZ |
| Design Assembly | Designco |
| Directors & Editors Guild NZ | Equity NZ |
| Home Entertainment Association NZ | Independent Music NZ |
| Interactive Games & Entertainment Assn | Mindful Fashion NZ |
| Motion Picture Distributors Association | Music Managers Forum NZ |
| NZ Comedy Trust | NZ Film Commission |
| NZ Game Developers Association | NZ Institute of Architects |
| NZ Institute of Professional Photography | NZ Music Commission |
| NZ On Air | NZ Society of Authors |
| NZ Writers Guild | Playmarket |
| Print Media Copyright Agency | Publishers Association of NZ |
| Recorded Music NZ | SAE Institute |
| Screen Industry Guild Aotearoa NZ | Script to Screen |
| Screenrights | Sky Network Television |
| Screen Production and Development Association | The Creative Thinking Project |
| TVNZ | Weta Group |