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The European Digital Single Market and Digital Trade Policy

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- Innovation and trade policy



■ Today's Presentation

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What is the Digital Single Market?

2

Why is Europe Pursuing a DSM?

3

Potential Concerns Raised by EU Digital Policies

4

What's Next?

■ An Overview of the DSM

Roadmap for completing the

Digital Single Market /// Initiatives

2015

2016

Better access for consumers and businesses to digital goods and services across Europe

Legislative proposals for simple and effective cross-border **contract rules** for consumers and businesses



A wide ranging review to prepare legislative proposals to tackle unjustified **geo-blocking**

Competition sector inquiry into **e-commerce**, relating to the online trade of goods and the online provision of services

Legislative proposals for a reform of the **copyright** regime

Review of the **Regulation on Consumer Protection Cooperation**

Measures in the area of **parcel delivery**



Legislative proposals to reduce the administrative burden on businesses arising from different **VAT** regimes

Creating the right conditions for digital networks and services to flourish

Comprehensive analysis of the role of **platforms** in the market including **illegal content** on the Internet



Legislative proposals to reform the current **telecoms rules** and the **Audiovisual Media Services Directive**

Review of the **e-Privacy Directive**



Establishment of a **Cybersecurity contractual Public-Private Partnership**

Maximising the growth potential of the Digital Economy



Adoption of a **Priority ICT Standards Plan** and extending the European Interoperability Framework for public services

Initiatives on data ownership, **free flow of data** (e.g. between cloud providers) and on a **European Cloud**

New **e-Government Action Plan** including an initiative on the 'Once-Only' principle and an initiative on mandatory interconnection of business registers

■ Goals of the Digital Single Market

Commission

Better access for consumers and businesses

- Geoblocking
- Copyright
- E-commerce
- Parcel delivery
- Reducing VAT burden

Advanced digital networks and innovative services

- Telecoms market
- Media services
- Platforms and intermediaries
- Trust and security

Enhance the digital economy

- **Data economy**
- **Inclusive digital economy and society**
- **Interoperability and standardisation**

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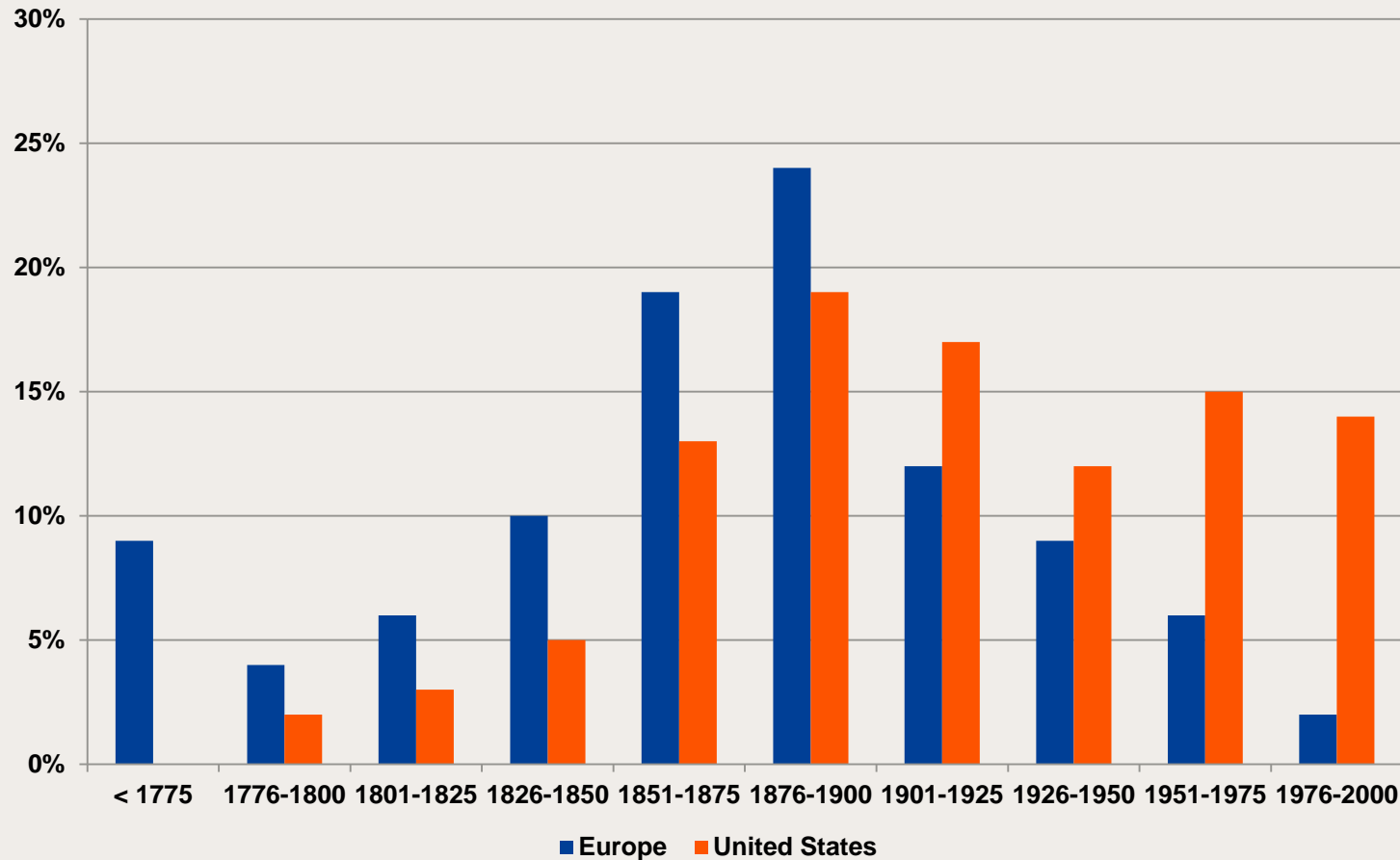
What's Next?

■ Why is Europe Pursuing a DSM?

- By 2025, half of all value in the global economy will be created digitally;
- DSM could create €415B in additional economic growth;
- DSM could create hundreds of thousands of new jobs;
- Europe has only 21 digital economy “unicorns,” compared to China’s 27, and America’s 79.

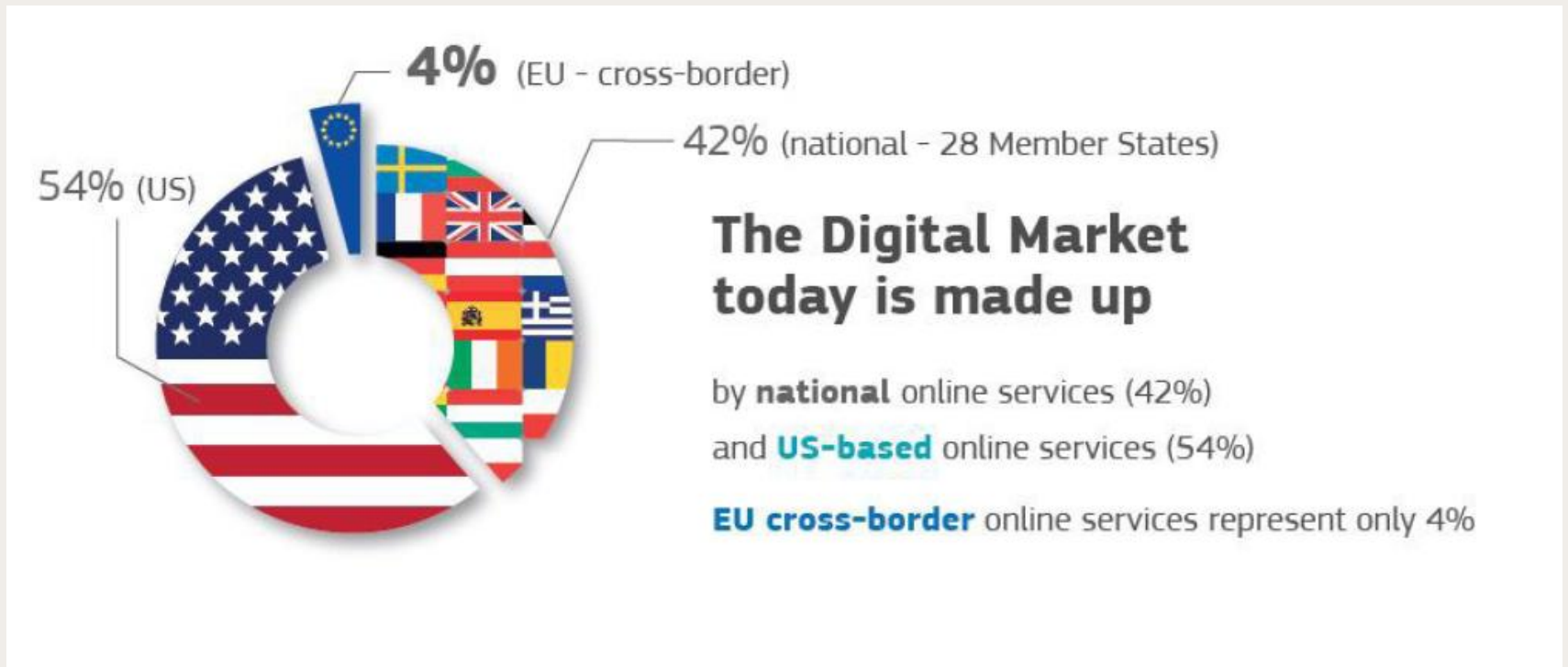
■ Europe's Internet Economy Substantially Lags US's

Age Structure of European and U.S. Enterprises in the FT Global 500



Source: Nicholas Veron, *The Demographics of Global Corporate Champions*

■ Tepid Levels of EU Cross-Border Digital Trade



■ Increasingly, All Companies Are Digital Companies

- ½ of all global trade in services depends upon cross-border data flows

The Philips logo consists of the word "PHILIPS" in a bold, blue, sans-serif font.

No longer “sells” X-Ray or MRI machines, but rather “radiological services” to hospitals; manages all devices remotely

The Tesco logo features the word "TESCO" in a bold, red, sans-serif font, with a blue and white striped graphic element below it.

Using big data to optimize inventory based on weather and historical sales

The Volkswagen logo features the VW logo (a blue 'V' over a blue 'W' inside a blue circle) above the word "Volkswagen" in a bold, black, sans-serif font.

Volkswagen CEO: “Our cars are already mobile computer centers.”

The Shell logo features the Shell logo (a yellow and red scallop shell) to the left of the word "Shell" in a bold, red, sans-serif font.

Using data, sensors, visualizations, etc. to explore 10,000 oil wells.

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■ Potential Concerns Raised by EU Digital Policies

- 1) EU's General Data Protection Regulation (GDPR)
- 2) Attempts to Create a European Cloud
- 3) “Sector-Specific” Platforms Investigation/Regulation
- 4) Access to Digital Content/Geoblocking
- 5) Other Digital Policy Issues

■ EU's General Data Protection Regulation (GDPR)

- Seeks to establish a single, European-wide data protection regime—E.g. standards that organizations would have to adhere to for the protection of data.
- Could severely restrict business models used by U.S. Internet companies.
 - Limits selling anonymous data to third parties;
 - Limits ability to target online advertisements to users based on certain protected categories of data (e.g. age/gender);

“Every natural person should have the right not to be subject to a measure which is based on profiling by means of automated processing.”

- Requires data protection officers/data protection audits.

■ Potential Effects of the GDPR

- Will decrease the effectiveness of online advertising 65%;
- Would cost European SMEs as much as €7,200 in additional compliance costs annually;
- Overall, ECIPE estimates the GDPR will reduce European GDP by at least 0.4% and up to 1.1% annually.



Cross-Border Data Flows Enable Growth in All Industries

BY DANIEL CASTRO AND ALAN MCQUEEN | FEBRUARY 2015

Cross-border data flows are vital to not only technical industries, but traditional industries as well. Countries should avoid protectionist rules that limit data exchange across border because they tend to backfire in the long run.

As the global economy has gone digital, countries around the world have started engaging in new forms of protectionism to restrict the flow of data across borders. Some are implementing policies such as data-residency requirements to buffer domestic technology providers from international competition, among other purposes. Some dismiss data protectionism as a narrow issue affecting only the technology sector; however, its impact is actually far-reaching—and decidedly counterproductive—because companies in nearly every sector of the modern economy depend on data-driven innovations to do business.

Indeed, McKinsey estimates that about 75 percent of the value added by data flows on the Internet accrues to “traditional” industries, especially via increases in global growth, productivity, and employment.¹ Furthermore, the United Nations Conference on Trade and Development (UNCTAD) estimates that about 50 percent of all retail services are enabled by the technology sector, including by cross-border data flows.² In the United States, the digitally enabled service grew from \$281.1 billion in 2007 to \$164.1 billion in 2011, and that value continues to increase.³ The trend is all the more important for developing economies such as Brazil, Nigeria, and Uruguay, whose industrial bases are more heavily reliant on traditional industries.⁴

Competition of all types and sizes are sharing in the benefits of data innovation. For example, a 2014 survey found that data analytics are important to 62 percent of U.S. and European business with 50 or fewer employees.⁵ Indeed, there is probably not a single company today with operations, suppliers, or customers in more than one nation that does



A FRIENDLY FIRE ON ECONOMIC RECOVERY: A Methodology to Estimate the Costs of Data Regulations

by Erik van der Meind, Senior Economist at ECIPE*, Mathias Baum, Senior Economist at ECIPE, and Frank Lee-Holmes, Director at ECIPE

ABSTRACT

This note summarizes the methodology used for the ECIPE Cross-Border Paper titled “The Costs of Data Localization: A Friendly Fire on Economic Recovery” in which the costs of data services regulation are assessed. This paper provides further explanation on how the costs of data regulation affect industries and flows in four different ways. First, we calculate the costs of data regulation for domestic flows by establishing a link between regulation in data services and the level of total factor productivity (TFP) at industry level across countries in destination services. As such, this is the first attempt at analyzing data linkage environmentally by setting up a data protection regulation index using a typology of existing bodies of services regulation. The regression analysis reveals that data regulation indeed tends to affect TFP in industries which depend more heavily on data processing services. Second, we provide relative cost estimates as a result of data regulation that affects foreign exporting flows for each of the countries and industries considered in this study. This is because foreign flows represent investment and operational costs when data regulations are applied by the host government. Third, this paper assesses the costs for investment made in the host country as a consequence of data regulation. Finally, the costs of research and development (R&D) activities which are affected by regulation in data services are also taken into account as consequences on the free flow of data models. In addition, domestic investment activities by firms. Together these four ways of measuring costs of data regulation are used for a general equilibrium analysis using the Global Trade Analysis Project (GTAP) to estimate the GDP trade effects and investment costs as presented in the ECIPE study.

* Consulting author: erik.vandermeind@ecipe.org. The authors would like to thank Gert Wetzstein, Research Associate at ECIPE who was also part of the project, for his excellent research input during the project. We also gratefully appreciate discussions with Geng Sheng, Tim van Gorp and Tom van den Berg.

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■ Attempts to Create a European Cloud

- Part of Europe's goal is to create a stand-alone European Internet infrastructure—E.g. a “European cloud”
- Fleur Pellerin has called for “building a France of digital sovereignty,” including “*le cloud souverain*,” empowering national champions like Cloudwatt and Numergy
 - DT calls for a “Schengen area network” – So that, “European data never touches San Francisco servers”
- But restricting access to best-of-breed service providers can increase SMEs' costs of cloud computing services by 30-60%.

■ The “Platform” Investigation

- Concurrent with the DSM, DG for Competition has launched an “investigation into the role of platforms in the digital economy.”
- Section 4.5 opens with: “Problems and Problem Drivers”
 - Claim: *“A lack of transparency as to how platforms use the information they acquire, the bargaining power compared to that of their clients, or explaining their relationships with suppliers/manufacturers whose offers they display.”*
 - ***“One study showed that less than 40% of comparison Websites describe their business model.”***

■ Why Europe's Thinking on Platforms is Misguided

1. Europe's approach to competition policy too often is more about protecting competitors than empowering consumers;
2. It neglects the tremendous efficiencies, scale, and network effects platforms can provide, which is good for consumers;
3. It neglects that Schumpeterian competition exists, whether between existing platforms or the current platform and next-generation ones;
4. If Europe feels like U.S. players are using anti-competitive policies (e.g., pricing/excluding competitors), it should prosecute this under existing competition authority.

■ Access to Digital Content/Geoblocking

- DSM seeks to prevent “unjustified geoblocking”—The practice of offering digital products sold online at different prices at different times in different markets.
- Issue is ½ about the portability of digital content and ½ about a pan-European marketplace for digital content;
- But “**territorial exclusivity**”—the capacity to offer targeted licenses to specific geographical areas—is vital to the business models of many digital content producers (TV/film)
- Unfettered geoblocking *would eliminate the ability to price-differentiate in lesser-developed markets, leading to an “upwards harmonization” in prices for digital content.*

■ Other Digital Trade Issues

- Local data storage requirements (Norway, Greece, Russia)
- Data taxes – French call for a “data tax” on the “collection, management and commercial exploitation of personal data generated by users located in France.
- France called Amazon’s “free shipping” policy a “strategy of dumping”; Parliament passed bill forcing online booksellers to sell at higher prices than brick-and-mortar stores

■

***“Amazon, Apple, Facebook, and Google are examples of ‘brutal information capitalism’...Europe must act now to protect itself...
“Either we defend our freedom and change our policies, or we become digitally hypnotized subjects of a digital rulership.”***



**German Economy
Minister Sigmar Gabriel**

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■ What's Next?

- DSM still in its early stages - Going through a process of stakeholder engagement and consultations (opportunity to influence thinking);
- Data is the fuel of the 21st century economy, and we've got to the policy framework that digital innovation can flourish on both side of the Atlantic;
- Europe needs to think more about *ICT application/use* than about *ICT production*.

■ Policy Recommendations

- International organizations should further develop mechanisms to track localization barriers to digital trade.
- The U.S. should propose a Data Services Agreement.
- Europe has said data is “off the table” in the T-TIP, but a T-TIP that doesn’t include a mechanism to ensure open cross-border data flows is simply not worth concluding.

Thank You

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