

DIGITAL DEVELOPEMENT: A MATTER OF SPEED

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On 12 July, 2017, the Jacques Delors Institute, in partnership with Google, has organised a high-level event to analyse the French and European position on and strategies for the digital transformation and investment.



To analyse the French and European position on and strategies for the digital transformation, the speakers included:

- Carlo d'Asaro Biondo, President of Google Europe in charge of strategic partnerships;
- Enrico Letta, President of the Jacques Delors Institute;
- Olivier Coppens, Economic Attaché at the European Commission Representation in Paris;
- David Rinaldi, Senior Economic Policy Advisor at the Foundation for European Progressive Studies and associate researcher at the Jacques Delors Institute.

When it comes to digital development, the European Union is lagging far behind the United States and parts of Asia. Estonia has just taken over the presidency of the European Council, which, according to Enrico Letta, could represent a window of opportunity. Indeed, Estonia is not only one of the most advanced digital societies in Europe; it has also chosen to turn the digital transformation into a

key issue of its presidency. Andrus Ansip, Estonian Commissioner for the Digital Single Market, hopes that digital investment in Europe will increase, including at the institutional level. Given performance gaps between the United States and the European Union that need to be addressed, digital technology is becoming ever more important. Since the initial launch of the iPhone in California, the digital discrepancy between the two continents has only grown, which is partly due to a lack of innovation and research in European industries and partly a result of insufficient delivery of digital services throughout society. However, the comparison with the United States should not obscure two European peculiarities: the European Single Market is comprised of 24 markets with different languages. Moreover, it integrates more than 27 different systems of regulations and standards. Compared to the US, dissimilar communication habits and a distinctive human-rights jurisdiction reflected in employment rights for company workers account for the intricate challenges to be tackled.

The internet and the development of digital technologies will unlock job creation potential, especially for engineers. Carlo D'Asaro Biondo acknowledged this potential, but called to mind that additional jobs must be created in locations where the process of change entails job losses. He also identified several obstacles to the development of a digital market in Europe, which explains why the situations differs from that in the United States:

1. The diversity of legislative procedures prevents digital investment.
2. The biggest digital platforms are American and have created 2 million jobs in the last three years. According to European Commission estimates, they will create between 4.5 and 5.5 million jobs by 2020. Job growth will focus on coding-related areas, which will become an essential part of the economy, for all companies, especially SMEs, rely on this expertise. The dilemma is whether these jobs will be created in Europe or in a part of the world where labour law is less protective or companies enjoy additional advantages.
3. The lack of knowledge of the digital world remains an enormous barrier in society and among workers. Education is therefore key for Europe if it is to catch up with the United States. The digital sector must not only entail more engineering jobs, education must enable everyone to benefit from the digital transformation. Three education measures should be put in place:
 - Children should be given basic coding training from an early age. To this end, Google has set up an online course led by a teacher.
 - Digital training opportunities need to be created within SMEs, not least to demonstrate that it is possible to boost a company's exports without having to open offices abroad.
 - SMEs need to be shown that digital development can radically change the way we do business without necessarily entailing costly investment for the company.

Implementing these measures is crucial if European SMEs are to not be disconnected from the on-going dynamic; the digital economy, after all, is based on sharing and pooling. Whether or not these measures will ultimately be implemented choice is of course a political matter, but the demand to move forward must emanate from society. As Olivier Coppens pointed out, it is easy to make bad choices or not to pass digital legislation at all, which is an equally bad choice, as can

be observed in competition law: a lack of protection for SMEs can reduce investment in innovation.

The Digital Single Market consists of different initiatives. The emergence of digital technology and new technical barriers that may result from technological change must not lead to the unravelling of the existing single market. For example, copyright laws and the legal protection of creators constitute a barrier to the untrammelled development of the Digital Single Market. A website knows the location of internet users and thus filters the contents users can access. But these barriers are also physical. For example, prices for postal services are sometimes seen as prohibitive and therefore limit a scarcely developed inter-state e-commerce even further. 52 % of internet purchases do not pass national borders, either for copyright reasons or due to geo-blocking.

The telecommunications sector is similarly facing new problems arising from the digital transformation. For example, how to ensure fair competition between television and online video platforms? How to reconcile the protection of personal data and security considerations? These topics affect not only the single market but also industrial policy. For example, the development of 5G requires agreement on technical issues such as frequencies and funding. Finally, cyber security becomes a fundamental element of European defence policy, especially in light of the current discussions about common defence activities within the European Union. Yet a lack of skills in this domain exposes Europe's security vulnerabilities.

A lack of skills does not only have an impact on security policy. According to one estimate, by the year 2020, 756.000 people will lose their jobs because of a lack of digital skills. The dissemination of digital skills also raises a societal issue, for digital training is unevenly distributed, with a notable gender gap.

Digital development involves the creation of data clouds that facilitate the dissemination of data, while affording researchers and scientists the opportunity to modify the cloud at their convenience. At the same time, it is necessary to update privacy legislation in order to have a single framework vis-à-vis the rest of the world.

The digital transformation affects not only the single market: it can also improve taxation if states succeed in imposing a levy on digital companies in the country where their revenue is earned. In addition, once major infrastructure projects such as 5G are funded, this investment will pave the way for the development of various other sectors and activities. Digital development has great potential for job creation and economic growth provided it is properly managed and

makes the most of existing infrastructures. Finally, Olivier Coppens emphasised the importance of funding, especially for start-ups. Equity funding must be a pillar of these financing mechanisms, so that companies do not depend solely on bank loans.

France's digital performance ranks among the European average, with excellent results in two fields: e-government and the number of science and technology graduates. By contrast, France struggles to integrate digital technologies into SMEs and high-speed broadband penetration lags behind other EU countries, which hampers economic growth.

What is the role of the European Commission in this context? In order for Europe to become a digital champion, President Juncker has called for broadband coverage throughout the European Union. This is reflected in the number of digital-related projects supported by the Juncker Plan.¹ Overall, the Commission's programme for the Digital Single Market is very ambitious, which could be a problem, as David Rinaldi pointed out. The challenges are dauntingly complex, and it is necessary to rethink Europe's economic model, as digital reform affects the structure of the economy as a whole. For example, what balance should one strike between protecting current businesses and developing new business models, between promoting innovation and regulating the market to ensure consumer protection and appropriate tax payments by new businesses? Many economic sectors are competing against one another,

so finding a balance between the needs and interests of the various sectors presents some difficulties. Agreement has to be established at the national level, which in turn needs to be aligned with a common European vision, since SMEs increasingly operate on an international scale.

In comparison to the vision put forward by the Commission, the first two draft bills discussed in the European Parliament do not go far enough. These bills concern copyright issues and geo-blocking, that is restrictions on purchases and access to online data based on the physical location of the consumer, for example by blocking the purchase of cheaper intermediate goods. The Commission's proposals on this subject remain somewhat vague, the solutions are not genuinely European, since the peculiarities of companies and countries have to be taken into account. In sum, even if the political spirit exists, concrete proposals are lacking. The need for speed to which conference title alludes then becomes even more urgent.

A Franco-German cooperation could lead to tangible progress, which is already noticeable: France and Germany are among the only countries to have allowed the use of the 700 MHz frequency band. Intergovernmental co-operation may be easier to achieve, which, in a second stage, could be expanded into EU-wide solutions. Progress along these lines seems also achievable in educational policy, broadband management or when it comes to establishing a specific status for start-ups that would be valid and recognised in all EU countries.

1. Eulalia Rubio, David Rinaldi, Thomas Pellerin-Carlin, "Investment in Europe: Making the best of the Juncker Plan", Study, Jacques Delors Institute, April 2016

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