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The Digital Single Market 2.0

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BACKGROUND

Europe desperately needs growth. Supplementing the free movement of goods, services, people and capital in Europe's Single Market with the free movement of digital services and knowledge is one of Europe's best growth opportunities: a recent study commissioned by the European Policy Centre showed that an integrated European Digital Single Market would produce a GDP increase of over 4%, amounting to €500 billion over a ten-year period.

In late 2009 and early 2010, the EPC organised a project on the Digital Single Market, commissioning several background studies and holding numerous discussions with members of the EU institutions and relevant stakeholders. The results of these studies show that there are clear economic, social, political and environmental arguments in favour of taking rapid action at EU level to establish a Digital Single Market as soon as possible:

- *A Digital Single Market would **add at least 4% to EU GDP** by 2020.*
- *It provides **solutions to key European challenges:** stimulating economic recovery, developing better labour markets and public services, and moving towards a smarter, greener economy.*
- *It is a **key driver of productivity** and competitiveness, promoting growth and innovation.*
- *It **benefits consumers** by offering low prices, higher quality and more choice.*

The project made a number of recommendations based on the need to establish political leadership, create a better online business environment, foster consumer trust, build underlying foundations and infrastructure, and develop a legal framework for knowledge assets.

For further details, please see www.epc.eu/dsm/

Rapidly building a Digital Single Market will not just create growth in the Information and Communication Technology (ICT) sector and opportunities for new, entrepreneurial, high-growth companies - it will also improve productivity and contribute to boosting Europe's medium to long-term competitiveness, as well as solving some of the biggest issues facing European society, such as inefficient labour markets, environmental problems and strained public sectors. It also offers consumers and citizens concrete benefits. This is particularly important for Europe's younger generations, who will rightly question the achievements of the Single Market if they cannot see that it is a reality in the digital environment.

EU heads of state and government were therefore on the right track when, at the end of January, they outlined a growth plan that included a number of issues aiming to "deploy the full potential of the digital economy". Additional momentum comes from a letter calling for a plan for growth in Europe, signed by a number of governments. Concretely, it demands the creation of a truly digital market by 2015, identifying as priorities for action reform of copyright and licensing, a secure and affordable system for online cross-border payments, a system for online dispute resolution and an amended framework for digital signatures, as well as the need for investment in ICT infrastructure. But are Europeans willing and able to make reforms quickly enough and give the economy the immediate boost it so badly needs?

A global challenge

It is imperative to act quickly, because the rest of the world is not standing still. The US has a strong ICT background and is also blessed with the advantage of a huge domestic market with very few - if any - barriers. The US thus enjoys a growth potential for digital services that is currently lacking in a Europe fragmented by national borders. Entrepreneurs need to be able to see revenue growth perspectives within the Single Market to translate initial success into globally competitive European products and services. Such growth prospects would obviously also help to leverage the necessary risk capital. Besides, the US is not Europe's only competitor: Asian economies are becoming increasingly competitive, and much can be learned from the success of economies such as South Korea.

STATE OF PLAY

Recently, Europe has made much progress in developing the Single Market further, including the Digital Single Market. The Monti Report highlighted the importance of creating a seamless regulatory space for electronic communications and a functioning cross-border e-commerce market, as well as adopting a pan-European approach to online digital content. The European Commission took up a number of these policy challenges in the Digital Agenda and the Single Market Act, whose twelve levers include key actions on ICT infrastructure and e-commerce.

A strong emphasis on the Digital Single Market also features among the priorities of the Danish EU Presidency, which singled out the crucial role played by the digital agenda in laying the foundations of future growth and new opportunities. The anniversary of the 1992 Single Market programme also represents a symbolic opportunity to develop the Single Market further.

But will the current attention and actions on the Digital Single Market be enough to deliver the growth benefits that Europe needs? Unfortunately, the target is a moving one, and more action is needed to address the new technological and economic challenges that arise.

On a cloud...

With digital services now rapidly becoming cloud-based, Europe must seize the opportunity to avoid fragmentation and create a European space for cloud services from the outset.

But cloud-based industries will only develop under certain circumstances. Data protection and privacy laws need to take account of data transfers and storage across borders. The right balance must be struck between a system that citizens can trust but which does not stifle innovation or the development of cloud-based services. Connectivity issues also need to be addressed: 'always on' is a precondition of using the cloud. This will require large-scale investment in fixed and mobile networks. Much of this funding must come from private operators, once the belief in the future commercial potential of the market is widely established.

A long-term euro crisis

This investment is urgently required. It can play a key role in increasing Europe's long-term economic dynamism. But with growth prospects low, private firms have little incentive to invest. This situation has been accentuated in the countries that have struggled most during the economic crisis. These also happen to be the countries whose digital infrastructure is most in need of a boost. The necessary investment will not come from these countries alone - Europe must help by developing new investment vehicles and guaranteeing that the digital infrastructure will be developed. At the same time, there is a need to invest in the digital mindset within these countries to ensure that businesses and individuals can seize the opportunities that arise.

A perfect storm

However, focusing on the immediate crisis is not enough. Europe is currently facing many challenges to its economic and social model, including for example persistent labour market problems, global competition for scarce resources like energy (which is driving up prices), the need to halt climate change and the necessity of dealing with Europe's ageing population. A Digital Single Market, underpinned by the right infrastructure, can contribute to addressing these challenges, for example through smart grids, e-mobility and the development of innovative digital services that can help every individual to participate in the labour market.

Doing more with less

The combination of the current crisis - which brings with it the particularly difficult challenge of combining austerity and growth - and long-term issues, such as demographic change, requires Europe to do more with less in the public sector. But addressing deficits and debt at a time when low fertility and rapidly ageing populations are dramatically changing the relationship between those in work (and paying taxes) and those receiving public support is a tall order. Reforming the public sector, including pension systems, boosting the efficiency of labour markets and encouraging immigration are all politically very difficult and are nevertheless unlikely to be sufficient.

Boosting the efficiency of the public sector is one positive way to tackle the problem of financing European welfare states. Expenditure on improving delivery capacity and the efficiency of Europe's public sectors should be seen as investment and not consumption. The use of transnational e-government solutions can help to address current debt and deficit issues, as well as future pressures brought about by demographic trends.

But the countries that need to improve public-sector efficiency the most are also those that are doing the least on digitalisation. Therefore there is a need to change mentalities and mindsets. More concretely, investment from European sources is required, such as the Structural Funds and innovative financial instruments, to improve infrastructure, e-skills and the take-up and implementation of e-government solutions. It is crucially important to roll out tried and tested solutions, rather than experimental and expensive pilots. Procurement must drive further innovative solutions.

PROSPECTS

While much progress has already been made, the renewed economic and technological challenges imply that a further push is needed to fully reap the benefits of the Digital Single Market. The creation of such a market is not a linear process; Europe needs to move above a certain threshold before the benefits of integration can materialise. The Digital Single Market must feel real to individuals and businesses during their day-to-day activities.

Trust in buying online

One area with much potential is e-commerce. While it is developing in Europe, growth so far has mostly been at national level, in certain member states. Cross-border trade is still only marginal, which limits competitive pressures and opportunities for consumers. There are several reasons for this, but most can be addressed with the right policies and education.

Within the euro-area, there are no issues regarding exchange rates or lack of price transparency, and even for non-euro countries, it does not take a lot to estimate such costs. Language issues are also minimal, as several suppliers either have different language versions or use one of Europe's main languages, which are well understood by most shoppers. Delivery costs are made very clear in most cases, and can be taken into consideration by the shopper. So what is the problem? It comes down to the crucial issue of trust: it can be hard enough to secure your rights as a consumer at national level. Is it really possible when trading across borders?

Progress has been made on consumer protection for e-shoppers, but privacy and consumer protection laws are still applied very differently from one country to another. This discrepancy is probably one of the main reasons for the low level of cross-border e-commerce and is hampering the development of economies of scale for e-traders. A clear set of rules that clearly distinguish between the obligations and rights that apply to consumers and traders, as well as standardised European approaches to billing formats, requirements regarding information for consumers on websites and a European certification scheme to be used by trusted e-traders, could help to address this issue if they were monitored effectively, and if consumers could post their complaints easily. The certification scheme should be widely communicated, and the consequences of breaking the rules should be quick, effective and communicated to the public at large.

Beyond barriers

Simply removing legal barriers is not enough to create an integrated market. Instead, the right framework conditions must be created to make every actor in the market feel comfortable enough to engage in cross-border activity and trust the market. Trust comes from knowing which rights each market actor enjoys and from knowing that they will be enforced, including across borders. More often than not, this implies a degree of harmonisation in areas such as consumer protection, data protection or the digital business environment, e.g. in relation to taxation, particularly of cloud activities, e-signatures, and facilitating seamless cross-border trading through cross-border licensing for digital content.

More must be done at EU level to fully reap the benefits of the Digital Single Market. Many technological solutions tend to be national rather than European in nature. This is partly because the most advanced countries have moved ahead and are unwilling to wait for the slowest movers to catch up. Once national standards have been established, who would want to give them up in favour of a different European solution? One striking example of this is digital signatures. Many countries have established their own - widely different - systems, which not only hampers the creation of a large pan-European market, but also makes it difficult for users to adapt to different schemes: not to mention the serious negative impact that this has on the development of a true European e-procurement market.

Another significant area of fragmentation addressed by EU heads of state and government in their January 2012 declaration on growth is the need to modernise Europe's copyright regime. The EU's digital marketplace is unable to provide a framework for economies of scale due to its high level of fragmentation. Copyright regimes vary widely between member states. It is vitally important to move quickly to replace the current, fragmented private copyright levy regime with concrete EU-level legislation.

A new environment that encourages take-up and investment

At the same time, it is necessary to create the right framework conditions for the Digital Single Market to flourish. This certainly includes the physical infrastructure. Here, investment in connectivity is particularly necessary in those countries that are furthest behind. They can also benefit from using excess capacity in sectors such as construction and infrastructure. Encouraging these developments in the poorest-performing countries will require investment: public money from the better-performing countries and private investment channelled through innovative financial instruments that address the higher risk for investors.

Private investors should be at the centre of considerations: how can we create the right framework conditions to facilitate private investment? Legal certainty regarding the policy environment, the opportunity to develop new profitable business models and the development of pan-European competitors operating in most/all EU countries all play a role. Public (including EU) investment can support this process in areas where market failures are apparent and where the public sector must provide the security and guarantees that make private/venture capital viable. Regulators and lawmakers need a shift in mindset: given the low availability of financing for capital investment, they need to do everything in their power to encourage investment. The global environment must also be taken into account: decision-makers must encourage cooperation with global partners, e.g. in research or in developing (transatlantic) markets, while at the same time protecting Europe's IPR at global level.

But the physical infrastructure will not produce the economic benefits by itself. The key issue is take-up: how can we encourage all businesses to take up ICT solutions that boost productivity? How can the public sector be convinced of the real benefits of e-government? How can individuals be convinced to use cross-border e-commerce or to provide their services digitally in another member state? Not only will this require some of the concrete measures mentioned above, it will also necessitate a digital mindset and a degree of e-mobility. Education plays a crucial role here.

A Digital Single Market for the future

While there are positive signs, much more needs to be done to maintain the positive momentum that can deliver the benefits of the Digital Single Market. There is still a lack of recognition of both the scale of the challenges facing the EU and the potential of the Digital Single Market to deliver the smart, inclusive and sustainable growth that Europe so desperately needs.

The current series of measures must be implemented and a new momentum is required. For 2012, we still need to see an ambitious programme, similar to that of 1992, with a high level of political buy-in and drive behind it. This re-launch of the Digital Single Market must be much more ambitious, making it a reality for businesses and individuals on the ground, while also looking forward, doing more to get ahead of the curve in new and developing sectors such as m-health (mobile health), future e-government, smart electric cars, etc. There is an urgent need to recognise that data and knowledge are the fuel of the future economy, and that much more needs to be done to reap the benefits of using data to develop personalised medicine, for example, leading to better health outcomes for Europe's citizens.

A more ambitious Digital Single Market, delivered by 2015, would not only deliver short-term benefits but also serve as a positive beacon for developing the Single Market in other, more contentious areas, for example in the health or energy sectors, creating the momentum for further far-reaching reform. Making the Digital Single Market a success would provide a strong impetus for growth, address some of Europe's key societal challenges and signal Europe's intent to remain a global player. Europe cannot afford a lack of ambition or indecisive implementation at this moment in time.

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