

This Newsletter summarises the key findings of the EPC's Digital Single Market project, which are the result of a number of background studies as well as numerous discussions with senior European Commission officials, key Members of the European Parliament and other relevant stakeholders. Project partners have included Central Denmark Region, Ericsson, Intel, Microsoft, Nokia, SITRA (Finnish Innovation Fund) and Vodafone. The background papers and studies commissioned for the project can be downloaded from www.epc.eu/dsm

Overwhelming case for developing the Digital Single Market

An EPC project has found that there is an overwhelming case for developing the Digital Single Market which can bring about great economic, social and environmental benefits for Europe. The case rests on four solid foundations:

- the economic impact of a Digital Single Market is at least as big as the impact of the 1992 programme which created Europe's Internal Market for goods;
- the Digital Single Market can contribute to achieving many EU policy goals, including the objectives of Europe 2020 to modernise Europe's labour markets and green its economy;
- the lack of a Digital Single Market has constrained growth of European companies especially in the Internet content field; and
- there is a strong underlying economic rationale showing that EU intervention is needed to correct the market failures which arise from the barriers to a Digital Single Market.

The EPC project is thus putting forward policy recommendations in five broad areas to make the Digital Single Market a reality in the next few years.

Action is needed now!

There is a need for an ambitious programme of legislative and accompanying measures, similar to the one which delivered the 1992 Single Market, and the project has identified five priority objectives:

1. Establish a functioning Digital Single Market as the key EU project of the Barroso II Commission, which must commit to lead on and deliver.
2. Create an online market place in which consumers can trust, by ensuring transparency and Internet governance, cyber-security and protection from fraud, rogue traders and identity theft, and protect consumer rights.
3. Create a business environment fit for the knowledge economy which facilitates companies' investment and use of ICT and cross-border and internet economic activity.
4. Ensure that the legal framework governing the use of knowledge assets – such as data and intellectual property – is fit for a digitalised market and fosters innovation and cross-border trade.
5. Build the foundations and infrastructure which are pre-conditions for increased access and use of the goods and services the DSM can offer, within the framework of a well-functioning Single Market for services.

Detailed recommendations can be found on p.4

Completing the Digital Single Market worth more than 4% of EU GDP!

As part of the EPC project, Copenhagen Economics, was commissioned to estimate what the cost of not completing the Digital Single Market (DSM) would be to the EU economy. The study shows that, even under cautious assumptions, failing to implement the DSM will cost Europe at least 4.1% of GDP by 2020. The DSM is a key driver for productivity and competitiveness, promoting growth and innovation. It will allow companies in Europe to grow to scale and increase their global competitiveness, and not only benefit businesses but also consumers: they will benefit from low prices, better quality and more choices.

More details of the study can be found on p.3

The 5th Freedom

There are clear economic, social, political and environmental reasons why EU action is needed – now. Establishing a framework for the Digital Single Market is not about helping a particular sector or developing a niche market – this is fundamental for Europe's future. In the future knowledge society, Europeans can only sustain their economic, social and environmental achievements if we have achieved the 5th Freedom for the Single Market – that of knowledge. Our future must be knowledge-based – and in completing the Digital Single Market we can use a powerful tool of European economic integration to deliver.

Hans Martens
Chief Executive, European Policy Centre



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THE VALUE OF A DIGITAL SINGLE

As a number of prominent Europeans, including Malcolm Harbour, Meglena Kuneva and Esko Aho, have emphasised, the Digital Single Market needs to become a reality – now. As the EPC's Digital Single Market project's background papers and studies demonstrate, achieving a functioning Digital Single Market will lead to significant economic, social and environmental benefits.



We must bring the Single Market into the 21st century

Completing the Single Market has never been more important for Europe's economy. It is crucial to our global competitiveness and is one of the most important policy tools to help our economy recover. This is why the Single Market must be put at the very heart of the new Europe 2020 strategy. It has to be

recognised as the foundation of all other proposals. Member States must accept challenging targets to reboot the Single Market, including a structured review by their peers in other EU countries, of any remaining restrictive measures. We need to bring the single market into the 21st century and take advantage of the digital age – if we don't, it will stay a political mantra rather than becoming a practical reality for citizens and business.

Malcolm Harbour, MEP, Chairman of the European Parliament's Internal Market and Consumer Protection Committee

Beyond GDP: wider benefits of the Digital Single Market

The Digital Single Market, is a key part of the solution for a number of current challenges that Europe is facing. Developing the Digital Single Market should be the central EU-level delivery mechanism for the Europe 2020 strategy as it is the key facilitator on the path to a smarter, greener economy. It can help to sustain the economic recovery from the current crisis and to tackle high unemployment levels. These are the conclusions of a paper by Fabian Zuleeg, Chief Economist at the EPC.

But the potential benefits of a Digital Single Market go much further than this:

- it can support improvements in labour markets, making them more efficient and inclusive;
- it can facilitate improvements in the efficiency and quality of public services in light of the debt burden and long term spending pressures; and
- it can contribute to dealing with Europe's long term socio-economic problems such as demographics and climate change.

By delivering concrete social and environmental benefits as well as economic benefits for businesses and consumers, the Digital Single Market can further advance European integration through the delivery of concrete and visible benefits to Europe's citizens.

Further details of the full paper on why the EU needs a Digital Single Market now: www.epc.eu/dsm/3

Europe falling behind the US in creating digital companies of scale

The EU is falling behind the US in the development of the knowledge economy. The number of digital jobs within Europe's largest companies is much smaller compared to the US and more than four fifths of Europe's digital jobs are in companies founded before 1950. The main reason for the digital jobs' gap is that since the 1970s Europe has failed to keep pace with the US in creating digital business of scale, and has not created a digital company of scale for over a decade. These are the conclusions of a study carried out by Richard Marsh of Verso Economics for the DSM project.

Excluding telecommunications, the digital economy in Europe has a handful of companies of scale. By contrast there are 66 digital companies within the 500 largest companies in the US.

The story for telecommunications is very different: more jobs associated with large companies were created in Europe compared to the US during the 1980s, the 1990s and 2000s. This much improved performance can be linked to changes in public policy across Europe since the 1980s with the gradual liberalisation of markets. The European telecommunications' sector is much closer to the conditions of a DSM, particularly in mobile telecommunications. The European telecommunications' sector shows that movement towards a DSM can create jobs and improve choice and quality to end-users. The lack of progress towards a Single Market within the digital economy shows that, without renewed focus, the reverse is true.

A full copy of the benchmarking study can be found on www.epc.eu/dsm/5

Online internal market needs to become a reality

A functioning Digital Single Market is a great opportunity for consumers. It enhances cross-border trade. It promotes competition that leads to decrease in prices. It increases access to information on available goods. It provides consumers the right to choose and a greater variety of goods to choose from. And one day when public services are also on the web – life will be much easier for EU citizens.

The online Internal Market needs to become a reality. And the process should involve the citizens and consumers of the EU. They know the problems of the market and what they want from the market.

Meglena Kuneva, former European Commissioner for Consumer Affairs



MARKET IS UNQUESTIONABLE

Economic study reveals true potential of the Digital Single Market

A recent study revealed the large scale economic potential of the Single Market. It concluded that:

1. **The future is digital:** The digital economy is a major source of growth and innovation (up to +8 percent of EU GDP in 10 years – same size as Spain's GDP).
2. **Much has been done:** Steps have been taken to support a digital economy and to help create a more integrated European digital economy (e.g. E-commerce Directive).
3. **Still no Digital Single Market:** The EU digital market remains fragmented, still comprising 27 individual digital markets rather than one Digital Single Market (e.g. legal issues).
4. **The EU is not using its full potential:** As a result of this fragmentation, the EU economy is not exploiting the full benefits of the digital economy, as cross-border online trade is low, ICT usage is low, and there are few global EU digital firms.
5. **Cost of non-digital Europe:** Europe is losing out economically by not having a European DSM. It could gain 4% GDP by stimulating the fast development of DSM by 2020. Based on expected 2010 GDP for EU27, this corresponds to a gain close to €500 billion or more than €1.000 for every citizen. A DSM would have a similar impact to the 1992 Single Market Programme.
6. **Benefits across all private sector industries and firms:** A DSM boosts growth and innovation. An integrated and harmonised Digital Single Market increases ICT usage and leads to productivity growth. This provides a substantial boost to Europe 2020 growth ambitions (ICT as a general purpose technology).
7. **Benefits for digital entrepreneurs and innovations:** A Digital Single Market could help foster entrepreneurship and innovation: helping new and small EU firms grow. This requires a large home market. Successful firms in the digital economy are knowledge intensive and have high R&D costs and high regulatory costs. A fragmented regulatory framework is blocking innovation and new firm creation.
8. **Benefits for EU consumers:** A Digital Single Market can deliver consumer gains from trade: DSM facilitates cross-border trade, increases competition, and broadens consumer choice, bringing gains for consumers.
9. **Benefits for the public sector:** Better usage of ICT and digital services in the public sector (e.g. e-government) can improve the efficiency and quality of public services. This can lead to savings in public expenses and reduce public debt.

A full copy of the study, carried out by Copenhagen Economics, can be found on www.epc.eu/dsm/2

EU must address online market failures

There are good economic reasons why the EU needs to intervene to complete the Digital Single Market, says a paper by Fabian Zuleeg and Robert Fontana-Reval.

The creation of a pan-European market is hampered by a number of so-called market failures which prevent Europeans from benefiting from a market of sufficient scale. Market fragmentation and restricted access to a large-scale EU market prevent firms from achieving economies of scale, investing in innovation, growth potential and, ultimately, increased global competitiveness.

A series of government and coordination failures between Member States are preventing the completion of the Digital Single Market. A single, pan-European approach can overcome most of these market failures and thus deliver higher benefits to both businesses and consumers, as well as facilitating the creation of global leaders in new technologies and innovation. This will help Europe to compete with the rest of the world on the basis of a competitive advantage in knowledge and skills.

Further details of the full paper on the economic rationale for a Digital Single Market: www.epc.eu/dsm/4

Key weakness for Europe is the lack of a pan-European Digital Single Market

The adoption of the Global System for Mobile (GSM) standard in October 1987 in Copenhagen marked the launch of a European-driven innovation process with astonishing global impacts. Without the pan-European GSM standard, rapid market liberalisation and the development of the Single Market, European leadership in mobile telephony would not have been possible. Coupled with significant R&D inputs, this created a benevolent, delivery-oriented environment that spurred European innovation in the first phase of the modern communications revolution.



As we are now entering the second phase in this modern revolution, with content creation now the primary driver, it unfortunately looks less European-driven. The key weakness for Europe is the lack of a pan-European Digital Single Market: creating a true Digital Single Market (DSM) would allow Europe to regain leadership. Creating such a framework not only requires co-operation and willingness from all European participants, but most importantly it demands delivery capability to support Europe's considerable innovation potential.

Esko Aho, Nokia, former Prime Minister of Finland and Chair of the Independent Expert Group on R&D and Innovation which produced the 2006 report *Creating an Innovative Europe*, (Aho Report)

THE BUILDING BLOCKS FOR ACHIEVING A FUNCTIONING DIGITAL SINGLE MARKET

The Digital Single Market

The EPC project has established that Europe can obtain a wide range of benefits by developing a Digital Single Market. However, what needs to be done to achieve this? The policy recommendations highlight the areas where action must be taken.

A functioning Digital Single Market should be made the **key political project** of the Barroso II Commission:

- DSM as the key, overarching political priority of the Barroso II Commission
- have a group of key Commissioners led by Barroso to drive agenda
- ensure communication, engagement and buy-in of citizens and businesses

Create an **online market which consumers can trust**:

- consistent European-wide enforcement against criminal activities
- harmonise consumer rights (consumer charter)
- have a single point of contact for consumers throughout the EU
- use market reviews to establish what prevents cross-border purchases of large items

A **business environment** fit for the knowledge economy:

- standards for e-payments, e-invoicing, e-signature, e-identity, e-contracts
- more effective pan-European approach to taxation
- all policy to deliver greater simplicity and minimise administrative burden
- joint procurement across borders and inter-operability and system compatibility
- uphold EC law on intermediary liability
- encourage private firms' investment into ICT equipment, connectivity and application as part of the EU 2020 strategy
- a level playing field in the DSM

A **legal framework for knowledge assets** – such as data and intellectual property – fit for a digitalised market with:

- a harmonised system dealing with copyright issues
- a harmonised set of rules for data, applied and implemented consistently
- new accounting standard for knowledge/intangible assets
- easier access to data which is held by the public sector
- common European standards to ensure interoperability, for example for data encoding

Foundations and infrastructure as pre-conditions for increased access and usage and a well-functioning SM for services:

- EU regulatory framework for ICT sector must encourage investment by companies
- full and consistent implementation of the Services Directive
- efficient and effective enforcement and implementation of SM rules
- e-skills and e-inclusion to take a central role in the Europe 2020 strategy
- review EU budget so that EU funding acts as an encouragement for firms, public sectors and individuals to invest into the transformation to the knowledge economy

Detailed recommendations can be found at www.epc.eu/dsm/6

The Digital Single Market Project

In 2009 the EPC created a Task force on the future Single Market, which investigated how the Single Market could be made fit for the future knowledge economy. This task force showed that there were many specific issues associated with the digital economy that needed further consideration. Consequently it was decided that the Single Market Taskforce would be followed by a more in-depth project on the Digital Single Market.

The project was led by the EPC, in particular by Hans Martens, Chief Executive, and Fabian Zuleeg, Chief Economist, and it was supported by a number of different partners which were closely involved in the discussions. The partners came from Ericsson, Intel, Microsoft, Nokia, Central Denmark Region, SITRA (the Finnish Innovation Fund) and Vodafone. The project commissioned an economic study by Copenhagen Economics and drew on the advice of Richard Marsh of Verso Economics. Its conclusions are summarised in this newsletter.

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