



3 October 2013

BUSINESSEUROPE statement on the thematic discussion on digital economy and innovation at the European Council on 24-25 October 2013

The European Council in October will be having a thematic discussion on the digital economy and innovation in Europe. These are both crucial areas to ensure Europe's competitive advantage in the global economy, and we believe the EU has a major role to play in ensuring the innovation potential of the continent is fully exploited.

The digital economy in particular will be one of the main drivers for future jobs and growth, provided that Europe places it at the centre of its growth strategy. If correctly implemented, it could help the EU gain 5% of GDP and create 4 million jobs.

Successful dissemination of digital technology is crucial for Europe's global competitiveness. It is fundamental that the European Council clearly acknowledges the impact of the Digital Agenda on promoting not only digital industries, but as a key enabler of business growth even in the "traditional" sectors of the economy.

1. Enabling a new industrial revolution

Industry is witnessing a massive change through ICT. The extensive effects of this new development on technology, productivity, science and society lead to what can be referred to as the fourth industrial revolution.

Industrial automation will be more and more cross-linked with IT-applications over the internet. Existing software-related limitations will be resolved through increased reactivity and improved on all operating levels (machine and production control, Enterprise Resource Planning, management of the entire supply chain). In general, innovations such as cloud services, data analytics improving efficiency in industrial processes and intelligent connected machines could add more than €2000 billion to Europe's GDP by 2030 – about one quarter of the current size of Euro area economy.

The realisation of a fully digital economy requires a coherent approach to innovation, ICT and industrial policy. We therefore call onto the European Council to give directions for a regulatory environment that would stimulate and not hinder innovation through a too rigid approach. Moreover, the digital economy goes well beyond the ICT sector. Any initiative to further integrate the ICT market in Europe needs to address first the roots of the current challenges.



Using ICT creates new opportunities for efficient interaction between different industrial and societal components. Transforming existing industry and society infrastructures into intelligently cooperating networks is definitely one of the biggest projects for Europe.

We trust that the European Council will provide a roadmap for a future digital single market recognising the need for sector restructuring, encouraging investments in high speed mobile and fixed networks, facilitating the provision of pan-European digital services that could make Europe re-gain its competitive edge on a global scale.

2. Achieving a true connected continent

BUSINESSEUROPE appreciates the European Commission's effort to promote the creation of a digital single market and to achieve a connected continent. We are still assessing the Commission's recent proposal laying down measures concerning the European single market for electronic communications, but we have doubts it will fully achieve the Digital Agenda targets and foster Europe's growth. It is imperative that regulatory initiatives avoid any measure which could have a detrimental impact in digital infrastructure investment, in particular in broadband investment.

At the same time, we urge the European Council to work towards the development of crucial broadband infrastructure in Europe, which is the backbone of EU digital single market. An increase in the broadband penetration rate by 10 percentage points increases annual per-capita GDP growth by 0.9 to 1.5 percentage points.

Broadband development in Europe is lagging behind other regions of the world, as private investors do not have sufficient incentives to invest. The EU should take a new approach to support investments in high speed broadband infrastructure, especially as in the Multiannual Financial Framework the Connecting Europe Facility has been cut from €9 billion to only €1 billion for the ICT pillar. Given the size of the challenge, this is a nearly insignificant amount, which would make the initial objective, the stimulation of private investments through a new financial instrument, almost impossible to achieve.

We strongly believe that the recovery and growth must be mainly driven by private investments. A stable and innovative regulatory environment should set the right incentives and any reform should be seen through this lens.

The liberalisation of the European telecommunications sector has brought about huge advantages to Europeans, but the markets remain regulated and fragmented along national lines. Companies are subject to a regulatory regime which does not facilitate investment in networks. Any review of the legal framework for next generation high-speed networks must address the necessity to foster investment and enhance consumers' choice.

Further consolidation in the telecoms sector might bring about advantages, but the importance of investments in networks should also be taken into account, and should not happen at the expense of competition and of a diversified choice for consumers.



Broadband, fixed and increasingly mobile, is a key transformative technology and sufficient spectrum resources must be made available in order to accommodate the exponential growth in mobile data.

It is fundamental to put in place a level playing field amongst all the participants in the digital economy value chain, allowing for flexibility to adapt the market models and structures to its new dynamics.

Hence, BUSINESSEUROPE urges European leaders and institutions to agree on an initiative for the digital single market that opens the way to a true common market for European citizens and abolishes regulatory borders for companies.

European leaders should also provide a strong commitment to quickly agree upon and implement the ongoing reforms that could lead to better efficiency to the benefit of citizens and business alike. Given the speed with which the digital economy moves, the implementation of the Digital Agenda is not going as fast as it should.

In the longer term, Europe should have a broader approach to the digital economy and look at integrated systems for education and entrepreneurship, so to ensure that Europeans are fully able to grasp the opportunities of the digital age. In particular, BUSINESSEUROPE supports the idea of a coherent EU strategy for digital learning and open educational resources to be mainstreamed across all education and training sectors. This would be an efficient use of resources that could make a significant contribution to people's education and training.

3. Removing barriers in the digital single market

Creating a connected continent is not enough if barriers are not eliminated. It is time to transpose the spirit of the single market into the digital world and undertake a pragmatic exercise which identifies and tackles the remaining barriers. Digital products must be allowed to move from one EU country to another as freely as within a single EU country. Fully implementing the 2006 services directive is key in this respect, as many barriers that should have been removed with this directive also affect online trade. The EU regulatory environment must support free movement of products and content through digital channels, not only physical ones.

As business models increasingly embrace the transition to digital, a well-functioning copyright system including effective enforcement is key for European business, including the creative industries. Transparent, efficient and fair multi-territorial licensing arrangements, ensuring revenue sources for rightholders, will contribute to the development of new business models and the evolution of the single digital market. Within this discussion, the recommendations of the EU Mediator Mr. Antonio Vitorino on the future of the private copy levies, as a compensation for use of protected works by consumers, should be taken into consideration.

Barriers should also be removed in an international context. It is key to move forward on the Transatlantic Trade and Investment Partnership (TTIP), which could bring together the most important ICT markets worldwide, unlocking a market volume of €730 billion in the US and €637 billion in the EU.



4. Fostering the data-driven economy

The new digital economy is data-driven. Today, data are a vast new resource and data promises to be for the 21st century what steam power was for the 18th, electricity for 19th and fossil fuels for the 20th – that is, the creator of enormous wealth and progress.

A whole range of new services and businesses will be based on the use of data. This goes from cloud computing (the EU market for cloud services could have an overall cumulative impact on GDP of €957 billion, and 3.8 million jobs, by 2020) to geo-location based services, from intelligent machines to smart grids which will improve energy efficiency in households, allowing for personalisation of consumer services and facilitating business and job creation. Similarly, data processing is the backbone of a knowledge-based society that can turn information into fundamental societal and individual benefits. This opportunity will also dramatically affect industrial efficiency.

Any regulation must take into account the need to create appropriate conditions to enable innovation and allow for international transfer of data, essential for the realisation of a vibrant digital single market. It is very important to reinforce consumers' trust in business models which rely on the use of personal data. The adoption of the general data protection regulation is one important cornerstone in this endeavour, but it must not create disproportional restrictions to data processing and avoid detrimental effects on innovation and growth.

The legislative framework should provide workable solutions for companies for cross-border data transfer, while at the same time providing safeguards which enhance consumers' trust. We still have concerns with a number of provisions of the proposed reform of the EU data protection framework, especially in relation with the impact on future business models. Data protection law is very complex and impacts all segments of the economy. It is therefore essential for new EU Data protection rules to adopt a simple maxim: "thoroughness proceeds rapidness".

5. Making innovation a real priority for Europe

Innovation must be a political priority for Europe in the next decade. In this context, continued simplification of the rules for participation to publicly co-funded research and innovation (R&I) programmes and funding based on the company's usual accounting practices is needed in order to raise industry's participation. BUSINESSEUROPE suggests considering at least 35% of total funding in Horizon 2020 as a yardstick for adequate involvement of the business sector and requests the Commission to regularly publish data on progress. Given the appropriate framework, European industry aims at progressively increasing its participation rates and raising the yardstick to 50%.

Horizon 2020 has the potential to make Europe truly competitive. With its focus on innovation, a strong increase in private-sector commercialisation of research results is needed. Horizon 2020 thus shall cover the different innovation needs of industry and SMEs (which still have difficulties in participating to the programmes) over the whole innovation cycle and for all types of innovation, not only technological. Based on the



positive experience with bottom-up-calls for pioneer research (ERC, FET Open) in earlier framework programmes, BUSINESSEUROPE welcomes that Horizon 2020 shall now apply such procedures in the form of a “Fast Track to Innovation” pilot project in 2015, so that applicants’ own ideas can reach the market rapidly. To that end it is crucial that pilots are designed, implemented and evaluated properly so that we get usable results if this new funding instrument works well.

We welcome the political agreement reached by the European lawmakers on the Horizon 2020 package in June, and we call on the EU institutions to quickly finalize and implement it, in order to ensure a timely start of programmes in 2014.

BUSINESSEUROPE had strongly supported the Commission proposal of €80 billion over the 2014-2020 period. We are therefore disappointed that the provisionally agreed budget amounts to only €70 billion; within a smaller financial envelope, we reiterate that an appropriate level of funding must be devoted to close to market related research calls in pillar two and three of Horizon 2020, as these are of key importance for innovative industries.

The EU must realise the full innovation potential of companies active in the EU also through the promotion of a globally competitive policy on intellectual property. However, this must be implemented in the right way, ensuring that the EU remains an open economy. In this respect BUSINESSEUROPE does not support policy proposals stipulating that intellectual property from EU-funded projects needs to first be exploited within the EU. This is incompatible with the way companies operate in a global economy and would discourage their participation in Horizon 2020. As a result, employment creation in Europe would also be negatively affected.

Finally, further developing the European Research Area (ERA) is a necessary precondition for taking full advantage of all the efforts to deliver in a concerted way innovative solutions for Europe. In particular more efforts are needed to train competent and well-qualified researchers facilitate the mobility of R&I staff and improve pooling of national funding in transnational collaborative research projects.

It is vital that Europe addresses the above challenges in order to take advantage of the huge opportunities offered by the digital economy and innovation. European leaders need to show their strong political commitment to rapidly move and deliver on competitiveness and growth, ensuring a consistent approach conducive to innovation across policy areas.

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