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After COVID-19: Digital technologies and trade for a resilient European Industry



Introduction

With an estimated 9.2% drop (285 billion EUR) in extra-EU27 exports of goods and services, and an 8.8% decrease (240 billion EUR) of extra-EU27 imports in 2020 due to the Covid-19 crisis¹, Europe's economy urgently needs to grow capacities internally and to expand again on international markets in order to recover swiftly.

In a post-Covid19 world, businesses will need to develop resilience, which is better achieved through collaboration than fragmentation. Thanks to the global digital ecosystem – including the Digital Single Market – many companies across Europe have been able to swiftly shift online and continue their business activities. Digital technologies and services have provided the global community not only with employment, but also with sustainable ways of working, learning, and communicating, and other effective tools to cope with this crisis. Removing barriers to digital trade and the trade of technologies is crucial for Europe's recovery and for building a more resilient Single Market, including for SMEs who make up 87% of all exporting companies.

There is little doubt that a well-coordinated industrial strategy with a set of measures to boost international trade that is rules-based and fair will help Europe recover more quickly. Therefore, the EU and its Member States should refrain from restrictive and discriminatory measures – such as unilaterally closing borders, adopting export control measures, increasing import quotas – when those risk making supply chains and companies

¹ European Commission, DG Trade, Chief Economist Team, *The impact of the Covid-19 pandemic on global and EU trade*, 17 April 2020

operationally or financially vulnerable. Industrial and trade policies go hand in hand and have a reciprocal influence on one another.



Open and Fair Trade: A precondition for a strong and resilient Industry

For decades the exchange of goods, services, and know-how has boosted innovation, new technologies and our societies' welfare. The founding idea of today's Europe was the creation of dependencies among its economies to promote peace and prosperity, and to avoid conflict and nationalism. In a time when the global economy becomes again a target of geopolitics, it is necessary for Europe to stand for an open, fair, collaborative, and multilateral global economy – while at the same time pursuing its own strategic interests. Europe needs a more strategic and future oriented trade and industrial policy, which ensures the continent's future prosperity and economic resilience. European companies rely on international trade and contracts, but they continue to face tough and sometimes unfair competition outside EU borders.

In a time when European Member States speak about technological sovereignty and strategic autonomy it is important to remember the relationship between international trade and a strong and resilient industry. Any such concepts should be understood as enabling the EU to take self-determined political, economic and scientific measures within the operational framework of the WTO. This is to ensure the sufficient availability of technical components, systems and software, which form the basis for the development of key technologies in Europe. This means building and maintaining technical and scientific competence in these fields. These concepts cannot be the basis for efforts to achieve the economic, technical or scientific self-sufficiency of an industrial sector, or to create discriminatory access to the European internal market. The latter approach has been proven time and again to be counterproductive.

Resilience of European industry stands for collaborative leadership by Europe beyond its borders; it is not about cutting ties with the very ecosystems and value chains that have enabled fast and efficient responses in the current crisis. In fact, we believe that diverse and digitally-enabled value chains provide a necessary foundation for the European economy to bounce back and stay flexible during a period of prolonged uncertainty. A collaborative leadership allows our industrial players to reassert their position and to promote open markets, our values, and European standards internationally.

A high degree of resilience in system-critical areas of an economy can be necessary. However, this can only apply to a very carefully selected, manageable number of critical core areas. In all other areas it seems sensible to give priority to the freest possible market conditions in order to be able to exploit the positive effects of price and quality competition. If competition in certain

sectors threatens to completely succumb the means of competition law should apply to restore competition.

Another important element in preventing imbalances and being able to act from a position of strength is to build up one's own competences. Therefore, we fully share the aim of making Europe a centre for research and development of new digital technologies and innovative digital business models. This can best be achieved through well-funded research programmes and new incentives to invest in Europe. The European Commission's plans to create better industrial ecosystems and support projects of common European interest should be open to all stakeholders who can add value for Europe to become a leading technological hub.

We believe that digital trade can help to diversify, better manage and strengthen supply chains and hence contribute to Europe's future economic resilience. The current crisis has shown that digital technologies and e-commerce are vital elements of the Single Market to ensure:

- ▶▶ the successful digital transformation of businesses and business models of European companies;
- ▶▶ the sustained growth of the global economy, creation of jobs, and the ability of companies to innovate in Europe;
- ▶▶ the right levers to drive a digitally enabled Green Deal, and
- ▶▶ the future competitiveness of Europe in global markets.

Europe has been a relentless defender of open, rules-based and fair trade worldwide. It has today a unique opportunity to re-shape globalisation to make it fairer and more sustainable. Digital trade can support these goals. In order to do so, the EU needs to bring together the different set of policies – on regulation, investment, and trade facilitation – in a single, aligned strategy.



Policy recommendations for a swift recovery

To support Industry to recover and conquer new markets we call for European leaders to:

- ▶▶ **Adopt Leadership at multilateral level:** Continue to push for a realistic and meaningful reform of the WTO to stay relevant and to maintain the rules-based multilateral approach to trade. This requires updating the rulebook to address trade-distorting practices, which lead to an uneven playing field, unfair competition, and increasing challenges for European industry. This includes maintaining an open and collaborative transatlantic dialogue.
- ▶▶ **Foster collaboration to boost technological capacity:** Seek geopolitical alliances with like-minded partners at the WTO, through Free

Trade Agreements (FTAs) and Investment Protection Agreements (IPAs). Through these agreements, Europe can remove barriers, create transparency, require reciprocity, support the creation of a global level playing field, advance the global agenda, and ensure access to critical raw materials and inputs for its Industry. It is crucial that tackling these trade barriers remains the EU's top priority.

- ▶▶ **Maintain an “open for business” Europe:** Use Europe's improved trade defence instruments (TDI) in a qualitative way - after careful consideration of possible harmful side-effects on other sectors, and always in line with WTO compliance - to enforce its rights. Harmonize the approach in Member States on the screening of Foreign Direct Investments in strategic sectors to avoid unintended consequences. The FDI screening tool is a powerful tool to respond to national security concerns. However, to enhance legal certainty for investors and to avoid misuse of the term 'national security,' it should always remain interpreted within the scope of Regulation (EU) 2019/452.
- ▶▶ **Champion digital trade globally:** With digital technologies being key to economic recovery and resilience, the EU should take a leading role in promoting digital trade globally. By promoting mechanisms that allow for European companies to be plugged into the global data economy through data flows that meet our strong privacy and security standards, we can strengthen the European Industry for the decades to come. At the WTO we should work towards the successful conclusion of the agreement on e-commerce and make permanent the moratorium removing customs duties on electronic transmissions.
- ▶▶ **Boost the trade of digital technologies:** Keep building upon the spirit of the WTO Information Technology Agreement (ITA) by promoting the elimination of import tariffs on ICT equipment. These are critical to help companies shifting to a digital work environment, and for further public and private investment in digital transformation. Also, exempt ICT and consumer electronics goods (e.g. servers, storage, networking, end-user devices such as desktop PCs, laptops, monitors, printers, routers, Smart TVs etc.) from movement restrictions and internal border controls, as they are essential to keep critical infrastructures running and to enable remote working as well as keeping European citizens connected. To ensure a seamless supply, the EU should also advocate internationally to include ICT equipment in the list of “essential goods” where this distinction is made.
- ▶▶ **Refrain from unilateral export control measures:** The same technologies that were promoted under the ITA mentioned above might be at risk of falling under unilateral export control measures, leading to a fragmentation of the digital ecosystem and global supply chains. The EU

should try to seek a common approach on export control of dual use items and emerging technologies at the level of the Wassenaar Arrangement.

- ▶▶ **Lead on international standards and certification schemes to ensure flexibility in supply chains:** As supply chains suffered strong disruptions due to the pandemic, 3D Printing quickly stepped in and helped to solve supply chain gaps by covering the surplus demand in providing access to equipment. The use of additive manufacturing also provided on-demand solutions allowing flexible substitution of critical parts from global sources with parts produced on-site. However, the pandemic stressed the issue of lack of standards and certifications currently available in this sector as well of a trained workforce. An adequate regulatory response should be considered to ensure that the full potential of these technologies – especially to render supply chains more flexible – can be exploited.
- ▶▶ **Continue to promote a business-friendly approach to taxation policy and support OECD efforts:** Taxation should enhance, not hinder, digitalisation and consider its benefits for more efficient and sustainable businesses and societies. A specific tax model targeting digitalisation and covering just the EU would lead to costly tax disputes, double taxation, and tax increases, harming not only European companies but also the EU. Given the Covid-19 crisis, the need for a multilateral solution to the tax challenges arising from the digitalisation of the economy is even greater. Furthermore, the outcome should be principled and not disproportionately impact a specific sector or country.
- ▶▶ **Use economic diplomacy to ensure an external dimension of EU industrial policy in the spirit of the EU Single Market:** The new Industrial policy has the opportunity to strengthen Europe's strategic and competitive advantages (e.g. digital and sustainable technologies, industrial AI and Internet of Things) to empower its companies to compete and lead globally. Europe should also promote a level playing field via new WTO rules and push for the adoption of new diplomatic instruments, such as the International Procurement Instrument, to put pressure on trading partners to open up their markets.

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About DIGITALEUROPE

DIGITALEUROPE represents the digital technology industry in Europe. Our members include some of the world's largest IT, telecoms and consumer electronics companies and national associations from every part of Europe. DIGITALEUROPE wants European businesses and citizens to benefit fully from digital technologies and for Europe to grow, attract and sustain the world's best digital technology companies. DIGITALEUROPE ensures industry participation in the development and implementation of EU policies.

DIGITALEUROPE Membership

Corporate Members

Accenture, Airbus, Amazon, AMD, Apple, Arçelik, Bayer, Bosch, Bose, Bristol-Myers Squibb, Brother, Canon, Cisco, DATEV, Dell, Dropbox, Epson, Ericsson, Facebook, Fujitsu, Google, Graphcore, Hewlett Packard Enterprise, Hitachi, HP Inc., HSBC, Huawei, Intel, Johnson & Johnson, JVC Kenwood Group, Konica Minolta, Kyocera, Lenovo, Lexmark, LG Electronics, Mastercard, METRO, Microsoft, Mitsubishi Electric Europe, Motorola Solutions, MSD Europe Inc., NEC, Nokia, Nvidia Ltd., Océ, Oki, Oracle, Palo Alto Networks, Panasonic Europe, Philips, Qualcomm, Red Hat, Roche, Rockwell Automation, Samsung, SAP, SAS, Schneider Electric, Sharp Electronics, Siemens, Siemens Healthineers, Sony, Swatch Group, Tata Consultancy Services, Technicolor, Texas Instruments, Toshiba, TP Vision, UnitedHealth Group, Visa, VMware, Xerox.

National Trade Associations

Austria: IOÖ

Belarus: INFOPARK

Belgium: AGORIA

Croatia: Croatian

Chamber of Economy

Cyprus: CITEA

Denmark: DI Digital, IT

BRANCHEN, Dansk Erhverv

Estonia: ITL

Finland: TIF

France: AFNUM, Syntec

Numérique, Tech in France

Germany: BITKOM, ZVEI

Greece: SEPE

Hungary: IVSZ

Ireland: Technology Ireland

Italy: Anitec-Assinform

Lithuania: INFOBALT

Luxembourg: APSI

Netherlands: NLdigital, FIAR

Norway: Abelia

Poland: KIGEIT, PIIT, ZIPSEE

Portugal: AGEFE

Romania: ANIS, APDETIC

Slovakia: ITAS

Slovenia: GZS

Spain: AMETIC

Sweden: Teknikföretagen,

IT&Telekomföretagen

Switzerland: SWICO

Turkey: Digital Turkey Platform,

ECID

Ukraine: IT UKRAINE

United Kingdom: techUK