5F - The Five Freedoms Project

Competition, Growth and Technological Diffusion in Europe’s Digital Economy: What is Europe’s Problem?

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European Centre for International Political Economy (ECIPE), Brussels
Brussels, 6 April 2016
The problem is regulatory heterogeneity in “traditional non-digital” sectors.
The EU’s Productivity Gap

US average annual productivity growth 2001 - 2013

US average annual productivity growth 2007 - 2013

-1.2%
-0.8%
-0.4%
0.0%
0.4%
0.8%
1.2%

Austria
Belgium
Denmark
Finland
France
Germany
Ireland
Italy
Japan
Netherlands
Portugal
Spain
Sweden
United Kingdom
United States
ICT Capital Investment vs. Productivity Growth
ICT and data are everywhere.

• Data is, and has always been, both input and output of production

• All sectors of production incl. agriculture, extraction, manufacturing

• Use of data particularly intensive in services industries

• Services sectors represent 70 per cent of the European economy
ICT-Capital as a Share in Total Capital

<table>
<thead>
<tr>
<th>Sector</th>
<th>ICT-Capital Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities commodity contracts and investments Insurance carriers and…</td>
<td>85%</td>
</tr>
<tr>
<td>Air transportation</td>
<td>68%</td>
</tr>
<tr>
<td>Misc. professional scientific and technical services</td>
<td>63%</td>
</tr>
<tr>
<td>Broadcasting and telecommunications</td>
<td>57%</td>
</tr>
<tr>
<td>Educational services</td>
<td>55%</td>
</tr>
<tr>
<td>Newspaper; periodical; book publishers</td>
<td>55%</td>
</tr>
<tr>
<td>Management of companies and enterprises</td>
<td>55%</td>
</tr>
<tr>
<td>Administrative and support services</td>
<td>54%</td>
</tr>
<tr>
<td>MANUFACTURING</td>
<td></td>
</tr>
<tr>
<td>Machinery</td>
<td>34%</td>
</tr>
<tr>
<td>Other transportation equipment</td>
<td>31%</td>
</tr>
<tr>
<td>Construction</td>
<td>23%</td>
</tr>
<tr>
<td>PRIMARY SECTORS</td>
<td></td>
</tr>
<tr>
<td>Support activities for mining</td>
<td>11%</td>
</tr>
<tr>
<td>Mining except oil and gas</td>
<td>10%</td>
</tr>
<tr>
<td>Nonmetallic mineral products</td>
<td>10%</td>
</tr>
<tr>
<td>Wood products</td>
<td>9%</td>
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<tr>
<td>Primary metals</td>
<td>9%</td>
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<tr>
<td>Utilities</td>
<td>7%</td>
</tr>
<tr>
<td>Forestry fishing and related activities</td>
<td>4%</td>
</tr>
<tr>
<td>Oil and gas extraction</td>
<td>3%</td>
</tr>
<tr>
<td>Farms</td>
<td>1%</td>
</tr>
</tbody>
</table>
Digital Single Market (DSM) Strategy

• Easy e-commerce
• Better consumer protection and consumer rights
• Tackle discriminatory geo-blocking practices
• Find a “renewed approach to apply anti-trust law in the e-commerce sector”
• An inquiry of online-platforms as dominant player in digital markets
• Promotion of a “European Cloud”
Few, if any, of these initiatives explicitly aim to tackle regulatory fragmentation within the EU’s “non-digital” Single Market.
Restrictiveness of Product Market Regulation

- Greece: 1.74
- Slovenia: 1.70
- Poland: 1.65
- Sweden: 1.52
- France: 1.47
- Luxembourg: 1.46
- Ireland: 1.45
- Spain: 1.44
- Belgium: 1.39
- Hungary: 1.33
- Portugal: 1.29
- Germany: 1.29
- Finland: 1.29
- Estonia: 1.29
- Slovak Republic: 1.29
- Italy: 1.29
- Denmark: 1.22
- Austria: 1.19
- United Kingdom: 1.08
- Netherlands: 0.92
EU Cross-country regulatory heterogeneity

HORIZONTAL INDICATORS
- Explicit barriers to trade and investment: 0.62
- Licence and permits system: 0.47
- Complexity of regulatory procedures: 0.42
- Government involvement in network sectors: 0.35
- Command & control regulation: 0.35
- Scope of state-owned enterprises: 0.29
- Barriers in services sectors: 0.24
- Barriers to Network Sectors: 0.23
- Regulator protection of incumbents: 0.21
- Barriers to Entrepreneurship: 0.17
- State Control: 0.15
- PMR Aggregate: 0.14

SECTORAL INDICATORS
- Airlines: 1.24
- Telecom Services: 0.67
- Professional Services: 0.47
- Retail Services: 0.41
- Legal Services: 0.37
- Road Transport: 0.37
- Rail Transport: 0.34
- Postal Services: 0.28
- Accounting Services: 0.28
EU Cross-country regulatory heterogeneity

Variation in Regulation in EU Network Sectors

- Telecom Services 2008
- Telecom Services 2013
- Postal Services 2008
- Postal Services 2013
- Rail Services 2008
- Rail Services 2013
- Road Transport Services 2008
- Road Transport Services 2013
- Airline Services 2008
- Airline Services 2013
EU Cross-country regulatory heterogeneity

Variation in Regulation in EU Professional Services Sectors

Variation in Regulation in EU Retail Sectors
Why do companies geo-block?

European Commission Online Consultation on ”Unjustified Geo-Blocking”
Geo-blocking: stated concerns justifying the blocking and modification of digital offers

<table>
<thead>
<tr>
<th>A) Legal compliance with national law of EU member states</th>
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<tbody>
<tr>
<td>A.1) Sector-specific national law</td>
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<tr>
<td>Physical goods:</td>
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<tr>
<td>1) National product safety regulations</td>
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<td>2) National technical regulations</td>
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<tr>
<td>3) National labelling requirements</td>
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<tr>
<td>4) National waste-management regulations</td>
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<tr>
<td>5) National construction material regulations</td>
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<tr>
<td>Non-digital services:</td>
</tr>
<tr>
<td>6) National regulation of financial services</td>
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<tr>
<td>7) National regulation of professional services</td>
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<tr>
<td>8) National regulations for the provision of public services</td>
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<tr>
<td>Digital services:</td>
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<tr>
<td>9) National copyright laws</td>
</tr>
<tr>
<td>10) National regulations on telecommunication services</td>
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<tr>
<td>11) National regulations on the provision of digital content</td>
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The most pressing **structural impediment** for digital businesses to develop in the EU is regulatory heterogeneity in traditional non-digital industries.
(Search) Interest in the Single Market: No political lobby anymore?