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Unleashing Internal Data Flows in the EU: An Economic Assessment of Data Localisation Measures in the EU Member States

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Brussels, Belgium, 1st December 2016 - Forced data localisation measures are on the rise around the world, fragmenting the Internet and increasing costs for businesses and consumers. Until the year 2000, only 15 measures were imposed globally. By 2007, the number of measures doubled and it more than doubled again until today.

The study has identified 22 data localisation measures where European Union Member States impose restrictions on the transfer of data to another Member State. The most common restrictions target company records, accounting data, banking, telecommunications, gambling and government data. In addition, there are at least 35 restrictions on data usage that could indirectly localise data within a certain Member State.

A real EU Single Market on data storage is yet to come into function in practice: Two-thirds of all demand for "ICT-related" services (consulting, hosting, development) are sourced locally within each Member State, while only 18% is sourced from the rest of the EU. Meanwhile, the cost difference of operating data centres can be considerable amongst the EU Member States, with the most expensive country being twice as expensive as the cheapest.

Data localisation measures create a major misallocation of resources and threaten the continent's productivity and competitiveness. If data can be stored and processed anywhere within the EU, the move would boost the commitment to achieve a true Digital Single Market and send a clear political message that Europe is open for business.

If existing data localising measures are removed, GDP gains are estimated to up to 8 billion euros per year (up to 0.06% of GDP), which is on par with the gains of recent free trade agreements (FTAs) concluded by the EU. These gains approximate the impact of a fully price-transparent “industrial” DSM.

Even more striking gains from a ban on data localisation will stem from the ratchet effect – preventing EU Member States from imposing harmful data localisation measures in the future. The economic loss generated by full data localisation by each of the Member States would lead to a loss of EU-wide output by 52 billion euros per year (0.37% of GDP). This number will increase with further digitalisation of the European economy.

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