GROWING THE TRANS-ATLANTIC DIGITAL ECONOMY

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I. Introduction

Good afternoon. It is a great pleasure to be here in Brussels. I want to thank the Lisbon Council for bringing us together to discuss the important topic of growing the transatlantic digital economy.

Digital economy issues have been in the news a lot lately, especially with the release of the European Union's Digital Single Market initiative. Some of that press attention has centered on the huge importance of a dynamic transatlantic digital economy and its implications for the rest of the world.

II. The Digital Single Market and EU History

Having worked on U.S. – European trade issues for thirty years, I am struck by how similar today's debate over the Digital Single Market is to previous efforts to integrate and unify Europe's national markets. As far back as the establishment of the European Steel and Coal Community in 1951, European leaders have negotiated agreements to capture the economic benefits of larger, better integrated markets, and made sure those benefits flowed to ordinary people. This process took a huge step forward in 1992, when European leaders first established a single EU market with four freedoms: the free movement of goods, services, people, and capital.

In America, the excitement and promise of a European single market was tempered by the concern that "1992" would result in a "Fortress Europe". Fueled by the statements of some EU policymakers, there were fears that the post 1992 EU would focus on creating European champions and using discriminatory regulations and standards to close off markets to non-EU companies. Happily for the world, EU policymakers saw the real promise in the twin values of openness and integration. After energetic debate, the single market dismantled barriers, more deeply integrated the EU, and made Europe both more competitive as well as a global force for open, rules-based trade and investment.

Everyone, including U.S. firms, cheered – and invested. They cheered again two years later, when with strong impetus from the U.S. and EU, we concluded the Uruguay Round of multilateral trade negotiations and created the World Trade Organization. The combination of these two powerful liberalizing events had a transformative effect not just on the U.S. and Europe, but on the global economy. Twenty years later, the United States and the EU account for one-third of world trade in goods and services and nearly half of global economic output. U.S. companies have invested more than $2.4 trillion in Europe, nearly half of total U.S. foreign direct investment, while EU companies have invested more than $1.7 trillion in the United States. Thirteen million jobs for our citizens depend on our trade and investment flows.

There is analogous promise for Europe's single digital market. Tearing down regulatory walls and moving from 28 national markets to a single digital market could contribute 415 billion Euros per year to the European economy and 3.8 million EU jobs in the digital economy alone.

There are some that say that Europe is behind America in the digital space and the EU therefore needs to promulgate policies that hold back U.S. companies so European ones can catch up. But the truth is that Internet related companies are already one of the most dynamic areas of the European economy.

According to a study published in 2014, Europe has produced 30 technology companies worth more than $1 billion since 2000, comparing well with the United States, which produced 39 billion-dollar companies between 2003 and 2013. Some of these are becoming household names, like Sweden's Spotify, the UK's King Digital, and Germany's Zalando.

The growth of the EU's digital economy is impressive and, with the right policies on both sides of the Atlantic, our digital economies can grow even more. We believe that achieving this goal requires four, key policies: flexible, interoperable standards; efficient cross-border data flows; expanded high-speed Internet access; and Internet-friendly trade agreements.

The Importance of Standards for Innovation and Growth

Our digital economies rely upon flexible and interoperable standards. With 4.9 billion connected devices on the planet and many billions more being added over the next decade, we need commonly-agreed technical solutions and standards that ensure the interoperability, security, and portability of digital devices. One of the strengths of the digital economy is that these standards have largely been developed not by governments but voluntarily by the engineers who know innovation best, outside of formal government channels.

Technical experts in major standards-setting organizations, like the World Wide Web Consortium, IEEE or the Internet Engineering Task Force, develop standards through open, participatory processes. They have proven more than capable of addressing issues with the speed and flexibility required in a rapidly changing Internet environment. We believe supporting these processes is fundamentally in the interest of both the United States and Europe.

III. The Importance of Information Flows for Innovation and Growth

Policies that allow for the free flow of data are just as important as flexible, interoperable standards, and are absolutely critical to the functioning of our economies.

Cross-border data flows between the United States and Europe are already the highest in the world—50 percent higher than data flows between the United States and Asia and almost double the data flows between the United States and Latin America. Nearly 40 percent of data flows between the United States and Europe are over business and research networks.

Combined with the Internet backbone, these data flows enable us to deliver a huge range of activity we have all come to depend on including email, social networking platforms, online shopping sites, and e-banking. The U.S. and the EU are the two largest net exporters of digital goods and services to the rest of the

world. In 2012, the United States' $151 billion trade surplus in digital services was surpassed only by the EU's $168 billion surplus. What is even more interesting, is the link between digital services and the bricks-and-mortar economy. In the EU, a full 53 percent of digital services imported from the U.S. (including consulting, engineering, design, and financial services) were used in the production of EU physical goods exports. A similar percentage of EU digital services went directly to U.S. exports.

At the same time, vast new data flows raise a number of privacy and security issues that need to be addressed to maintain the confidence of businesses, researchers, innovators, and ordinary citizens in the system. The United States and Europe need to bridge any differences in a way that will keep our transatlantic digital economy healthy. The Safe Harbor Framework is a strong example of one such bridge.

Since it was established 15 years ago, almost 3500 organizations across a broad range of industries have become Safe Harbor certified. These include large, multination corporations, medium sized firms, but also a surprisingly large number of small and medium enterprises, more than 60 percent of Safe Harbor companies are SMEs. By strengthening and affirming the Safe Harbor framework, we can effectively work with European partners to ensure that data can be transferred

across borders freely and securely. We look forward to concluding the renegotiations in the very near future.

IV. The Importance of Internet Access for Innovation and Growth

The Internet's power is its universality. To completely fulfill the Internet's promise, we want to work with the European Commission and other Internet savvy countries to redouble development efforts to extend Internet access to everyone. Unfortunately, the benefits of economic development – access to education, medicine, information and global markets that are fostered by the Internet are not yet shared by all. Roughly three out of every five people in the world today remain without Internet access – and in the poorest countries that figure can top 95%.

Studies show a direct link between internet connectivity and development. For every 10% increase in a country's broadband penetration, GDP growth increases by 1 to 2%.

There's a reason why access is relatively high in Colombia but low in Venezuela; high in Malaysia but low in North Korea; high in Kenya but low in Ethiopia. Some governments do much more than others to make access possible. Countries everywhere – including the United States and EU Member States – need clear and comprehensive national broadband plans that allow for private investment, encourage competition, remove bureaucratic obstacles and take full

advantage of shared Internet services at schools, libraries, community centers and cafes.

With that goal in mind, we are looking for ways to partner with countries, regional development banks, network engineers, and industry leaders to foster a sound policy environment for a healthy Internet and substantially increase broadband access in the developing world.

V. Transatlantic Trade and Investment Partnership

I would also like to say a few words about the impact of the Transatlantic Trade and Investment Partnership, or TTIP, on the Trans-Atlantic digital economy.

As we all know, a central goal of nearly all trade agreements, including TTIP, is to reduce or eliminate tariffs and non-tariff barriers to trade. This includes for physical goods provided via the Internet as well as digitally provided services.

What is also sometimes forgotten is how removal of these barriers helps small, innovative firms just getting started in the market. Ninety-nine percent of European and U.S. companies—over 20 million companies in the European Union and 28 million in the United States—are small and medium-sized companies, and these companies provided well over two-thirds of all net new jobs in both the United States in the European Union in recent decades. The Internet has made it

possible for a small firm to be a global company from day one, with the reach and capabilities that once only large companies could possess.

SMEs with a strong Web presence earn twice as much from exports as those without a Web presence according to a 2011 McKinsey study. The same study revealed that connected SMEs also created more than twice the number of jobs as others.

However, trade barriers that restrict data flows, such as localization requirements, impair this economic growth. Data localization would mean that all technology or Internet start-ups would face much higher barriers to market entry – they would have to build a physical local infrastructure in every jurisdiction in which they operate. And, these infrastructure costs are staggering.

To build a data center in Brazil, Chile or the United States, per some estimates, a European technology start-up would spend $60.9 million in Brazil, $51.2 million in Chile, and $43 million in the U.S., with enormous additional energy and other operating costs. That creates extremely high barriers of entry for indigenous Internet and technology companies in Europe and across the world. It is in all of our interests to oppose these efforts and enshrine the free flow of data into trade agreements such as TTIP.

VI. Conclusion

As Monnet and Schuman, the founders of the European idea, knew, the free flow of goods, services, and ideas is not just a powerful formula for economic growth – it also reinforces the peaceful, democratic societies we all cherish. This is why we believe so strongly that a strong, single digital EU market that promotes growth, freedom and the free flow of knowledge in the EU and worldwide, will strengthen Trans-Atlantic ties and the world economy. Whether through TTIP, the Safe Harbor framework, or dozens of other proposals and collaborations intended to promote the digital economy, we are committed to working toward a Trans-Atlantic market that is as open, secure, and seamless as possible.

Thank you very much.