Digital Single Market: The Engine of European Economic Growth

Annotations to the Round Table of National Convention on EU Digital Agenda
Author: Centre for Economic and Market Analyses

The Digital Single Market: one of Europe's greatest priorities

The EU Commission President Jean-Claude Juncker, has made the digital agenda a priority policy for the European Union. It integrates several policies from the fields of information and communication technologies (ICT), internal market, research and development, education, industry, data protection, consumer protection, copyright and cyber security which so far have not been dealt with in an integrated way. Both the Commission and EU member states perceive this agenda to be a route towards increased competitiveness and employment. The lack of an integrated Digital Single Market (DSM) means that so far Europe has yet to produce digital champions on the scale of the United States. The goal: to build a modern economy which is '**digital by default**,' while respecting adequate level of data protection and privacy of users.

In his maiden speech, Juncker placed the DSM as the biggest challenge to face Europe after boosting employment. According to Juncker, the DSM can produce an additional impulse for economic growth leading to a dynamic knowledge society. *"in a value of up to 250 billion euros"* similarly it is expected to generate *"thousands of new jobs and make a step towards new dynamic knowledge society"*. Last but not least, the DSM should intensify the use of digital technologies so that online services become pervasive across the whole economy, according to Juncker.

For the Czech Republic - where industrial production represents 33% of GDP - the digital economy challenge is of upmost importance. The Czech Republic is well-known for its high level of technical education and openness to foreign investment, which both provide firm foundations for the implementation of the digital agenda. Therefore, the DSM is core to Czech priorities towards the European Union.

Today's Round Table should attempt to answer the following key questions:

- **What priorities should the Czech Republic advance at the European level towards eliminating barriers to the digital single market?**

- **What role could regional/V4 cooperation play in advancing the completion of the Digital Single Market?**

- **What barriers should be removed in order to ensure improvement in cross-border online trading (e-commerce)?**

Discussed Issue I

From Digital Agenda to Digital Single Market

In 2010, when the European Commission prepared a ten year strategy for European growth now known as Europe 2020, it was decided that it is was essential to develop the digital agenda. This had been seen as a method of delivering smart and sustainable growth, that could empower citizens through more choice, better public services and deliver more personalised products through the smart use of data.

In 2010, the European Commission decided to measure the progress and fulfillment of the digital agenda by setting 13 specific objectives:

1. **Complete EU broadband coverage by 2015**
2. **30 Mbps broadband or faster across the EU by 2020**
3. **By 2020, half EU's population should have access to broadband faster than 100 Mbps**
4. **50% of the EU's population should purchase online by 2015**
5. **20% of the EU's population should engage in cross-border online purchases by 2015**
6. **One third of SMEs should buy or sell online by 2015**
7. **For mobile communications, the difference between domestic and roaming tariffs should approach zero by 2015**
8. **Increase regular use of the internet from 60 to 75 % by 2015, and from 41 to 60% for disadvantaged people**
9. **Halve the proportion of the population that has never used the internet – down to 15% in 2015 from 30% in 2010.**
10. **50% of the population using eGovernment by 2015, with more than half of those accessing services online e.g. tax returns, driving licence renewal**
11. **All key cross-border public services should be available online by 2015**
12. **By 2020 double investment in ICT research and development to €11bn**
13. **By 2020 reduce energy use for lighting by 20 %**

In the last evaluation of achieving the Digital Agenda objectives (Progress Report 2014) the European Commision scorecard showed positive improvement in internet use, growth in online shopping and broadband availability where a

Positive trend +
Internet users: increase from 60% to 72% of the population as whole
Online shopping: now 47% of the population, up from 37% in 2010
Broadband availability: Now 62% of the EU population have access
Needs improvement =/-
Access to e-government: little improvement evident EU-wide
SME sales: the internet is still an underused sales channel for SMEs, with only 14% using
ICT support/development: Lack of research and development funding
Cross-border online sales: low growth

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The main task of the EU's Digital Agenda for Europe is to help EU citizens and businesses maximise the benefits offered by digital technologies. In practise, this means to ensuring *"sustainable economic and social benefits based on fast internet connection and interoperable applications"*(Digital Program 2010). The EU's 2010 Digital Programme focussed on eight priority areas, under which sit 101 specific reform measures. These are:

- ➢ **an active digital single market**
- ➢ **interoperability and norms**
- ➢ **trust and security**
- ➢ **access to fast and ultra fast internet connection**
- ➢ **enhancing of digital literacy**
- ➢ **skills and social inclusion**
- ➢ **using research and innovation to achieve industrial competitiveness**
- ➢ **benefits for EU citizens resulting from ICT**

These key areas of the European digital agenda are supported especially by Horizon 2020 and European structural and investment funds.

While attempting to meet this priority, the European Commission focused on the implementation of several key steps. Particulary, the negotiations about common rules on data protection in the EU, reform of regulations concerning telecommunications and copyright rules in order to reflect new technologies. The European Commission President also promised to simplify consumer protection rules for online shopping, especially through making it easier for SMEs to buy and sell online, and to support the development of digital skills and online education.

The basis of all legislation approved in order to implement the above-mentioned points, is mainly the principle called "digital by default", which means that an implicit digital setting should be established and impacts on digital economy considered when preparing new legal measures. It means that any new public service will be operated online in its initial and basic version. This means citizens can make full use of the benefits of a modern technology without wasting their time in government offices. When this approach first appeared in 2010 in the UK, it provided more openness, accessibility and transparency of public institutions and reduced costs of public administration for citizens and government. (Government Digital Strategy 2013).

Although the principle of *digital by default* has been counted on as one of cornerstones of the digital market, it is associated with certain risks and concerns, especially because citizens are not able or willing to use publicly provided digital services. Concerns of unwillingness arise from an opinion poll, which was carried out as a part of a study of the European Commission Directorate General for Communications Networks, Content and Technology, showing that 46% of citizens are using online tools to interact with public administration, but 29% of them consider returning to traditional interaction with the public service, because of bad user experience, which is far worse than in commercial online services (DG Connect 2013). For

those who are unable to use these services, the UK government is considering as one possible solutions providing "digital assistance", but other proposals are being discussed as well.

The European Commission's post-2014 structure, which is responsible for fulfilling the above mentioned steps, is a testament to the extent and importance of the topic. Strong German Commissioner Günther Oettinger, who is in charge of digital economy and society's portfolio, will work very closely with Vice President for the Digital Single Market, former Estonian Prime Minister Andrus Ansip. This is particularly symbolic -the Estonian Government has a strong recent tradition of offering digital services online.

For the Czech Republic it is especially important that Vera Jourova, Czech commissioner, is responsible among other things for consumer protection, especially personal data protection, which has a strong role to play in developing the digital agenda. Another highly relevant and topical aspect of the digital agenda is competition, a portfolio held by Danish Commissioner Margrethe Vestager.

Other long-term plans and specific measures will be prepresented by the European Commission present in the Strategy for the Digital Single Market, which will extend the original initiative, The Digital Agenda for Europe. This strategy will be published in the beginning of May 2015. The disscusion about next steps of the European Commission in this area will be also discussed at the upcoming conference called Digital Assembly 2015, which will be held in Riga.
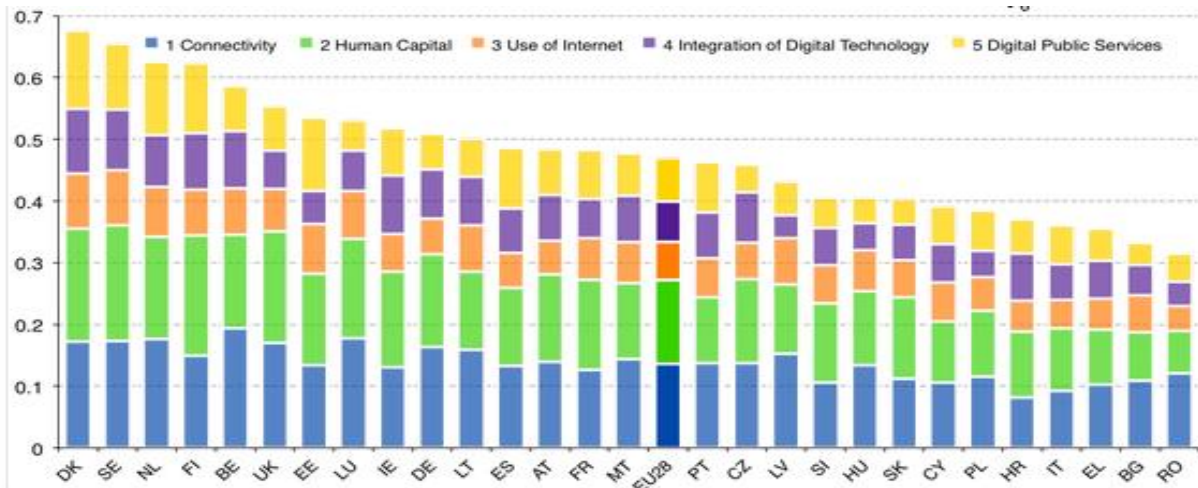
Digital agenda in the Czech Republic

In order ro measure, the progress individual countries made, the European Commission's Directorate General for Communications Networks, Content and Technology implemented a special Digital Economy and Society Index (DESI), which is a complex of indicatorsgrouped into five areas: **connectivity, human capital, internet use, integration of digital technologies and digital public services**. Each area is rated in the range of 0-1, with 1 being the highest possible score.
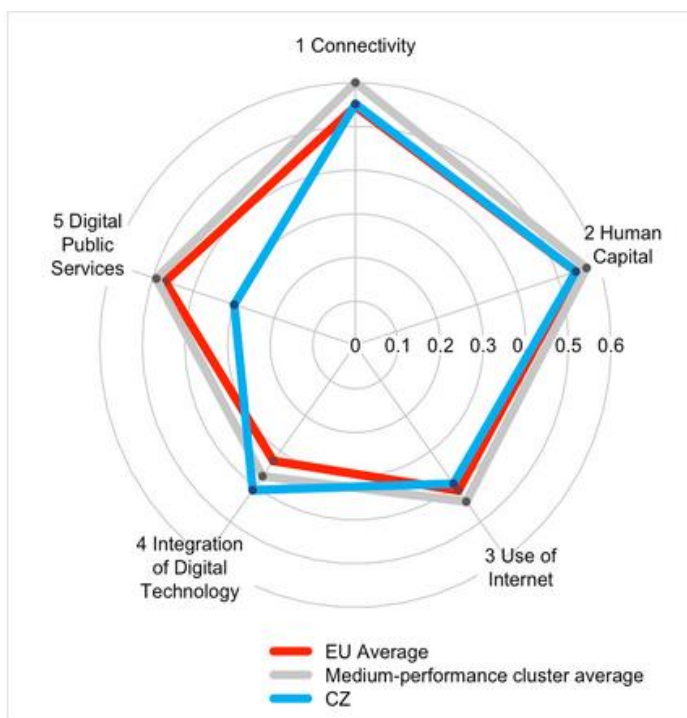
According to the latest results, the Czech Republic occupied the below-average 17th place out of 28 member countries. This result indicates that in comparison with other countries, the Czech Republic lags behind other countries in fulfillment of the digital agenda.
In the area of connectivity the Czech Republic received a score of 0.55, which means 14th place, and placed among the European average. Such a score represents an improvement compared to last year's 0.48, which is caused by increased interest in broadband, fixed and mobile connection. In the area of human capital acquired the Czech Republic the score of 0.54, which indicates an improvement, with movement from 14th to 13th place. This positive direction is caused especially by an increase in the number of regular internet users and the high number of ICT professionals. The activity of internet users was rated by 0.39 (0.37 in 2014) equating to 20th place in the EU.

The number of Czech internet users also continues to grow, and is approaching the EU average. The Czech Republic has a solid showing in the integration of digital technologies by enterprises, and its score of 0.41 placed it in 7th place out of 28. Czech businesses are relatively effective in the use of electronic sharing of information, as well as e-commerce and billing systems. The worst area, which decreased the overall result for the Czech Republic, are digital public services, where the Czech Republic received 0.3 only, and ended at 25th place, caused especially by the the unsatisfying results of public digital services.

Picture 1. Source: https://ec.europa.eu/digital-agenda/en/scoreboard/czech-republic

Picture 2. Source: http://ec.europa.eu/digital-agenda/en/digital-agenda-scoreboard

Digital Czech Republic

One of the main documents for the Czech Republic, which is trying to navigate the development and direction of the ICT sector, is *The Digital Czech Republic v. 2.0 - The Way to the Digital Economy (2013)*. The original document, on which the current concept expands, *The Digital Czech Republic 1.0 (2011)*, was primarily aimed to describe the then existing situation of electronic communications in the

Czech Republic, and to identify areas with greatest potential for growth. The government also passed a resolution *"to the Minister of Industry and Trade to submit a report of fulfilling the objectives stated by the government"* (Digital Czech Republic). The dynamic development in the ICT sector has shown that it will be necessary to update the original concept, and so a new concept was created instead of the report on meeting the objectives stated by the government.

The current strategy (Digital Czech Republic v. 2.0), unlike the original one, contains a proposal of measures that would solve the decentralisation and lack of coordination in the implementation of the government's policies and measures leading to greater competitiveness of the Czech Republic. In this area The Digital Czech Republic v. 2.0 is trying to be consistent with the International Competitiveness Strategy. Digital Czech Republic v. 2.0 has been largely inspired by The European Digital Agenda 2010.

Stated goals of the concept should be implemented through 17 measures to which belongs for example the preparation of a proposal on setting up the register of passive infrastructure, analysis of options to decrease fees for using frequencies or selection of supervisory body responsible for overseeing the fulfillment of the government's policy. Report on fulfillment of the Digital Czech Republic v. 2.0 and The Digital Agenda for Europe and about implementation of both strategic documents was provided by Report on fulfillment of updated government policy in electronic communications The Digital Czech Republic v. 2.0 - The Way to the Digital Economy", which was published by the Ministry of Industry and Trade in June 2014. According to these documents the vast majority of these aims have been met or are in the phase of fulfillment. Unfortunately there are some measures which haven't yet been taken in an appropriate way yet.

According to the report on the fulfillment of the Digital Czech Republic and Digital Agenda for Europe, which was published by Ministry of Industry and Trade on June 19 2014, 14 of 17 above mentioned measures were fulfilled or on the way to completion. Problems with fulfillment concerned especially measures No. 2, 3 and 13. No. 2 referred to a paper on 8 areas selected by the Government's Council for Competition and Information Society (RVKIS) with the aim to maximize international competitiveness of the Czech Republic. The measure hasn't been realized due to complicated personal situation in the managing bodies of RVKIS. This situation led to an actual dissolution of the body. Measure No. 3, proposal for further measures to support the establishment of NGA networks, should have been fulfilled by RVKIS, but hasn't been prepared for the same reason as the preceding measure. No. 13 referred to the Czech Republic legislation, where all law proposals are to be evaluated with respect to their impact on digital economy, hasn't been also realized. In this case, it is presumed that the presenter of a certain legal prescription will have the decisive role.

A progress report on the implantation of Digital Czech Republic v 2.0 is due to be submitted by 30 June 2015.

Core aims of Digital Czech Republic v. 2.0 are:

a. **strengthening the digital economy through a reformed regulatory approach, emphasising self-regulatory mechanisms with respect to specifics on the internet environment,**
b. **support for development of high-speed broadband enabling transmission speed in accordance with aims of Digital Agenda at least 30 Mbit/s by 2020 for all inhabitants and 100 Mbit/s for at least for half of households,**
c. **an efficient use of radio spectrum to benefit final users, which should be ensured by Strategy of radio spectrum administration,**
d. **an increase of ICT accessibility for all without respect to location, social status, or disability and support for lifelong education for a purpose of greater digital literacy,**
e. **a freedom to internet access,**
f. **all information generated by public sector accessible to citizens via the internet,**
g. **supporting legal supply of audiovisual services and setting balance between freedom to do business and freedom of information spread and collection and personal data protection,**
h. **a guarantee for citizens to freely connect to the public service media programs via terrestrial transmission.**

At the end of last year, in an effort to boost the economic growth of the EU, the European Commission called on member states to send project proposals, which according to their opinion deserve planned financial support of the European Fund for Strategic Investments (EFSI), (the so-called Juncker package). Of its 46 projects, the Czech Republic focused especially on energy sector (26) and road transportation (9). Czech Republic has sent out only four projects linked to the area of knowledge and digital economy. Two of them were prepared by the administrator of Czech national domain, association CZ.NIC, which focused especially on information, with respect to cyber security. First, security project called Turris aimed at protecting home networks using a special router. The second project, Fenix, was created to guarantee internet access for users in the case of Denial of Service attack (Junckerova sázka 2015).

Discussed Issue II

Regional Cooperation in Digital Agenda

The Visegrad Group countries, which often share and collectively promote many of their European policy priorities, place emphasis on completing single market and cutting down remaining barriers. In the last years, the digital agenda has become a core area of cooperation. The Slovak presidency of the Visegrad Group (2014-2015) was a breakthrough in finding common V4 priorities in the digital agenda area, especially since it represents *"comparative*

advantage of the V4 region and an impulse to new jobs creation, developing of new businesses and restoration of economic growth ". This programme also emphasises the need for increasing e-skills and supporting startups (Programme of the Slovak Presidency 2014).

The upcoming strategy for Digital Single Market, which will be presented by Commissioner Ansip, will be - besides the upcoming V4 presidency of the Czech Republic - an opportunity to common approach in regional cooperation. In March, the V4 countries already agreed on a common non-paper entitled "***The V4 Contribution on Digital Single Market***" (V4 Contribution), in which they not only emphasise the role of the internet economy and ICT in economic growth and job creation, but in which they also come with specific priorities that shouldn't be missed in the European strategy.

Startup support has a significant place together with limiting regulatory burdens which impact business and with easier access to capital, necessary to further growth. Other common priorities in the area are – cross-border e-commerce and removing barriers to trade within the internal market, personal data protection, an infrastructure for the digital economy and data used for business (data driven economy).

This common approach is also based on recommendations, given by Slovak Institute for Central European Policy to Visegrad Group countries, in its paper *"Mapping digital agenda in V4"* (Mapping digital agenda 2015).

The logic of this step stems also from a similar placement of these countries, in the so-called Digital Evolution Index, which was developed by Fletcher School, American University, in cooperation with MasterCard. This index ranks countries on their way to fully digital economy through four basic factors: demand, supply, institutional environment, and innovation. In regard to the current status of development in the field, the Czech Republic ranked 31st, Slovak Republic 36th, Poland 39th and Hungary at 44th place. In regard to the current speed of progress being made, the Czech ranked on 49th place, with a risk to this becoming less falling further.

Besides the Visegrad Group countries, it is possible to cooperate, with other like-minded countries. For a long time now, the Czech Republic has been a member of the so-called Like-minded states group in the area of internal market (like-minded group), which is committed to further integration of internal market, whilst maintaining market principles. When the like-minded group met in Prague in June 2014 it agreed that the European Commission should consistently monitor and enforce compliance with the rules of the single market. It was agreed that the services sector could benefit from the introduction of more elements of eGovernment. "Digital by default" should be the basis of all legislation. Among other necessary steps, the development of broadband, SME support in the area of e-commerce, aligning ICT standards or increased personal data protection were mentioned. The priorities, described in four documents, handed to the EU by the Czech ambassador to the European Union, together with his Dutch counterpart, were signed by 10 to 13 states. Besides the Czech Republic and the Netherlands, other core like-minded countries signed, such as the United Kingdom, Sweden,

Germany, Poland and Slovakia.

Discussed Issue III

E-commerce and key challenges in Digital agenda in the Czech Republic

From the Czech consumers and e-traders perspective, it is not recommended to ignore the pillar of easy access to digital goods and services. Based on the Czech Association for Electronic Commerce (APEK), Czech customers spent 68 billion CZK shopping online last year. According to Mr. Wijnand Jongen, Chairman of Ecommerce Europe's Executive Committee the expected online revenue in 2014 is to be approximately €425.5 billion and is also expected that the European B2C e-commerce turnover will rise to around €625 billion until the end of 2016. The vast majority of Czech e-traders is currently facing similar challenges as their counterparts abroad. These challenges can be classified as:

1. **Challenges for e-traders**. The current system requires harmonised EU rules and legislation. This includes mainly a consumer protection law, as well as a commercial law. The main EU goal is to launch one set of rules for all market participants, no matter if trading domestically or cross-border. As well as the complicated system of VAT requires some considerable simplification.
2. **Challenges for consumers**. Czech customers face many obstacles when shopping online. Partly as a result of the relatively small size of the Czech domestic market, when shopping online, customers are often facing the lower supply and higher prices, than if they had the opportunity to shop cross-border. In addition, this discomfort is enhanced by a lack of a pricing transparency of the parcel delivery services. In many cases, Czech consumers are also limited by commercial geo-blocking. Presumably, harmonization and simplification of a consumer protection law would be a spur for consumer demand for cross-border shopping within EU.

VAT simplification: launch of Mini One Stop Shops

The launch of Mini One Stop Shop (MOSS), brought partial administration improvement for e-traders. This is currently limited to radio and TV broadcasters, telecommunication providers and e-services that are electronically supplied. Since 1 January 2015, VAT for these services is accounted for in the member state where the customer normally lives, rather than where the supplier of the service is established. Providers have the opportunity to register themselves with the one-stop shop for VAT collection (instead of registering separately in each member state in which they wish to trade). This one-stop shop will then provide communication with other authorities and transfer of respective VAT partition to other EU states. Simplification of administration based on the MOSS system is particularly beneficial for SME e-traders, for whom costs of administration and consultancy for registering VAT in other countries could otherwise be prohibitive. For that reason, it could make sense (after possible fiscal impact

analysis) to consider MOSS expansion to the entire e-commerce area. Recently, South Moravia Region Tax Office serves as the MOSS in the Czech Republic.

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