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Out of crisis, a way forward: What is the impact of COVID-19 on Europe's digital priorities?

Since the COVID-19 pandemic swept across the continent, European industries have been left with a multitude of unprecedented challenges to tackle and address. It has created steep and immediate changes in consumer behaviour and business practices – pushing firms to digitalise to survive. In its efforts to weather the crisis and build a more resilient, globally competitive economy, the European Commission has pledged to prioritise digital and green transformations through targeted funding and new legislative rules. FTI Consulting Brussels looks at the impact of the COVID-19 crisis on the EU's digital priorities, reviewing the policy and economic implications for businesses, and outlining new considerations when engaging in Brussels policymaking.

The disruption caused by COVID-19 is having a substantial impact on European companies, large and small. While challenges differ across sectors, many have been faced with substantial workforce and financing issues and forced to rethink key business operations and processes. This has created a significant and immediate acceleration of the digital transition of Europe's business environment.

This digital transition also includes a major shift towards supporting more automation and the use of Artificial Intelligence (AI). The debate around AI has been gathering pace for several years. To remain competitive in a global marketplace Europe cannot afford to continue lagging behind

(source: [European Centre for Vocational Training](#)) other parts of the world, in its uptake. Indeed, the ability of businesses to build resilience will depend on the swift uptake of automation and other key technologies such as artificial intelligence (source: [DigitalEurope](#)). These technologies bring efficiencies in production and operations which can quickly adjust to changes in volume and specifications with the minimum of disruption – an increasingly attractive proposition to sectors hit hard by the pandemic.

Given this increased focus and impetus, it is important to follow the European debate as the EU seeks to prioritise its support for this digital programme. On taking office late

last year, the von der Leyen Commission made a strong commitment to a more sovereign Europe. The Covid-19 Pandemic has focussed minds further with a series of additional priorities and commitments.

The impact of COVID-19 in European Commission's policy (and political) priorities

In the longer term, COVID-19 has only served to reiterate the urgency for Europe to achieve 'technological sovereignty' and global leadership and be able to compete with China and the United States. Indeed, European Commission Executive Vice President Margrethe Vestager, Executive Vice President of the European Commission for A Europe Fit for the Digital Age, reiterated that the core priorities of the EU's industrial and digital strategies remain valid (source: [European Commission, A New Industrial Strategy for Europe, Shaping Europe's Digital Future](#)), and that the EU's economic recovery will have to be in line with the EU's industrial, digital and green transformations. These ambitions have been echoed by Germany and France, the EU's two primary economic powerhouses, who are pushing for a generous EU economic recovery package to support European industries, coupled with a strong EU industrial policy to achieve Europe's sovereignty ambitions.

In its aim to deliver on these goals, the Commission is committed to deploying a broad range of initiatives, ranging from unlocking funding from the EU's next seven-year budget, the Multiannual Financial Framework (MFF) 2021-2027 and broader COVID-19 economic recovery plan, to revamping competition and the regulatory regime. The Commission's main goal is to help European companies scale up while doubling down on foreign multinationals.

Budgets and the recovery plan

From an economic perspective, European institutions are currently in difficult negotiations over a substantial – and unprecedented – amount of EU funding to support the economic recovery and help European businesses. If agreed, the EU's new MFF and the ambitious new recovery instrument ('Next Generation EU, source: [European Commission, The EU Budget powering the recovery plan for Europe](#)) could increase the EU budget to over a trillion euros, including €750 billion to support the economic recovery. This could potentially help the Commission fast-track its digitalisation and green priorities, through targeted increases in several

key funding programmes such as Horizon Europe, the EU's €100 billion research and innovation programme, and Digital Europe, its €8.2 billion programme focused on facilitating the wide deployment of digital technologies. More money directed towards Digital Innovation Hubs (DIHs) could help stimulate the uptake of key digital technologies by industry, in particular SMEs and mid-cap listed companies. While these initiatives showcase the EU's willingness to unlock unprecedented financial support, the negotiations still need to be finalised.

Tax and new revenue streams

It's worth highlighting that the Commission is also considering several new forms of revenue to finance the recovery, including a new 'carbon adjustment tax', a new 'digital tax' (or levy, as the Council would prefer) and a possible tax on the operation of large companies, which could arguably make non-EU companies with significant market power 'pay back' for benefiting from the Single Market. As with all taxation matters, however, negotiations would be complicated, and there is a certain degree of scepticism over whether these initiatives could eventually get approved despite a strong push from countries like France, Italy and Spain. So, it might well be that the Commission ends up having to look for alternative revenue streams.

Digital sovereignty

From its core policy programme, the Commission is throwing its weight behind its industrial, digital and sustainability regulatory plans. 'Digital sovereignty' has increasingly become a buzzword across EU and national policy circles. This push can be seen in the latest updates to the digital and industrial regulatory framework and of the EU's competition rulebook. As we detail below, learnings from the crisis have been reflected in the prioritization and substance of several upcoming initiatives, with imminent action expected in areas like data, AI, connectivity, cybersecurity, platform regulation and competition.

New digital competition rules

An important way in which the EU is trying to be less reliant on foreign companies and support European businesses is through the introduction of new regulation targeting the platform ecosystem and the update of its competition rules. The aim is to create a level playing field for European companies to operate in the online ecosystem, while at the

same time imposing specific restrictions to Big Tech's use of data or practices online. The update of competition rules could also potentially give new unprecedented powers to the Commission to intervene in markets or sectors where it identifies structural risks that cannot be remedied with the traditional tools. Furthermore, the Commission is exploring a regulatory response to the distortive effects caused by foreign subsidies.

European infrastructure and Gaia X

On data, COVID-19 showcased the urgency of creating a horizontal regulatory framework for data access (expected this autumn) and investing in infrastructure of secure data sharing for (health) research, as part of a push to create so-called European data spaces and have more data stored and processed in Europe. France and Germany are already leading the way in a push for 'data sovereignty' within the framework of their Gaia-X project, which aims at developing European infrastructure through which companies can transfer data in a secure and privacy-compliant manner (source: [GAIA-X: A Federated Data Infrastructure for Europe](#)). And while the Commission and member states are not ruling out non-European companies' participation in their plans, early indications point to multinationals potentially being subject to higher scrutiny and regulatory/governance barriers to entry coupled with less sway in the scheme's governance structure. The Commission has also argued that access to data will be key for the development and uptake of other key technologies, such as Artificial Intelligence or blockchain.

GDPR and e-Privacy

The debate over the use of health data to combat COVID-19 and the development of so-called contact-tracing applications also brought to the forefront inherent privacy questions on the balance between data access and data protection and fundamental rights. In its two-year review of the General Data Protection Regulation (GDPR), the EU's influential privacy policy, the Commission acknowledges certain limits with regards to the lack of clarity and consistency in its application across Member States. These are likely to continue posing challenges for businesses in the future. In addition, the boom in the use of new digital tools to communicate during lockdown, such as social media and videoconference tools, have prompted the German Presidency of the Council of the EU to revisit the

long-stalled e-Privacy negotiations. They now aim to seek agreement by the end of the year.

Connectivity and cybersecurity

The crisis has also shone a light on next-generation connectivity and cybersecurity, two key investment areas for European industry. The Commission is making an investment push on 5G and new guidelines on 5G security (source: [European Commission, The EU toolbox for 5G security](#)), and has recently published its 5G Toolbox Progress Report (source: [European Commission, Report on Member States' progress in implementing the EU Toolbox on 5G Cybersecurity](#)), announcing that an independent study will be launched soon to analyse global 5G supply market trends and set out possible options for the Commission to facilitate the development of a diverse and sustainable 5G ecosystem in the EU (source: [European Commission, European Commission launches study on 5G supply markets and Open RAN](#)). Beyond its policy ramifications, however, the tone of the debate is heavily geopolitical. China's handling of the pandemic potentially swayed the UK government on market access for Huawei, and France's finance minister suggested the crisis could push the EU to source more telecoms equipment from European manufacturers. It's clear that in the race to digitalise Europe's economy, Brussels doesn't want to take risks that could jeopardise those investments.

Strategic engagement considerations

While priorities may have been reshuffled, the EU remains committed to digitalising its economy. What are the implications for companies engaging in the policy debate?

- 1. SME comeback for EU recovery.** The crisis has shifted the narrative around regulatory flexibility and proportionality, shining the spotlight on SMEs which account for 56% of total enterprise turnover and two thirds of employment (Source: [Eurostat, Statistics on small and medium-sized enterprises](#)). Opportunities might arise for start-ups and scale-ups as the EU relaxes its regulatory grip and stimulates innovation by channeling more funding.
- 2. Connected is political.** In the rush to digitise supply chains and manufacturing, 5G and cybersecurity have become even more elevated as major investment areas and contentious issues in the geopolitical debate, in

which Europe is still finding its place on the global stage. Companies engaging in a constructive debate on issues like 5G connectivity, a common market for cybersecurity and related certifications may err on the side of caution and comment strictly on technological realities to avoid being drawn into the politics of it all.

3. Whose data is it, anyway? The crisis has heightened the need to harness data to respond to big societal challenges. And while the Commission might have realised the need for data from global companies, it is firm in the belief that, once data makes its way to European centres, European laws should apply. Multinationals and European firms alike are watching on as the EU seeks to guarantee the free flow of data and promote digital trade globally, while still pursuing a data localisation narrative. A push for data minimisation by design and fundamental rights protection will determine the GDPR's future.

4. Automation is the name of the game. The Commission views automation as a combination of data, AI and 5G connectivity. Automation also involves reshoring and helping keep strategic supply chains in Europe – two stated Commission objectives. Therefore, European firms, as well as multinationals with a significant European presence, that invest in automation technology, can count on having the Commission's ear.

DIVYA SINGH

Public Affairs, Technology Media Telecoms (TMT)
Divya.Singh@fticonsulting.com

MIREIA QUINGLES

Public Affairs, Technology Media Telecoms (TMT)
Mireia.Quingles@fticonsulting.com

BORIS AJEGANOV

Public Affairs, Technology Media Telecoms (TMT)
Boris.Ajeganov@fticonsulting.com