European Economic
and Social Committee

# OPINION

European Economic and Social Committee

## Digital sovereignty: a pillar for digitalisation and growth

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Digital Sovereignty: a crucial pillar for EU's digitalisation and growth
(own-initiative opinion)

**INT/980**

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## 1. Conclusions and recommendations

1.1 Despite significant progress to enhance the EU's digital sovereignty, there is still heavy reliance on non-EU-based tech companies. This is limiting the EU's leadership and strategic autonomy in the digital world, and in turn limiting the EU's economic growth potential.

1.2 In an online environment still dominated by non-EU tech companies, the question arises as to the degree of control EU citizens, businesses and governments may have over their digital data. This may not appear to be a priority in the current crisis, but the need to address the digital sovereignty imbalance cannot downplayed.

1.3 Against this background, the EESC is of the view that the EU needs to reduce its dependency on non-EU tech giants by doubling its efforts to develop a secure, inclusive and values-based digital economy capable of competing with non-EU tech giants and placing emphasis on reliable connectivity, data security and artificial intelligence (AI).

1.4 The EESC, therefore, calls for investment in the digital sector to be directed to a significant extent towards an open strategic autonomy in the digital economy. This should include investing in digital capacities, education and vocational training, infrastructure and technologies. The EESC also calls for a level playing field in the digital transformation where workers' rights are protected and where businesses of all sizes can co-exist and thrive without over-regulation.

1.5 The EESC notes that innovations such as cloud computing and AI have become important strategic assets within the EU, contributing positively to the potential growth of the EU economy. However, the EU is losing ground in the global race to develop new technologies in the digital world, and for some technologies EU private investment is lagging behind similar investment in the US and China.

1.6 The EESC calls for renewed efforts for public-private partnerships in digital technologies to be set up and for large-scale EU research in the field of new technologies to be supported with the specific aim of keeping pace with US and Chinese research capabilities.

1.7 The EESC argues that the existing imbalances in digital sovereignty are partly due to national barriers that continue to impede the achievement of a genuine Single Market. As things stand, the Single Market is essentially a compound of multiple smaller national markets, without the scale needed for any single EU-based company to compete with the digital giants of this world. In addition, there are different levels of digital development, infrastructures and capacities across the EU.

1.8 The EESC calls on the Commission to move ahead with its digital regulatory framework aimed at protecting EU citizens from the excesses of the digital world whilst at the same time providing a framework for a more human-centric and ethical environment.

1.9 Equally important is making online platforms, ecosystems and online activities more open, fair and predictable with rules covering algorithm transparency and neutrality, and data-sharing and interoperability being considered.

1.10 The EESC supports calls for the EU to develop a cloud and data infrastructure to build its digital sovereignty and address the huge imbalance of the cloud and data storage market being almost totally dominated by non-EU companies.

1.11 The EESC also recognises the potential for the EU to become a global leader in data collection and processing, which is the backbone of the digital economy. An EU data framework for data collection and sharing has huge potential in strategic sectors such as health, the labour market and transport.

1.12 The EESC calls for competition and consumer protection policies in the Single Market to be updated. This should also focus on distortive practices of non-EU tech companies as well as the growing influence of Chinese digital companies in the EU. In this connection, the EESC welcomes regulatory developments such the Digital Markets Act and the proposed European Chips Act.

1.13 The EESC acknowledges the key role played by small and medium sized enterprises (SMEs) in shaping the EU's digital sovereignty, especially through their interactions with large EU tech companies.

1.14 Finally, the EESC highlights the importance of education at all levels (be it vocational or academic) in developing the EU's digital sovereignty.

## 2. **Background**

2.1 Digital sovereignty can be tentatively described as the autonomy by which governments and businesses manage and set up their own data, hardware and software. For far too long, concern has been expressed about the heavy reliance of the EU on a small number of large tech companies operating outside the EU.

2.2 Evidence of the EU's heavy reliance on non-EU tech companies is that an estimated 92% of all the data in the Western world is stored on US-owned servers. That includes online data, data retrieved from social media and data administered by national governments[1].

2.3 Not surprisingly, this state of affairs has led to growing concern that EU businesses and national governments may not have complete control of data and remain heavily reliant on large non-EU tech companies, making it difficult for EU-based tech companies to rival counterparts in the US. Another concern is that the EU is slowly but surely losing its capacity to enforce legislation effectively in the digital environment.

1 https://www.weforum.org/agenda/2021/03/europe-digital-sovereignty/

2.4 Worryingly, this heavy reliance on US-based tech companies is limiting the EU's leadership and strategic autonomy in the digital world, which could in turn limit the EU's economic growth potential. The economic influence of non-EU based tech companies cannot be downplayed. The same can be said of their influence on EU citizens and their consumption patterns, but also how they shape the way they interact with fellow citizens in the EU and outside.

2.5 Today, non-EU large tech companies know more about us than perhaps our closest family members and friends do, and the lack of privacy is of concern. In effect, we do not control our own data online: large tech companies do, and the web remains largely unregulated. Efforts such as the EU's General Data Protection Regulation (GDPR) have attempted to define new rules of the road. The problem is that tech companies move faster than the EU in addressing this problem. Large tech companies often operate in spaces where they have a significant information advantage over regulators and by and large remain free to track online movements by citizens, gathering information in the process, and exploiting those insights for profit.

2.6 Against this backdrop, the Commission President had identified digital policy as one of the main priorities for her 2019-2024 term in office, pledging technological sovereignty. We are still some way from achieving that, however, and the Commission itself has expressed concern about non-EU large tech companies flouting EU rules and core values. In recent years, the internet economy has consolidated around these tech giants, who use cookies to control data and maintain oligopolistic market power. For its part, the European Parliament has expressed concerns about the security threats connected with growing Chinese technological presence in the EU and, in particular, has called for action at EU level to reduce China's increasing influence in 5G infrastructure.

2.7 Worryingly, entire sectors of the EU economy remain heavily dependent on large, non-EU based online platforms. This deprives Member States of their digital sovereignty in key areas such as copyright, data protection, and taxation. This concern has also been extended to other areas such as e-commerce and online disinformation.

2.8 In an online environment that is dominated by non-EU tech companies, the question arises as to whether EU citizens can recover control of their digital data and whether the EU can address the digital sovereignty imbalance effectively and within a reasonable time frame. Insights into these questions are contained in sections 3 and 4.

## 3. General comments

3.1 In the first instance, the EU needs to reduce its dependency on non-EU tech giants by doubling its efforts to develop a secure, inclusive and values-based digital economy capable of competing with non-EU tech giants and placing emphasis on reliable connectivity, data security and artificial intelligence (AI). The EESC considers the values-based aspect of particular importance and places emphasis on the social and ethical dimension as well as the rights of workers in a digital economy.

3.2 The Commission responded to the developments in the digital economy by drafting a Digital Compass for the EU's digital decade in 2021 focusing on infrastructures, government, businesses, and skills. This compass set targets at EU and national level, proposed a robust joint governance framework to monitor progress and address insufficiencies and further proposed multi-country projects combining investments from the EU, Member States and the private sector. This was supplemented by the Digital Markets Act, a legislative framework that is aimed at providing a higher degree of competition in the European Digital Markets by preventing large companies from abusing their market power and by allowing new players to enter the market. More recently, the proposed European Chips Act aims to increase microchip production across the EU in response to rising demand and to reduce dependency on suppliers from outside Europe. This would counteract the dominance of China especially in the production of semi-conductor chips.

3.3 As the EU economy rebounds after the pandemic, and in the face of rising prices, the EESC calls for the successful implementation of the Digital Compass and for EU governments to provide incentives for businesses to further invest in digital capacities and human resources. This investment would help boost strategic autonomy in the digital transformation of the EU economy. Investment by EU governments in improving digital capacities, infrastructure and technologies is also considered vital.

3.4 The EESC notes that innovations such as cloud computing and AI have become important strategic assets within the EU, contributing positively to the potential growth of the EU economy. However, the EU is still losing ground in the global race to develop new technologies in the digital world. In AI, for example, EU private investment is lagging behind similar investment in the US and China. The same applies in the case of data collection and data access technologies and quantum computing, with the EU's investment in blockchain technologies and the Internet of Things also lagging behind similar investment in the US and China.

3.5 The EESC also notes the various financial instruments in place to narrow the gap with US and Chinese investment in digital technologies. These instruments could certainly support research and innovation in digital technologies but, as pointed out in point 3.3, further investment is required, and the EESC calls for renewed efforts for public-private partnerships in digital technologies to be set up and for large-scale EU research in the field of new technologies to be supported with the specific aim of keeping pace with US and Chinese research capabilities.

3.6 The EESC believes that digital sovereignty is not simply a matter of the EU regaining lost ground or being ahead of the digital curve. Neither is it a question of whether digital sovereignty is about the EU being protectionist in nature. It is about creating a level playing field for EU-based tech companies with a view, as indicated in the title of this own-initiative opinion, to enhancing the EU's economic growth potential and thus benefitting EU society at large.

3.7 There are valid reasons to why EU-based tech companies may need to be treated more favourably than non-EU based companies if they are to be among the top global digital leaders. However, the EESC argues that the existing imbalances in digital sovereignty are partly due to national barriers that continue to impede the achievement of a genuine Single Market. As things stand, the Single Market is essentially a compound of multiple smaller national markets, without the scale needed for any single EU-based company to compete with the Microsofts of this world. There are also different levels of development and infrastructures across the EU. It is not surprising, therefore, that the digital market continues to be dominated by non-EU companies.

3.8 The EESC also believes that addressing digital sovereignty will help address concerns regarding privacy and personal data, taxation, data and government procurement. This will not happen overnight despite a more robust regulatory framework. Taxation, in particular, has emerged as an area of controversy because US-based tech companies may derive revenue through interactions with clients in the EU, raising the question of physical presence, which usually triggers taxability.

3.9 Finally, the EESC has, in a previous opinion[2], already stressed the importance of digital sovereignty as a key pillar of Europe's economic, social and environmental development and has also stressed that this sovereignty must be based on global competitiveness and on strong cooperation between Member States. This is an essential precondition for the EU to become a global leader on the international scene, especially with regard to the reliability of digital technologies.

## 4. Specific comments

4.1 The EESC calls on Member States to effectively implement the digital regulatory framework aimed at protecting EU citizens from the excesses of the digital world whilst at the same time providing a framework for a more human-centric and ethical environment. The EESC is of the view that the regulatory framework should help manage the EU digital sector more effectively. Also, the protection of workers and the right to collective bargaining should facilitate the transition towards digitalisation. At the same time, EU tech companies should be allowed sufficient space to innovate and step up compared with non-EU tech companies, with international partnerships being encouraged when possible.

4.2 Setting rules for EU data will help make the EU more sovereign in the nominal sense but will not be sufficient for EU tech companies to match the global reach of non-EU based companies. That can only be achieved with political direction, investment in research and innovation, and addressing the existing shortcomings of the Single Market.

4.3 This implies a more forward-looking approach to the regulatory framework that will shape the digital economy in the years to come. Equally as important is making online platforms, eco-systems and online activities more open, fair and predictable with rules covering algorithm transparency and neutrality, and data-sharing and interoperability being considered.

4.4 In building the EU's digital sovereignty the EESC calls for increased coordination between national jurisdictions and, in particular, the regulators in this field. A re-think of the existing governance structures is required in order both to strengthen interaction across Member States and to facilitate joint decision-taking related to the digital field. In the EESC's view, this will be critical to support efforts to achieve some form of digital sovereignty. At the same time, the EESC cautions against overregulation, which could impair potential economic growth.

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2 OJ C 365, 23.09.2022, p. 13.

4.5 The EESC supports calls for the EU to develop a cloud and data infrastructure to build its digital sovereignty and address the huge imbalance of the cloud and data storage market being almost totally dominated by non-EU companies. This would also help reduce the security risks for EU citizens. In this connection, the EESC reiterates its support for the EU Gaia-X project initiative, which seeks to provide a secure environment for managing data for citizens, businesses and governments.

4.6 The EESC also recognises the potential for the EU to become a global leader in data collection and processing, which is the backbone of the digital economy. An EU data framework for data collection and sharing has huge potential in strategic sectors such as health, the labour market and transport. This would allow citizens and businesses access to EU-wide data (in line with privacy and data protections rules) and would enhance efficiency in the Single Market.

4.7 In this connection, the EESC calls for competition policy in the Single Market to be updated and the existing imbalances to be addressed. This should also focus on distortive practices of non-EU tech companies as well as the growing influence of Chinese digital companies in the EU.

4.8 The EESC acknowledges that achieving digital sovereignty will depend on (i) how EU-based tech companies adapt to the legislative framework, (ii) measures to address the shortcomings of the Single Market, and (iii) EU-based research and innovation in the digital field, and investment opportunities. At the same, the EESC cannot ignore the role SMEs could play in shaping the EU's digital sovereignty. SMEs may not have the financial resources to shape the digital economy directly, but they can certainly contribute through interactions with large EU tech companies.

4.9 Finally, the EESC highlights the importance of education at all levels (be it vocational or academic) in developing the EU's digital sovereignty: education institutions must invest in relevant research and innovation and a framework of qualified personnel must be created that is capable of supporting the EU's digital strategy. A coordinated approach across education institutions in the EU is also recommended.

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The president of the European Economic and Social Committee