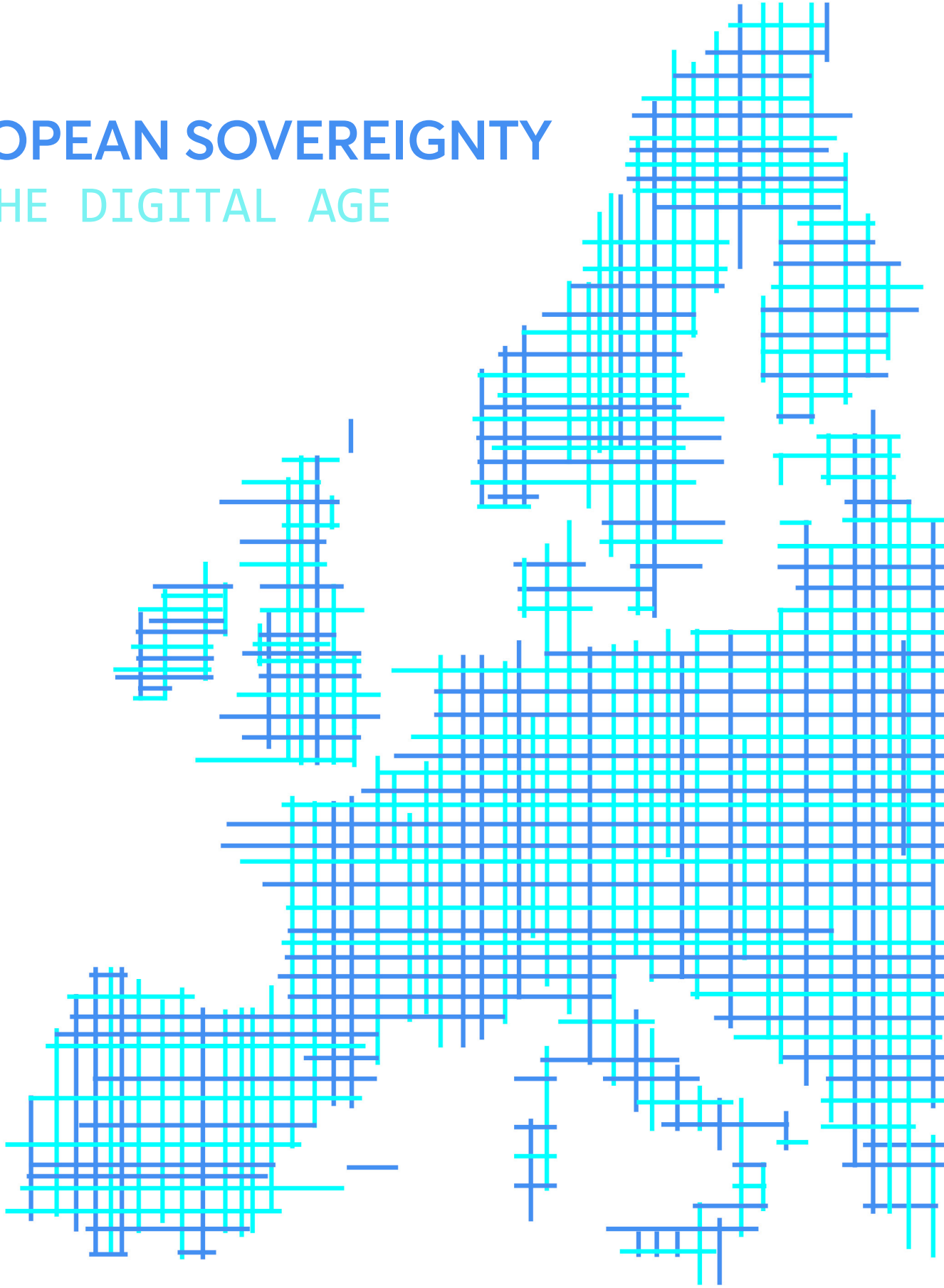
Europe's
Digital Future

EUROPEAN SOVEREIGNTY

IN THE DIGITAL AGE



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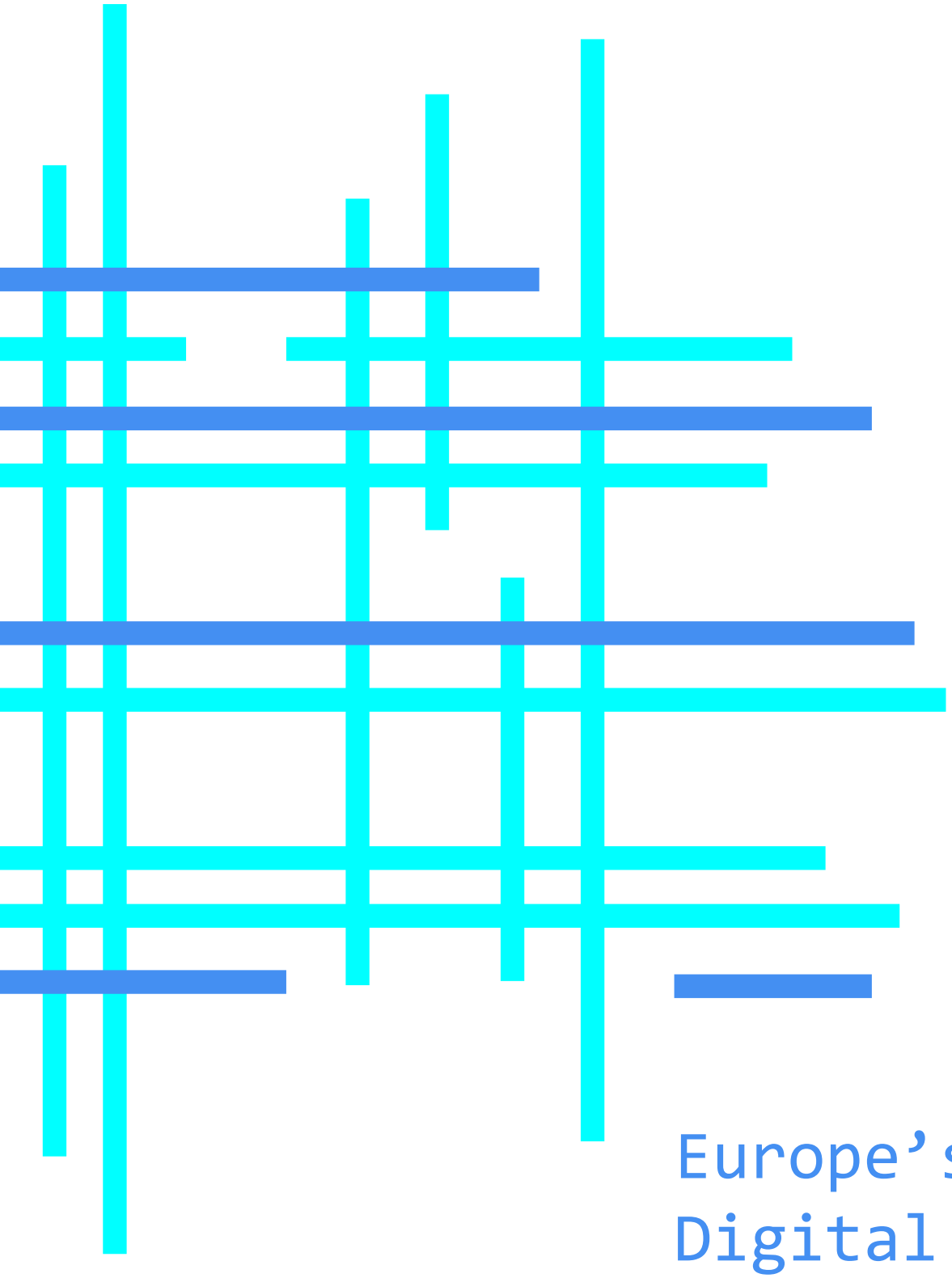

Europe's Digital Future

An IIEA project supported by Google

Executive Summary

This paper is the first report of a new IIEA project entitled Europe's Digital Future, which will explore the topic of "Digital Sovereignty" in Europe. As part of this project, which is supported by Google, a year-long programme of events and research will explore what this concept means. This project will explore what future this concept might herald for the EU and for small, open economies like Ireland, and whether a European consensus on this issue can be forged.

This report provides an overview of the issue of digital sovereignty. It seeks to examine the emerging digital sovereignty agenda in Europe, how this phrase is perceived by policymakers and the possible relationship between digital sovereignty and Europe's openness. This report particularly focuses on the perspectives of Europe's small open economies and the potential role they may play in this emerging policy area.

The report explores the background to the European digital sovereignty discourse and categorises the different ways in which the term "digital sovereignty" is conceptualised by policymakers. It then examines how the relationship between European digital sovereignty and Europe's openness is perceived by policymakers and the EU Member States. It will particularly examine the perspectives from Europe's small, open economies, like Ireland, where openness is considered key to achieving the EU's digital policy goals and for Europe's prosperity.

The report concludes that many policymakers and Member States broadly recognise some common digital challenges and opportunities which are facing Europe and which underpin the discussion of European digital sovereignty. Most policymakers and Member States believe that Europe can achieve its digital policy objectives while maintaining Europe's openness. Ensuring that Europe's path to digital sovereignty is one that maintains its openness and avoids inadvertent protectionism is deemed especially important by Europe's small open economies, who may have a key role to play in ensuring that this is achieved.

A second report in this series will follow, featuring perspectives on the key issues in the debate from Ireland, Sweden, Denmark, Netherlands and Estonia.

The IIEA

The IIEA is Ireland's leading independent international affairs think tank. It provides an independent forum for all those interested in EU and International affairs to engage in debate and discussion, and to evaluate and share policy options. Its extensive research and events programmes provide members with policy insights, analysis and context to help shape vital decisions about Ireland's strategic direction and future. It identifies key European and international trends and priorities, to inform the work of Ireland's decision makers and business leaders, and enrich the public debate on Ireland's role in the EU and on the global stage. The IIEA's reputation for independence and public policy expertise lends it a unique convening power, which attracts the highest-level speakers, decision makers, and thought leaders at national, EU and global level.

Introduction

In recent years, society has become increasingly digitalised. This trend accelerated after the onset of the COVID-19 pandemic. For many citizens the digital world has in many respects effectively become a real one – it is now a workplace, a marketplace, a news source and a venue for social and family life. Arguably the vital importance of digital networks is now comparable to the importance of a country's road networks – critical infrastructure that connects citizens and government, employees and employers, consumers and businesses. Against this backdrop, it is striking that in recent years the terms "digital sovereignty", "technological sovereignty" and other closely related phrases have become increasingly prominent in the European political discourse.

The term digital sovereignty has triggered contentious debate, however. Some believe the achievement of a digitally sovereign EU is an essential goal in order to empower Europeans to determine their own policies in the digital era. Nonetheless, commentators have noted the term's apparent ambiguity and its lack of a clear policy definition, which has left its precise interpretation open to debate. In some circles there are concerns that digital sovereignty is being used as a cover for other policies: it has been described by some critics as a "Spectre haunting Europe" and as a "Trojan Horse" for protectionism.[1] For small open economies like Ireland where the global digital industry is particularly important, the implications of this debate could be significant.

This paper seeks to act as a conversation starter, as part of a broader series of research and events being undertaken as part of the IIEA's *Europe's Digital Future* project. This paper does not seek to assess the merits of the digital sovereignty agenda but rather to map out how this term may be understood by policymakers and how they may perceive the possible relationship between "digital sovereignty" and Europe's openness.

1. First, the background to the digital sovereignty discourse and the rise in the prominence of the term "digital sovereignty" will be outlined.
2. Next, the different ways that policymakers conceptualise the term digital sovereignty will be categorised. The perspectives from Europe's small, open economies will also be given particular consideration.
3. Finally, perceptions on the relationship between Europe's pursuit of digital sovereignty and openness will be outlined. The importance of this for Europe's small open economies will be particularly discussed.

Background to the Digital Sovereignty Discourse

While the COVID-19 Pandemic and the Donald Trump Presidency exacerbated Europe's concern over digital sovereignty, the term was already in use in Europe since the early 2000s.[2] This gathered momentum following the 2013 Edward Snowden revelations, which revealed that the personal data of millions of European citizens had been shared without their knowledge. A French Senate report warned that the EU Member States were becoming "digital colonies" and proposed thirty actions to achieve digital sovereignty for Europe.[3] The German government in 2013 also proclaimed digital sovereignty as a goal. [4] EU policymakers began to use equivalent phrases such as "data sovereignty" and "IT independence."[5]

Since then, a number of key issues have prompted concerns among Europeans about Europe's challenges in regulating the digital environment. These included data protection; online disinformation; the rise of cyberattacks; controversies related to digital taxation; and many other issues. The Juncker European Commission (2014-2019) introduced a range of digital initiatives, with reference to 'European sovereignty', including for instance the General Data Protection Regulation (GDPR).[6] In his

2018 speech, *The Hour of European Sovereignty*, President Juncker declared that "Only a strong and united Europe can master the challenges of global digitisation."[7] It should be noted that digital sovereignty is part of a broader discourse centred on the general phrases "European Sovereignty" and "Open Strategic Autonomy", which are terms that have themselves only become prominent in recent years. These concepts, along with the term "digital sovereignty" were particularly driven by the French President Macron, who also argued that digital technology was a "key" to Europe's sovereignty.[8]

The concept has garnered far more attention from the Ursula von der Leyen Commission, with many Commission documents emphasising the importance of Europe being digitally sovereign.[9] President von der Leyen outlined how her Commission's Digital Strategy would promote digital transformation "from farming to finance, from culture to construction [….] to combating terrorism [….] from cybersecurity to critical infrastructures, digital education to skills, democracy to media."[10] President von der Leyen explained that Europe needed to ensure that this happened in a manner that upheld European values, including rights, privacy and protections. She summed these issues up with the term "tech sovereignty".[11]

However, while the phrases "technological sovereignty" and "digital sovereignty" are used widely in official documents, these mentions are generally brief and lack clear definitions. The conclusions of the European Council in October 2020 went significantly further towards defining the concept, declaring that:

> *To be digitally sovereign, the EU must build a truly digital single market, reinforce its ability to define its own rules to make autonomous technological choices, and to develop and deploy strategic digital capacities and infrastructure […] The EU will remain open to all companies complying with European rules and standards. Digital development must safeguard our values, fundamental rights and security.*[12]

European Perspectives on Digital Sovereignty

To date the concept of digital sovereignty has been most prominently discussed by Franco-German and EU institutional policymakers. But it is important to note that Europe's debate on digital sovereignty is taking place within a wider discourse about Europe's so-called 'Open Strategic Autonomy'. Smaller EU Member States have key interests at stake in these policy developments are now increasingly active in contributing to the discussion. This section will first examine the perspectives from prominent European voices, before examining the perspectives from elsewhere in Europe.

Broadly speaking, the way in which policymakers conceptualise digital sovereignty can be categorised into three main themes:

1. Strengthening Europe's Digital Capabilities
2. Policy and Regulatory Sovereignty; and
3. Protecting Traditional Sovereignty.

These are outlined below, with illustrative examples, where possible.

1. Strengthening Europe's Digital Capabilities

The von der Leyen Commission, and most European leaders, believe in making major investments in European digitalisation. The European Commission's Digital Compass states that Europe can be "digitally sovereign in an interconnected world by building and deploying technological capabilities in a way that empowers people and businesses to seize the potential of the digital transformation."[13]

Some policymakers, including Commission President Ursula von der Leyen herself, have sometimes associated such initiatives with "technological sovereignty." This, in itself, is not necessarily protectionism: most countries provide investments and support to promote enterprise across a range of economic

sectors. Digital technology industries in the US, China, Japan and South Korea have all been the recipients of significant levels of state funding. Leading US "technology" companies have benefited from US publicly funded technological investments, contracts and research.[14] Indeed, President von der Leyen has repeatedly stressed the importance of Europe's economic and digital openness to companies from across the world "regardless of where they are based."[15]

However, other European policymakers propose ambitious European support for digitalisation in a manner specifically aimed at bolstering Europe's competitiveness and at ensuring certain functions are performed within Europe itself. European Commissioner for the Internal Market, Thierry Breton, for example, has argued that Europe needs to "encourage the development of major European players"[16] and become a "digital, technological and industrial leader. "[17]

Margarethe Vestager, Executive Vice-President of the European Commission for *A Europe Fit for the Digital Age*, is a vocal proponent of both European digital sovereignty and of Europe's openness. Commissioner Vestager has been dismissive of claims that European digital sovereignty amounts to protectionism – and indeed dismissive of the logic of protectionism itself. According to her, protectionism and "picking winners" has a "long history of spectacular failures." Commissioner Vestager has also suggested that Europeans should use American products when these are superior, and that for Europeans: "that this is a non-American company … doesn't matter" and that "the quality of the product" is what is important.[18]

2. Policy and Regulatory Sovereignty

For Margrethe Vestager, then, what does matter in relation to digital sovereignty? Her answer is illustrative of one of the core themes of the European digital sovereignty debate: "The important thing of course for me is still that we have a European rule book and if you want to be in the European market well this is a rule book you play by."[19] For most European policymakers, a crucial aspect of digital sovereignty is Europe's ability to impose its sincerely preferred policies, rules, regulations and values on the digital economy and digital environment. Commission President von der Leyen has likewise declared that digital sovereignty means the "capability that Europe must have to make its own choices, based on its own values, respecting its own rules."[20] The European Commission's official Digital Strategy equates "European technological sovereignty" with "Europe's ability to define its own rules and values in the digital age."[21] The strategy goes on to state:

> *European technological sovereignty is not defined against anyone else, but by focusing on the needs of Europeans … The EU will remain open to anyone willing to play by European rules and meet European standards, regardless of where they are based.*[22]

For some European policymakers, therefore, digital sovereignty is primarily about being able to maintain regulatory sovereignty in order to uphold citizens' rights and fundamental values.[23] Policymakers are partly motivated by what they perceive as years of legal controversies in which EU legal actions and fines against large technology companies are deemed to have had little impact. In November 2020 a report by the European Court of Auditors found that EU anti-trust policy tools were inadequate for the digital world, and suggested that the impact of years of legal actions and "record-breaking fines" should be questioned.[24] However, the difficulties of regulating digital technology go far beyond the nature of large corporations. This is a problem that is partly inherent to the nature of digital technologies, which can transcend physical space and physical borders.

3. Protecting Traditional Sovereignty

A closely related theme is the concern that traditional aspects of sovereignty are threatened by, and may be undermined by, the process of digitalisation. This includes basic

pillars of European sovereignty: for instance the way in which democracy, elections, taxation, and the functioning of public services can be exposed to digital threats, such as disinformation, cyberattacks, and the emergence of decentralised cryptocurrencies. This concern is widely shared throughout Europe, whether or not countries invoke digital sovereignty to refer to it. A focus on these concerns can be seen in a diverse range of European Commission documents and initiatives, ranging across sovereignty threats as diverse as cybersecurity, disinformation and monetary sovereignty challenges.[25]

While regulatory sovereignty as outlined above refers to the ability of the state/EU to apply sovereignty in the digital realm; concerns relating to traditional sovereignty by contrast, refer to the ability of policymakers to shield sovereignty in general from being undermined by digitalisation.

Of course, the distinction between these two types of sovereignty will often be highly blurred, and is likely to become increasingly so.

Perspectives from Small, Open European Economies – an Emphasis on Openness

As noted earlier, larger Member States and the EU institutions have been most vocal in the digital sovereignty discourse to date. But these must be situated in the context of a broader debate which is now beginning to emerge across the EU. Some Member States have concerns about the implications of strategic autonomy and digital sovereignty for trade and economic openness, particularly some of Europe's small, open economies like those who make up the D9+ grouping (which includes Ireland, the Nordics, the Benelux countries, among others). These countries aim to take a leading role in the EU when it comes to pushing forward the agenda on digitalisation issues and creating a digital single market within the EU.

While these countries may in the past have been less explicit in their views on the concept of digital sovereignty, they nonetheless view Europe's digitalisation as a key priority. This is reflected in a joint declaration by the D9+ January 2021, ahead of the publication in March 2021 of the Commission's *Digital Decade* strategy.

> *Time is of the essence in the development and deployment of innovative technologies, such as Artificial Intelligence, Quantum Computing and Future Connectivity. Together with a robust data economy, they will be major enablers for the digital transition and key assets for European productivity and competitiveness. We should leverage our global competitive advantage in these areas to ensure our technological leadership in the long term while maintaining an open single market, strengthening global cooperation and the external trade dimension.*

On 1 March 2021, the Prime Ministers of three of the D9+ states – Estonia, Denmark and Finland – were joined, by Chancellor Merkel in signing a joint letter to President Ursula von der Leyen, which defined a shared interpretation of digital sovereignty as one which would strengthen the EU's capacity, while maintaining Europe's openness:

> *Now is the time for Europe to be digitally sovereign. We have to foster the Digital Single Market in all its dimensions where innovation can thrive and data flow freely. We need to effectively safeguard competition and market access in a data-driven world. Critical infrastructures and technologies need to become resilient and secure. […]. We want to develop our capacities and competencies in areas where we want to be more self-determined with democratic partners around the world and building on a strong transatlantic relationship.*

The letter is particularly notable for its strong emphasis on a cooperative vision for digital sovereignty which they argue would focus on developing strengths and reducing strategic weaknesses and dependencies. The signatories also argue strongly against an exclusive or "protectionist approach", stating that they

are committed to open markets and to free, fair and rules-based trade. "This," they write, "is what digital sovereignty means to us." The letter was welcomed a week later by Ireland, Czech Republic, Latvia, Luxembourg, Belgium, Poland, Lithuania and Sweden, who wrote that the way forward must be founded on a "mix of self-determination and openness":

> *We need to make sure that the EU can be a leader of a responsible digital transformation. Trust and innovation are two sides of the same coin. Europe's competitiveness should be built on efficient, trustworthy, transparent, safe and responsible use of data in accordance with our shared values. On this basis, we should cooperate with international actors.*

In this letter the signatory countries also explicitly stated their view on digital sovereignty:

> *Our approach to digital sovereignty must be geared towards growing digital leadership by preparing for smart and selective action to ensure capacity where called for, while preserving open markets and strengthening global cooperation and the external trade dimension.*

Throughout these documents, there is a clear and sustained focus on the Europe's capabilities, resilience, openness, cooperation and regulation to uphold European values. It is thus worth noting that the relationship between sovereignty and digitalisation is a key concern for many European countries who are firm advocates for Europe's openness and who may not necessarily use the phrase "digital sovereignty." Even Europe's most pro-free trade and digitally advanced nations are concerned with the the subject of digital sovereignty. The Netherlands is widely regarded as a leading free trade champion in Europe, but has been active in supporting digital sovereignty initiatives, particularly on matters such as competition and platform regulation.[26] Likewise, Estonia, one of Europe's most digitalised countries, may be wary of some aspects of the strategic autonomy discourse but it has been vocal in calling for stronger EU level policies and rules to counter disinformation[27], strengthen cybersecurity[28], and support digital taxes.[29] Indeed, it seems to be the case that a majority of EU Member States could be described as firmly supportive of Europe's digital openness as long as this openness is underpinned by European values and rules. In early 2020 for example, a group of fifteen EU Member States (the so called friends of the Single Market), consisting of many of Europe's smaller, more open economies, signed a joint letter that stressed the importance of Europe's economic and digital openness, including for data flows, but that crucially reaffirmed that this openness should be governed by European values and regulation.

Sovereignty and Openness in the Digital Age

Protectionism, Openness and the Transatlantic Relationship

It seems there are a number of commonly held concerns across the EU motivating the discussion of digital sovereignty, along with a widespread dismissal of protectionism and emphasis on the importance of economic or digital openness - particularly from the digital forerunner states. However "digital sovereignty" has proven to be a problematic term due to the various ways it is interpreted. For example, some commentators have expressed their concern that digital sovereignty is a euphemism for a protectionist agenda. Dr. Konstantinos Komaitis, a Senior Director at the Internet Society, for instance, writes that European digital sovereignty is a "dangerous and, potentially, irreversible trend that could see the world's second largest economy alone and alienated."[30] William Echikson, Head of the Digital Forum at the Centre for European Policy Studies, goes further and states that "Europe is under assault" from the digital sovereignty agenda, which he describes as "dangerous anti-tech populism."[31] A former US Trade Representative, Charlene Barshefsky described European digital sovereignty as "incipient techno-nationalism" which "threatens both US and European interests and must be stopped."[32]

The US perception of an EU leaning towards protectionism is significant, as most of the largest digital technology companies in the EU are US companies and the US and the EU are one another's largest digital technology trade partners. The US exported $189 billion in ICT to the EU in 2017 and the EU exported $118 billion worth of ICT to the US.[33] In 2018, 73% of the US's overseas ICT investments were in Europe.[34] Nonetheless, the digital sovereignty that is proposed by some key EU policymakers, including those from Europe's small, open economies, may be a more nuanced concept than many commentators appreciate. Indeed, the charge that a less open Europe would make Europe less sovereign is something that some key policymakers have themselves said from the very beginning. Commission President von der Leyen, Commissioner Vestager and Chancellor Merkel, have vocally articulated the importance of Europe's digital openness alongside its digital sovereignty. The EU Commission's official Digital Strategy mentions the importance of a digitally "open" Europe far more frequently than it mentions the term "sovereignty" or its equivalents.[35] In the European Council a majority are in favour of an open approach to digital sovereignty, as exemplified by the "Friends of the Single Market" grouping or the October 2020 EU Council conclusions.

However, the risk of a protectionist outcome cannot be dismissed – even if it is not for the reason that many believe. The possibility that European policymakers will choose a path of deliberate digital protectionism seems unlikely; in both the Commission and Council there seems to be firm majorities against such a move. The true risk is that as Europe addresses digital policy challenges with stronger rules, an inadvertently protectionist outcome could emerge. Data controversies illustrate this dynamic. Following the 2020 CJEU invalidation of Privacy Shield, concerns were raised about the legality of ongoing transatlantic data flows, with potentially severe implications for business. It was suggested that some companies might even suspend services offered in Europe – an outcome that was never the intention of the EU's GDPR or of US policies.[36]

Some have assumed that Europe and the US are polar opposites on many digital policy issues, with Europe's digital sovereignty agenda now exacerbating differences. Recently, however, a shift in US thinking about digital policy has been underway, and many Americans are increasingly expressing the same sentiments as Europeans about digitalisation, on the same issues. As recently as June 2020, some commentators took it for granted that Europeans who considered breaking-up large technology companies could surely only be motivated by an anti-US protectionist agenda. Within a few months such an argument could no longer be supported; proposals for "Big Tech" breaks-up have become more mainstream in the US than they are in the EU.[37] "Digital sovereignty" is one lexicon difference that may perhaps obscure the many similarities between the EU and the US – but the US Congress has been criticised for addressing a plethora of digital policy issues with the inadequate phrase "Competition." Europeans have found a term which, though imperfect, encapsulates some of these issues: digital sovereignty.

The similar concerns on both sides of the Atlantic, however, demonstrates the opportunities for transatlantic cooperation, especially given the shared challenges and shared commitment to democracy. Many digitalisation challenges are more problematic for democracies than for authoritarian regimes – for instance, balancing freedom of speech with countering disinformation; or harnessing big data while respecting privacy.

Following the 2020 US Presidential election, Commissioner Vestager declared that improving the transatlantic relationship was one of her "highest priorities"[38] arguing that democracies needed to come together in order to shape digitalisation and to prevent authoritarian regimes from doing so. There is now broad support across the EU for cooperation with the US, a fellow democracy, to cooperate on many of the digital sovereignty

challenges that Europe faces. The recent announcement of a Transatlantic Trade and Technology Council to promote digital policy cooperation could be a significant step towards this.[39]

Openness and Digital Sovereignty: Beyond the Transatlantic Relationship

Given the particular challenges that a variety of digital issues may pose to democracies, there are many potential benefits to cooperation between democracies. As some key European policymakers have emphasised, openness is an important part of digitalisation and digital sovereignty. Greater openness and cooperation with other democracies could thus potentially enhance Europe's digital sovereignty. In fact, a Europe that trades in digital solely with the US and China may not be particularly digitally open or sovereign. In the general discourse of "European Open Strategic Autonomy" a prominent theme is an enhanced openness through the "diversification of supply chains" to avoid dangerous dependencies on a limited number of suppliers. The joint letter on digital sovereignty by Denmark, Estonia and Finland, along with Germany, raised the importance of the EU avoiding "one-sided dependencies on monopolies or countries" through "open markets and open supply chains" or "mutual interdependencies."

There are more democracies in the world than just the US and the EU and many of these are highly digitalised. Partnerships with a wider range of digitalised democracies could thus be considered. Japan, South Korea, India and Taiwan all represent possible democratic digital partners. On a number of digital technology related issues, European countries have already looked to Asian democracies as democratic role models to either learn from or to cooperate with. Furthermore, for many European countries, particularly Ireland, the relationship with the post-Brexit United Kingdom will be especially important.

Conclusion: Future Directions for European Digital Sovereignty

Though digital sovereignty has emerged as a significant topic of debate, at present there are differences in how this term is interpreted and differences between policymakers on how digital sovereignty policy goals should be achieved. It is clear, however, that Europe's small, open economies will have particular interest in ensuring that Europe maintains its openness and avoids inadvertent protectionism. This is especially true for Ireland, which has vital interests at stake in how this policy agenda develops. Indeed, Ireland is likely to be one of the most adversely affected economies in Europe if, for example, the US-EU or UK-EU relationship on digital policy were to be adversely impacted.

Many policymakers believe that Europe's pursuit of digital sovereignty does not need to preclude openness or lead to protectionism, but cooperation will be needed between the EU and third countries. Many policymakers believe that the digital era could potentially present Europe with a number of unprecedented challenges to traditional interpretations of sovereignty and most EU Member States – even the largest – acknowledge that they are too small to address major digital challenges alone. Most are already supportive of efforts to strengthen Europe's digital capabilities, toolbox, and resilience, which will benefit their national capacities to confront challenges that they may otherwise not be capable of.

How the EU and its Member States address regulatory digital challenges and digital dependency issues, will pose major policy questions in the years ahead. Charting a course in such a way that Europe can achieve digital sovereignty while maintaining its digital openness will be a challenge, and the way in which Europe does so may be critical for Europe's digital future.

The Europe's Digital Future project, of which this paper forms a part, seeks to bring added value to the debate by highlighting and exploring European perspectives on digital sovereignty, including their commonalities and differences, and thereby contribute to finding a European consensus on this emerging debate. In order to explore these perspectives more deeply, the IIEA has recently established a network of thinktanks from European Member States, initially populated by representatives from Sweden, Denmark, the Netherlands and Estonia. In 2021, the network will produce a number of papers and events exploring these national perspectives.

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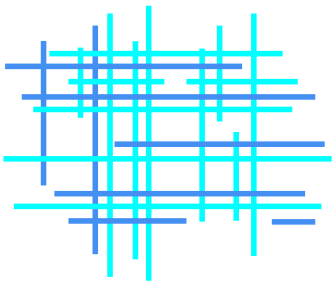

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