



Insight

What Will Brexit Mean for US Tech And Digital Trade?

WILL RINEHART, ANDREW CAMP | JULY 26, 2016

The United Kingdom's vote to exit the European Union (EU) riled up the markets, injecting uncertainty into the future of an economically integrated EU. Just how these changes will ultimately unfold is uncertain, but the exit of the U.K. from the EU will likely affect digital trade, antitrust, and technology policy. These shifts could reverberate to our side of the pond, altering domestic company behavior, sales, and U.S. based jobs, especially for our globally integrated digital market.

Digital trade between the U.S. and Europe is an important part of the American economy. The [most recent data](#) from 2014 found that the U.S. exported \$183.7 billion of digitally deliverable services to the EU, which amounts to 46 percent of the global total. The U.K. ranks as the single biggest trade partner, comprising \$41.1 billion in exports, about 10 percent of the global total. Nearly 60 percent is in the form of financial services, research and development, and consulting.

With an impending exit, the status of London as the European hub of finance is now [uncertain](#). Financial institutions in the UK are allowed to sell their services to other EU member states via the [passport](#) process of the EU single market. If the UK were to leave without an alternative in place, subsidiaries might have to be set up in the EU, which would result in huge cost increases in the financial sector. Supporting these services are massive data centers, part of the global Internet backbone. For U.S. based firms, the export of digital financial services could see a long term shift toward Frankfurt, which has rivaled London both in financial services and data centers.

If there is a shift in leadership away from the U.K., U.S. technology companies will likely see more scrutiny from the EU's regulatory bodies. In leaving, the United Kingdom will remove a [moderating and generally pro-innovation](#) voice from the EU, allowing for France and Germany to take a more proactive role. These countries have historically taken much harder stances on American companies. France [convicted](#) Uber and two of its executives of violating transportation and privacy laws, and has been a major force [pushing](#) Google to apply "right-to-be-forgotten" regulations to searches performed outside EU jurisdiction. The city of Berlin [banned](#) Airbnb hosts from renting out full apartments, causing the number of Berlin listings to decline 40 percent. As the EU prepares to bring a third round of antitrust [charges](#) against Google, some worry a post-Brexit European Commission will more aggressively target American companies, thereby inhibiting their ability to innovate.

The future of data transfer between the EU and the U.S. is also at stake. For some years, the EU and the US were in negotiations to create a new framework for data transfers. The previous agreement, known as the Safe Harbor, allowed U.S. companies to transfer data out of the region since it has strict privacy rules. In a ruling that many had seen coming, the highest European court [invalidated the Safe Harbor deal last year](#).

The follow-up, called Privacy Shield, was just signed and may actually benefit from some of the turmoil in the short term if there is less of an appetite for further disruption. In the long term, however, an EU adjusting to tech policy without the UK will likely favor Germany, which is considered to have [the strictest privacy laws in Europe](#) and is a major influence in pushing for more onerous privacy provisions. Next year, new rules on data

protection are expected to be unveiled within the EU, and the UK will have to comply with some version of it to transfer data out of the continent once they leave. All of this means higher compliance costs and less wiggle room to innovation, adding unseen impediments to tech growth here in the U.S.

The deep uncertainty surrounding the next couple of years could spell any number of outcomes for the UK and the EU. For a growing industry like tech, Brexit could have subtle but important changes in the long term that are worth watching.