

Modernizing Trade Rules for the Digital Age

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The Future of Transatlantic Trade Conference

Paris, France, April 10, 2014

— *As prepared for delivery* —

Good afternoon. This conference is about the future of transatlantic trade — but it's not just a regional discussion. As the world's two biggest economies, the US and EU have an opportunity right now to put together a trade and investment partnership that will serve as a model for the whole world.

In the software industry, we think it's critically important to seize that opportunity. We have a unique perspective, because software innovation is driving incredible change in the world today.

So I would like to touch briefly on three things before handing the stage to the next panel: First, I want to step back and talk about the inflection point that the world has reached as software has changed the way we live and do business. Then I will spend a minute discussing the challenges we face with a new wave of digital protectionism taking hold in international markets. I will close with a few thoughts on how the US and EU can lead the way in modernizing trade rules for the 21st century.

As a former trade negotiator, I understand from first-hand experience how difficult it will be. But I'm confident the benefits will be far-reaching — both in economic terms and in deepening the bonds between our countries.

Inflection Point

A big reason this is a unique period of opportunity is that software is fundamentally transforming the world — from the way manufacturers run their supply chains to the way doctors provide healthcare. The benefits of that transformation cut across every sector of the economy.

But let me give you just a couple of examples of how that innovation has become a trade issue for the companies we represent at BSA — and for the small and medium-sized companies they serve.

One of our members is Siemens PLM, which makes computer-aided design software. A small Italian firm called Biscontini is using it to design high-end sailing yachts for racing. This kind of job used to be done by individual designers working alone. Now, teams in different countries can collaborate over high-speed networks. They split up tasks. Different people work on sails, masts, fluid dynamics and other aspects of the design.

With the elasticity and power of cloud computing, the teams of designers can work together seamlessly on the same data. It's convenient, but it's also powerful: They are accessing servers that can do much more. The result is a faster design process and more extensive virtual testing — so they can make better, faster sailboats.

Another of our members, Autodesk, also makes cloud-based CAD software. A small social enterprise called Uncharted Play used it to design a soccer ball that captures and stores kinetic energy. They are focused on poverty-stricken parts of the world that don't have access to electricity. The premise is simple: Children play with the ball for about 30 minutes — and it stores enough energy to power an LED reading light for three hours. You can also use it to charge a cell phone, or power other small electronic devices.

And then there are problems that can only be solved by analyzing large amounts of data from all over the world. Consider how IBM — another BSA member — has partnered with the energy company Vestas. They have used data analytics to find the best places to put wind turbines and then maximize their energy production.

That may sound like a pretty simple problem, but any sailor can tell you it's very difficult to predict the wind. IBM's software does it by analyzing weather data on an enormous scale. It factors in nearly 180 variables — from temperature, barometric pressure and humidity to precipitation, wind

direction and velocity — plus extensive historical data. That allows Vestas to put its turbines in the best locations, and then manage the electricity they send to the grid as efficiently as possible.

Vestas has built more than 43,000 turbines in nearly 70 countries on six continents. Together, they produce more than 90 million megawatt-hours of energy per year — which is enough to supply millions of households. It wouldn't be possible to do all of that without real-time analytics enabled by the free flow of data across borders.

We need global trade rules to keep pace with the digital economy — to foster it, not stand in the way.

Digital Protectionism

If governments create barriers to digital trade, there will be significant opportunity costs. Yet we're already starting to see that happen. Around the world, governments are considering a slew of non-traditional trade barriers that specifically target information technology.¹ For example, a number of countries have adopted or proposed rules that either prohibit or significantly restrict companies from transferring data outside their territories. Others are requiring companies to put servers inside their borders if they want to do business there.

These kinds of policies are a perversion of the Internet. They undercut the network efficiencies that companies rely on to serve customers globally.

Other ways we are seeing countries skew competition include favoring locally developed technology, particularly in government procurement; creating national technology standards, instead of using industry-led standards that are internationally recognized; and imposing de facto trade barriers under the pretense of protecting security. That may include restricting software and other IT products from foreign suppliers, or imposing unreasonable testing or certification requirements.

¹ See: BSA, "Powering the Digital Economy: A Trade Agenda to Drive Growth," January 30, 2014. www.bsa.org/digitaltrade

Recent disclosures about international surveillance programs have raised legitimate privacy and security questions. These are important issues, and they deserve a serious, thoughtful debate. But it is also important not to conflate separate issues. National security concerns don't have to undermine technology innovation and economic growth — and we shouldn't allow them to.

It has been concerning here in the EU that some have called for suspension of the Safe Harbor agreement that regulates data transfers between Europe and the United States. Carrying through with that idea would undermine the prospects of expanding digital trade between our two markets. A better path would be to quickly complete the effort that is currently underway to reform the Safe Harbor framework. TTIP negotiations can continue on their own track — and they can reflect the key elements of the renewed Safe Harbor framework.

Seizing the Moment

BSA recently released a report that outlines a new trade agenda to drive growth in the digital economy. I hope you will read it. One of the cornerstones of the agenda we have proposed is the principle of enabling digital commerce.

There are several ways TTIP can do that: First, by fully covering innovative services such as cloud computing. Second, by letting data flow across borders without unnecessary restrictions. Third, by preventing government mandates on where servers and other computing infrastructure has to be located.

Trade barriers can take different forms and still have the same result of slowing down job creation and economic growth. But it is important to recognize that standing in the way of software-enabled innovation affects more than just one sector. In today's economy, small, medium-sized and large enterprises of all kinds rely on software tools to do business.

Protectionism is almost always shortsighted as economic policy — and ultimately self-defeating. The better path is to facilitate the drivers of future economic growth.

There is precedent for this. In the late 1980s — during the Uruguay Round of multilateral negotiations — the new priorities were intellectual property, services and foreign direct investment. Negotiators had the foresight to recognize those would be the keys to trade and growth in the decades ahead — and they modernized trade rules accordingly. As we look at the growth that has happened in the past two decades, it's clear they did the right thing.

Today, it is our opportunity to foster digital trade. I hope Europe and the United States will lead the way. If they do, I am confident software innovation will continue changing the world for the better.