



# Brexit's Impact on the TMT Sector

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This snapshot sheds some light on possible implications for the technology, media and telco (TMT) sector – particularly given that the UK was such an enthusiastic advocate for the European Commission's Digital Single Market (DSM) programme.

## UK: DRIVING TECH POLICY IN THE EU

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[BrexitResponseTeam@fticonsulting.com](mailto:BrexitResponseTeam@fticonsulting.com)

While Silicon Valley stands alone, it could be fairly argued that the UK generally – and London specifically – represented an EU version of its more renowned US counterpart. The amount of technology firms – large and small – that had made the UK their home, thanks to access to skilled employees drawn to the country by its higher education sector and freedom of movement benefits, access to venture capital, and a favourable regulatory environment, is testament to the UK's appeal.

Politically, too, the UK was a key driver. The Government's Vision for the EU's Digital Economy of January 2015 showed exactly where its priorities lay: unapologetically pro-consumer in sentiment, it envisaged a fully-functioning DSM, enabling seamless cross-border access to digital content – in many ways a precursor to the Commission's DSM Strategy that followed.

This was reflected in the European Council, where, together with similarly-minded Member States (MS) – Denmark, Estonia, Sweden and the Netherlands – the UK was keen to drive forward pro-digital policies.

To date, the UK has had considerable influence in the European Parliament (EP) via its Members of European Parliament (MEPs). Vicky Ford (Conservatives - European Conservatives and Reformists (ECR)) is Chair of The Committee on the Internal Market and Consumer Protection (IMCO) Committee, which has jurisdiction over single market proposals related to e-commerce. Ford has been a vociferous advocate for DSM, rejecting protectionist impulses from some European capitals and opposing attempts to adopt a "fortress Europe" approach to digital regulation. Claude Moraes (Labour - Group of the Progressive Alliance of Socialists and Democrats (S&D)) – Chair of The Committee on Civil Liberties, Justice and Home Affairs (LIBE) – played an influential role in negotiating the General Data Protection Regulation in the EP.

Now as the UK looks set to depart the EU, the digital sector looks set to lose a major ally. The UK presidency of the Council of the EU – during which it would have been able to prioritise the agenda and drive forward digital policies coming to fruition – must be in severe doubt. In the EP, pressure is building for UK MEPs to vacate their roles. The risk is twofold – not only will the process of finding replacements put a brake on progress, the potential for pro-digital voices to be dampened down is a distinct possibility.



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## BREXIT: TECHNOLOGY FIRMS' REACTIONS

The UK referendum result will come as a severe disappointment to the technology sector. In the short term, businesses abhor the uncertainty created as a consequence of the momentous vote.

Looking further ahead, two issues spring to mind. Firstly, fast growing tech firms will be concerned at the potential loss of free movement of labour. Secondly, a UK departure could slow the process towards creating a DSM. Worse, however, is the prospect that the digital scene will lead to a fragmented regulatory environment – creating obstacles rather than removing them, making it harder for firms to trade cross-border.

Polls of tech firms showed their preference for the UK remaining in the EU. Prior to the vote, 34 tech companies were signatory to a letter published in *The Times*, stating their preference for the UK to remain in the EU in order for it to stay competitive and attractive to external investors. Some indicated their willingness to depart the UK should a Brexit vote prevail. Following the referendum, Vodafone signalled it could move its Europe headquarters from the UK.

In a bid to discourage such a flight from the UK, Chancellor George Osborne pledged to reduce the rate of corporation tax from 20 per cent to 15 per cent. Time will tell if this has the desired impact.

## DIGITAL DOSSIERS – POTENTIAL IMPACT OF BREXIT

The UK's pro-digital stance puts it at odds with other Member States such as France and Germany, which take a more cautious view towards the development of the digital sector and the disruptive impact it has. Whereas the UK saw digital as an enabler for jobs, growth and innovation, others saw digital companies as unwanted, non-EU intruders, intent on upsetting the existing economic and societal order.

It is possible that pro-digital voices will dominate the discourse in future policy discussions related to the various DSM initiatives.

Taking each in turn:

**Content Portability** – the first priority identified in the UK's DSM document, indicating their keenness to progress this issue, so that consumers can take their legally-acquired online content with them cross-border. The initial Commission proposal was open to

interpretation; without the UK, there is a possibility that this vagueness will allow more cautious voices to prevail.

**Online Platform Regulation** – the UK position was made clear by the House of Lords' report on online platforms, which spoke glowingly of the opportunities afforded by platforms in terms of increased consumer choice, lower prices, and business and economic growth. Further, the report's view on regulation – echoed later by the Commission's own Communication – rejected calls for sector-specific regulation, preferring instead to make more use of existing legislation. On the other side of the spectrum, France and Germany advocate targeted regulation.

**Copyright Reform** – the UK is a strong advocate for copyright rules that reflect the realities of the digital age, i.e. exceptions to enable research, education, and for text and data. Their DSM paper asserted "we must also reject copyright levies in all forms," placing them in opposition to countries such as France.

**Geoblocking** – The UK has been a strong advocate for restrictive barriers to be scrapped, enabling consumers to access goods and services across the EU regardless of residence.

**Free-Flow of Data** – the UK's position could not be clearer; their DSM paper stated "data is beautiful" and envisaged an economy built on the ability to transfer anonymised data cross-border without restriction. Again, the fact a more liberal voice is bowing out will only embolden those MS more inclined to build barriers.

**Telecom Framework** – OfCom, the UK's telecom regulator, advocated competition as the best driver for innovation, competition and consumer benefits. Although this seems to be the general direction of travel amongst most MS, the removal of a more liberal voice in this area may be a concern to new technology and over-the-top (OTT) content players.

**Audiovisual Media Services Directive (AVMSD)** – the UK government was one of the more liberal voices here – supportive of efforts to combat hate speech and incitement to hatred, but less taken by the imposition of quotas on the promotion of EU works – again, a bone of contention for the likes of France.

**e-Privacy Directive** – arguably the one policy area where the UK was not a liberal voice; MS may even be relieved that a country favouring domestic legislation that seeks to enhance the power of the state at the expense of business and consumers will be off the scene. But this is a rare instance.

## CONCLUSION

The impact of the UK's EU departure will be keenly felt in the digital sector. Europe will lose a key supporter of creating a fully-functioning DSM, the digital and technology community looks set to lose a major ally and must prepare itself for the very real possibility of a less ambitious and more restrictive environment in which the policy debate will be held.

For those businesses in the UK, the current focus should therefore be on the Digital Economy Bill as well as the implementation of the UK's Digital Strategy to ensure that this matches and continues to drive the DSM agenda from the outside. This looks to build on the success of TechCity UK, which many other European countries have sought to replicate as they look to develop their own digital economies.

## Brexit's impact on the TMT sector

In the coming months and years the UK will need to maintain a focus on the digital economy, from excellence in STEM education through to encouraging entrepreneurial innovation and ensuring the UK has the regulatory infrastructure to remain competitive. For businesses in the UK, greater emphasis will also need to be put on international initiatives undertaken by UK Trade & Investment (UKTI) and for the sector in Europe the focus must be on delivering on the promise of a digital single market.

Once there is greater clarity on both process and timeframe, FTI Consulting will publish a deep dive analysis of the key drivers in the converging TMT sector with recommendations that take into account the shifting international regulatory framework.

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Stephen Pearson  
+32(0)2 289 09 41  
stephen.pearson@fticonsulting.com

Charles Palmer  
+44 (0)20 3727 1400  
charles.palmer@fticonsulting.com



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