

INCEPTION IMPACT ASSESSMENT			
TITLE OF THE INITIATIVE	European free flow of data initiative within the Digital Single Market		
LEAD DG – RESPONSIBLE UNIT – AP NUMBER	CONNECT.E2	DATE OF ROADMAP	3/10/2016
LIKELY TYPE OF INITIATIVE	Legislative proposal + Communication		
INDICATIVE PLANNING	November 2016		
Additional Information	-		

This Inception Impact Assessment is provided for information purposes only and can be subject to change. It does not prejudge the final decision of the Commission on whether this initiative will be pursued or on its final content and structure.

A. Context, Subsidiarity Check and Objectives

Context

The Juncker Commission identified the completion of the Digital Single Market (DSM) as a key initiative to implement the Agenda for Jobs, Growth, Fairness and Democratic Change. As the first step, the Commission adopted the Digital Single Market Strategy in May 2015, which sets out the major challenges and key actions to address them.

One of the actions announced in the DSM Strategy to maximise the growth potential of the digital economy is a "European 'Free flow of data' initiative that tackles restrictions on the free movement of data for reasons other than the protection of personal data within the EU and unjustified restrictions on the location of data for storage or processing purposes". In addition, the initiative "(...) will address the emerging issues of ownership, interoperability, usability and access to data in situations such as business-to-business, business to consumer, machine generated and machine-to-machine data. It will encourage access to public data to help drive innovation".

The initiative relates to a number of existing regulatory texts that already cover certain aspects of the data economy. In particular, the existing and future legislative framework for the protection of personal data guarantees the movement of personal data between Member States. Likewise, when data, notably when grouped together in a meaningful way, achieves certain characteristics, it may be considered as audio-visual media content or copyright protected material, which are already covered by specific legislation. Availability of data and its re-use, at least in the public sector, is also already covered by European legislation. Moreover, free data flows in research across the EU, in particular access and re-use of research data that is generated by public budgets, are a precondition to ensure faster and better scientific collaboration and discovery. There are also a number of networks and cooperation mechanisms (for example in relation to eHealth) to support cross-border exchange of data and to develop common measures to facilitate transferability of data).

However, these examples only cover specific types of data and / or types of data used in specific sectors of the data economy. A comprehensive approach is lacking and consequently many types of data and / or sectors are still left out. The e-Commerce Directive lays down the country of origin principle for information society services, but does not yet prevent Member States from imposing data location restrictions that limit the cross-border flow of data originating from that Member State.

Issue

Problem description

The growth potential of the digital economy in Europe is curtailed because the free movement of electronic data within the Union is not yet a reality. There is a gap in EU legislation, which does not contain any general principle of free movement of data, other than for personal data¹. The free flow of data has become limited by technical

¹ Directive 95/46/EC harmonises protection of personal data and enables the free flow of personal data within the Union, by preventing Member States to restrict or prohibit the free flow of personal data between Member States for reasons connected with the protection of personal data. This will be enhanced by the General Data Protection Regulation (Regulation (EU) 2016/679) that recently entered into force.

and legal barriers at national level. This comes at a cost for businesses that have to set up data centres in each Member State, or pay higher costs for data storage and processing. Additional barriers to the free flow of data are caused by the legal uncertainty surrounding the emerging issues on 'data ownership' or control, (re)usability and access to/transfer of data and liability arising from the use of data.

I. Unjustified data location restrictions can be defined as rules or practices that specify a particular, often geographically defined, area where specific data needs to be collected, processed or stored; to date at least 70 restrictions that could force data localisation within a Member State have been identified. Data location restrictions are harmful to the development of the Union's internal market as they limit the cross-border flow of data and the usage of cross-border data technologies and services for the collection, processing or storage of that data (e.g. big data, cloud computing, IoT). The majority of data localisations are observed in the financial and health sectors, while common restrictions target company records, accounting and tax data, telecommunications, and government data. Even though the free movement of personal data is recognised in EU law, restrictions or prohibitions for other reasons (i.e. not connected with the protection of personal data) are still possible and need to be removed as well. Examples include restrictions to the free flow of personal data for public policy reasons, such as access to accounting information by tax authorities.

Data location restrictions can be difficult to identify as they can be established at various levels (e.g. legislative acts, lower level regulations, administrative decisions), in relation to different sectors (e.g. the health sector, the public sector, the financial sector) and can be of a direct or indirect nature. Data location restrictions affect the way providers of data, and digital technologies and services, operate. But essentially they are directed at users of the data, and digital technologies and services. Indeed, data location restrictions establish compliance obligations for these users. As data location restrictions can be difficult to identify or comply with, especially in the case of indirect data location restrictions, they can give rise to legal uncertainty, and can unduly influence the behaviour of users of data, and digital technologies and services.

II. The legal uncertainty surrounding emerging issues of 'data ownership' or control, (re)usability and access to/transfer of data and liability arising from the use of data, and the extent to which they derive from existing EU legislation and/or national law, need to be further assessed before any concrete initiative is put forward. Some uncertainties are clarified by the (current and future) rules on the protection of personal data, e.g. personal data cannot be 'owned' in the EU but strict rules on access and use by anyone other than the person to whom the data refers are in place. A gap exists with regard to 'ownership' of non-personal data, particularly non-personal data that is machine-generated. Data driven innovation is greatly dependent on who has access to data collected through sensors, for instance as part of a manufacturing process, or to anonymised/non-identifiable personal data. Such issues are commonly addressed by contractual arrangements in a business to business context, which may prove to be a challenge to certain actors within the data value chain, potentially slowing down the free flow of data between sectors, companies and within companies, as well as research organisations. The contractual practices in the new business models inspired by technological developments may lead to contractual lock-in; technical or legal obstacles may prevent the switching of service provider or the portability (transfer) of data.

Affected stakeholders

Users of data technologies and services users (across all sectors of the economy) are affected by barriers to the free flow of data.. Moreover, administrations at all levels (EU, national, regional and local) are affected both in their role as data owners and when carrying out their duties.

Problem drivers

There are a number of data location restrictions and related issues within the EU that create problems for the free movement of data and data services and inhibit the freedom of establishment of companies wishing to do cross-border business. These drivers may be grouped into the following categories:

- Diverging data location restrictions and approach in the Member States, including on grounds of
 protecting certain public values, e.g. the protection of national security or preserving public authorities'
 access to data for law enforcement purposes. In certain cases data location restrictions may be established
 with justifiable public policy objectives, but they should be regarded as an exception rather than the rule.
 However, there are significant differences in the situations in which Member States impose restrictions, and
 also in the approaches taken by different Member States to meet similar public policy objectives.
- 2. Unjustified or disproportionate data location restrictions in specific sectors or situations. Again, data location restrictions may be established with justifiable public policy objectives. However, such restrictions between EU Member States should only be established when they are necessary and proportionate, as they may have a significant impact on the development of the internal market., and in some cases a too broad

interpretation by a Member State of what constitutes a certain public policy interest that may warrant a justifiable exception may prove problematic. In particular, the imposition of a data localisation requirement, when in fact the public policy objective requires access to the data, may be increasingly unjustified as modern technological solutions allow the secure retrieval of data almost instantaneously without the necessity of storing it within one geographical location

- 3. Recommendations or administrative practices on data location, access or security, including in regard to public procurement. In certain cases data location restrictions may be established because there is a lack of commonly defined standards or practices at Europe level, such as in relation to network and information security, the prevention, investigation and prosecution of crimes, In certain cases public procurement rules that include data location restrictions or have the effect of restricting the free flow of data may be established with the objective of supporting local industries. A lack of such common standards provides a barrier to the free flow of data between EU Member States and sectors in the Union.
- 4. Lack of legal clarity and transparency about requirements, and uncertainty about regulators' approach to data localisation, e.g. a lack of predictability or legal certainty results in divergent interpretations, which hampers common approaches. A lack of predictability and legal certainty may even be reflected in unnecessary constraints in contractual practices. Indeed, data location restrictions may even be self-imposed by users of data, and of digital technologies and services. Commercial behaviours need to be analysed in order to determine if obstacles to the free flow of data also stem from the practices of private parties and to assess the conditions under which such restrictions could be considered as legitimate. The current legal framework at EU level (on liability for defective products, for example) may not prove adequate for IoT connected devices and other autonomous systems.

Why is this a problem at EU level

Data location restrictions in the Union and issues on 'data ownership', (re)usability and access to data, and liability especially pose problems in a cross-border context, typically when users intend to collect, store or process data by means of a data technology or service provided in a different EU Member State. These technologies and services know no border and should not be restricted by artificial restrictions to the size of the market along national borders.

Subsidiarity check

The legal basis of the initiative is likely to be Article 114 of the Treaty on the Functioning of the European Union (TFEU). Article 4(2)(a) TFEU states that the Union shares competence with the Member States in the area of the internal market. Action by Member States could not resolve the issue, as data location restrictions pose problems in a cross-border context, typically when users intend to collect, store or process data by means of digital technologies or services that are provided by a business established in a different Member State. Action by Member States would not bring sufficient scale to the initiative, as individual initiatives would result in a fragmented market. Considering the importance of economies of scale for the development of data technologies and services, coordinated action at European level is necessary. Likewise, providing for predictability and further legal certainty as regards data ownership, (re)usability and access to data, and liability would benefit from coordinated action at European level that provides for a common approach towards data location restrictions and those emerging issues, thus unlocking the scale of the internal market for users and providers alike.

Main policy objectives

The objective of the initiative is to enable the free flow of data in the EU (complementing the existing provisions in the GDPR), through a legislative proposal removing unjustified data location restrictions; and through a Communication fostering a clearer understanding of, and a common European approach as regards the application of the legal framework to the emerging issues. Ensuring free flow requires current barriers to access to data across public administrations and also access to privately held data for public policy objectives to be addressed This will allow for the emergence of a transparent and vibrant data market in the EU. A complementary policy objective consists in raising awareness among consumers about the economic and research value of their personal data and their rights with regard to the use or processing of that data, and to boost their trust in the Digital Single Market.

Given that the emerging issues will be dealt with in a Communication in any event, the Impact Assessment and this inception report concentrate on the options for regulatory intervention to tackle data location restrictions.

B. Option Mapping

Baseline scenario – no EU policy change

Option 1: Baseline – no EU action

This default option assumes no action is taken at EU level. The EU data economy would rely on the Member States to limit the number and "intensity" of data location restrictions, recommendations and administrative practices on data location, notably by making sure that these are only put in place where justified, and the means utilised are proportionate, as well as transparent.

This would be complemented by ensuring at the EU level, notably through infringement proceedings, the effective implementation by the Member States of the Treaty provisions on the free movement of services and the freedom of establishment. In this case, however, a number of existing data location restrictions are likely to continue and new restrictions on data location could still be introduced, resulting in a fragmented market for data, and for digital technologies and services that can be used for the collection, processing or storage of that data. Fragmentation and weaknesses in sectorial policies would also be likely to persist and result in a complex, incoherent and ineffective situation, as recently demonstrated in the REFIT evaluation for the INSPIRE Directive.

Alternative policy approaches

Option 2: Addressing data location restrictions through a legislative instrument

This approach would consist of a horizontal legislative instrument addressing barriers to the free flow of data by establishing the principle of the free flow of data within the Union, with the aim of removing unjustified data location restrictions. This would allow Member States to take justified and proportionate measures derogating from the general "free movement of data" principle ("derogatory measures") for justified public policy reasons. A legislative approach would support the development of a single market, while also addressing some shortcomings in sectorial legislation. Extending the scope or updating the rules, e.g. in the field of taxation, health or financial sectorial legislation, are options that also need to be examined.

In addition to this approach, a legislative instrument could also contain provisions corresponding to one or several of the following sub-options:

Sub-option 2-1: A notification and review procedure where Member States would have to report any proposed derogatory measures that could be regarded as a restriction to the location of data to allow verification of their compatibility with EU law.

Sub-option 2-2: A requirement to inform appropriately businesses and public sector organisations (as users of data storage / processing services, as providers of such services, or as users of their own in-house data processing and storage solutions) of data location restrictions.

Sub-option 2-3: As part of a more strict harmonised approach, a well-defined list of exceptions (e.g. of specific sectors, types of data or for specific public policy reasons) would be established, allowing Member States to justify certain restrictions to the location of data.

Option 3: Addressing data location restrictions with a soft-law approach

As opposed to removing data location restrictions by means of a legislative instrument, this approach would recommend that Member States (i) seek not to impose direct or indirect data location restrictions; (ii) make sure that any restriction imposed in pursuit of a legitimate objective is justified and proportionate. The approach would include a mapping and analysis of existing data location restrictions, and present policy actions to foster alternative approaches. It would also provide for a system of best practice recommendations (notably, as to ways to achieve Member States' legitimate objectives without imposing data location restrictions), based on the notification and review of restrictions imposed by Member States. A soft-law approach would allow for flexible solutions and it could also address some shortcomings in sectorial legislation.

Option 4: Enhancing the transparency of restrictions to free movement of data within the EU.

Another soft-law approach would be to support the informed exercise of the freedom to provide data-services and the freedom of establishment of data storage / processing activities and setting up and managing undertakings by establishing a common platform for Member States to report data location restrictions, recommendations and administrative practices on data location in different sectors (as well as sanctions for non-compliance) - both existing and planned.

Alternative policy instruments

Different instruments can be envisaged, depending on the particular option that may be selected:

- A Regulation,
- A Directive,
- A Recommendation

Whereas option 2 would benefit from a harmonised approach on the basis of a Regulation it could also be achieved by means of a Directive. For options 3 and 4, a Recommendation would be deemed most appropriate.

Alternative/differentiated scope

An alternative or differentiated scope is not foreseen for the initiative.

Options that take account of new technological developments

The initiative is "digital and internet ready" as it does not target specific technological or digital developments. Rather, the initiative takes a comprehensive view of data technologies and services that takes into account existing and potential future technological developments, including, but not limited to, cloud computing, big data and IoT.

Preliminary proportionality check

The initiative would not go beyond what is necessary for the achievement of the objectives. The proportionality of the proposal will in particular be ensured by considering alternative approaches that allow for exceptions, providing room for Member States to justify particular practices.

C. Data Collection and Better Regulation Instruments

Data collection

Existing evidence base

An increasing body of literature identifies the importance of cross-border free data flows for economic development, and the detrimental effect of unjustified data location restrictions, both at internationalⁱ and at European level.ⁱⁱ Data location restrictions were identified as a barrier to the development of cloud computing in Europe by the steering board of the European Cloud Partnershipⁱⁱⁱ in the context of the Cloud Computing Communication^{iv} and preliminary activities aimed at the identification of unjustified data location restrictions, potential future restrictions on data location also need to be considered, as the possibility of the establishment of such restrictions already negatively affect trust in and use of cross-border data, and digital technologies and services.

An assessment of the relevant European legal framework, although not necessarily with a specific focus on the free flow of data, has already been carried out in recent years, including the revision of the EU data protection legislation, the revision of the e-Commerce Directive concluded in 2012, a report on the implementation of the e-commerce action plan in 2013, the guidelines issued in 2012 on the application of Article 20(2) of the Services Directive, and the Analysis and Evidence document accompanying the DSM Strategy (SWD(2015) 100 final).

'Data ownership', (re)usability and access to data and liability have been identified by stakeholders as emerging issues that require attention in a number of consultations and fora (see below). Although the existence of various commercial arrangements in the market for data technologies and services suggests that the rights and obligations of the parties, including the definition of the scope of usage rights for data, are often constructed by means of contractual law, the fact that legal clarity and certainty in those areas is lacking, and will likely continue to be insufficient, can be expected to have a considerable influence on the future development of the data economy in Europe.^{vi}

The current assessment is based on the following evidence.

- Data location restrictions were identified as a barrier to the development of cloud computing in Europe by the steering board of the European Cloud Partnership (ECP). ^{vii} In a survey that was launched following the publication of the ECP's report, a large majority of respondents (68%) agreed on the need to review data location restrictions and assess alternative approaches.^{viii}
- Preliminary activities aimed at the identification of data location restrictions within the context of the

internal market on the basis of stakeholder involvement.^{ix}

- 'Data ownership', (re)usability and access to data, and liability have been identified as emerging issues in consultations to follow-up to the Data-driven Economy Communication^x, in a high-level roundtable discussion on Industry 4.0^{xi} The concept of data ownership is being explored as part of an ongoing study within the context of the development of data markets.^{xii}
- The public consultation on Science 2.0: 'Science in Transition' along with four European wide validation workshops ^{xiii} addressed in particular new emerging issues, such as (re)usability and access to research data with the EU.
- RDA Europe (2014) The Data Harvest: How sharing research data can yield knowledge, jobs and growth.
- IDC study (Jan 2016) European Data Market SMART 2013/0063 D 3.6 and D 3.7 Data Ownership and Access to Data – Key Emerging Issues.
- Report from the C-ITS platform WG6 on access to vehicle data.

Further / ongoing evidence gathering

Targeted evidence will be gathered by the Commission on the basis of the following activities.

- Two studies on data location restrictions currently underway, aimed at identifying data location restrictions in Member States and quantifying their impact on the functioning of the internal market. Preliminary results of a first exploratory study mapping data location restrictions in 8 Member States will become available by the end of February, whereas preliminary results of a comprehensive study mapping data location restrictions in all 28 Member States will become available July 2016.
- The planned consultation of and work with stakeholders in the area of research data, e.g. an Open Science Policy Platform to be launched this year, which amongst others will address research infrastructure for Open Science.
- The forthcoming Open Access National Points of Reference report on Open Access in the European Research Area.
- The ongoing REFIT evaluation of the sectorial example of the INSPIRE Directive

Consultation approach

Public consultation

A public consultation on the regulatory environment for platforms, online intermediaries, data and cloud computing and the collaborative economy was launched on 24 September 2015, and ran for over 12 weeks^{xiv}. It included questions on data location restrictions, 'data ownership', (re)usability and access to data, and liability. In accordance with the better regulation guidelines, an Inter Service Steering Group (ISSG) approved the consultation questions.

Over 1000 responses were received^{xv}, and the Commission published a synthesis report of the results. Given its scope and the level of response, the public consultation is considered sufficient to inform the Commission's analysis of the options mentioned above.

Other information gathering and consultation activities

Consultation on the initiative will also include the following activities with the aim of gathering additional information and stakeholder input:

- Targeted workshop with key stakeholders, including a consultation workshop on this IIA report
- Academic workshops, particularly in regard to the legal questions posed by the emerging issues identified in the context of this initiative
- Outreach to the European Parliament
- Online engagement (on this inception Impact Assessment, and on the interim and draft final results of the studies currently in preparation)

Will an Implementation plan be established? ☑ Yes □ No

D. Information on the Impact Assessment Process

An Impact Assessment will be carried out for this initiative. The data collection work has already started and will continue during autumn of 2016. An Inter-Service Steering Group (ISSG) has been created and is led by the SG. The following Directorates General are involved: CNECT, JUST, GROW, COMP, DIGIT, RTD, ENV, MOVE, HOME, JRC, COMP, REGIO, ENER, FISMA, SANTE, TAXUD, ESTAT and the Legal Service.

E. Preliminary Assessment of Expected Impacts

Likely economic impacts

The initiative will have a positive impact on the functioning of the internal market by applying the fundamental freedoms to the data economy. In addition, by providing better conditions for the development of data, and data technologies and services, the initiative will maximise the growth potential of the digital economy in Europe, subsequently resulting in more economic growth in Europe.

The initiative will help users of data, and data technologies and services to take full advantage of the Digital Single Market by opening up the market, subsequently increasing choice and lowering prices. The initiative will help providers of data, and digital technologies and services as it will make it easier for them to deliver services in different Member States. Not having to provide for dedicated infrastructure or other solutions to address a fragmented market will lower their operating costs.

The initiative will also benefit to the science and research communities by clarifying access to research data in particular publically funded one.

The likely economic impacts of the various options will be analysed in detail as part of the Impact Assessment; if existing data location measures are removed, EU GDP gains of up to €8 billion p.a. (up to 0.06% of GDP) are estimated.

Likely social impacts

The initiative is likely to have positive social impacts as it may indirectly contribute to the increase in the number of jobs due to the overall positive effect on the economy stemming from a growth of intra-EU trade. Impacts on public values such as national or public security or public health can be minimised by providing for balanced approach that includes appropriate exceptions.

The initiative is likely to make the research and science system more efficient and responsive to societal needs.

Likely environmental impacts

The initiative, in particular if shortcomings to the of the implementation of the INSPIRE Directive and the Public Access to Environmental Information Directive are addressed, is likely to have positive environmental impacts as the free flow of data within the Union would prevent the unnecessary duplication of infrastructure (e.g. data centres) by providers of data, digital technologies and services. They will be able to reach their customers on the basis of infrastructure in only one or a limited group of Member States. The increased scale of their operations would allow them to work on a more energy efficient basis. Better data analytics, as a result of the limitation of data location requirements and clarification on the use of data, will contribute to better environmental analyses and green business opportunities.

Likely impacts on simplification and/or administrative burden

The initiative will not bring any administrative burden for users or providers of data, and digital technologies and services. On the contrary the free flow of data across public administrations would reduce administrative burden by maximises reuse of existing data. Depending on the option, the initiative may have a deregulatory effect, as it may target and make obsolete national restrictions on the location of data.

Likely impacts on SMEs

The initiative is likely to have a positive impact on small and medium enterprises including researchers and innovators, as they will particularly benefit from improved business conditions. SMEs will both benefit as providers and users of data and data technologies and services that can be used for the collection, processing and storage of data.

Likely impacts on competitiveness and innovation

The initiative is designed in a technology neutral way, which will provide for a flexible and future-proof solution that will particularly have a positive impact on fostering innovation and increasing competitiveness of Europe's data economy. Indeed, by addressing barriers to the development of the data economy, the initiative will provide for the conditions that are necessary to deploy innovative data-oriented activities.

Likely impacts on public administrations

The initiative may have an impact on public administrations as the options that foresee a regulatory solution may require transposition at Member State level.

Likely impacts on third countries, international trade or investment

The initiative will not affect relations with third countries insofar as it would have to be designed to be WTO compliant. However, implementing a strong policy favouring the free flow of data within the EU would strengthen the EU's position in international trade negotiations and in support of liberalising global data flows, subject to the EU legislation on the protection of personal data.

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- Workshop "Facilitating cross border data flow in Europe data location restrictions", March 2015, http://ec.europa.eu/digitalagenda/en/news/workshop-facilitating-cross-border-data-flow-europe-data-location-restrictions-outcome-workshop IDC & Open Evidence, "European Data Market Study (SMART 2013/0063): Data Ownership and Access to Data – Key Emerging Issues",
- vi November 2015 (forthcoming).
- vii European Cloud Partnership Steering Board, op cit.
- viii European Commission, "Trusted Cloud Europe Survey: Assessment of Survey Responses", July 2014, available at https://ec.europa.eu/digital-agenda/en/news/trusted-cloud-europe-survey-assessment-survey-responses
- ix Workshop "Facilitating cross border data flow in Europe - on data location restrictions", March 2015, see above х
- Communication from the Commission of 2 July 2014, "Towards a thriving data-driven economy", COM(2014) 442 final.
- xi Roundtable on digitising industry of 30 June 2015, see: https://ec.europa.eu/commission/2014-2019/oettinger/blog/making-progressdigitising-european-industry_en xii
- IDC & Open Evidence, "European Data Market Study (SMART 2013/0063): Data Ownership and Access to Data Key Emerging Issues", November 2015 (forthcoming).
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