

Sage Submission – International Trade Committee – Digital Trade and Data Inquiry

About Sage

Sage is a UK FTSE100 company and the global market leader for software that provides small and medium businesses (SMEs) with the visibility, flexibility, and efficiency to manage finances, operations and people. This technology includes integrated accounting, payroll and payment systems, as well as on-premise and connected cloud.

We are passionate supporters of the UK's small and medium sized business community. Our 2,500 Sage colleagues in the UK support over 1 million businesses through our products, partners, and advice.

Summary

Sage welcomes the important and timely opportunity to provide input into the International Trade Committee Inquiry on Digital Trade and Data. Sage encourages the UK government to be ambitious - digital trade and cross border data flows are critical provisions in securing future Free Trade Agreements (FTAs) to drive inclusive growth and prosperity across the economy.

We are now at a major turning point for the UK economy on the global stage. But, we need to move quickly and more ambitiously to give SMEs the confidence to capitalise on the trading opportunities after Brexit and for a post-COVID recovery. Incentivizing digital adoption and encouraging the free flow of data is a huge part of that.

Sage strongly supports the government's digital trade and data objectives and highlights its priority outcomes as:

- Achieving legal certainty for SMEs
- Supporting the WTO E-commerce package and extension of WTO Moratorium on Customs Duties for Electronic Transmissions
- Liberalizing cross border data flows
 - o Alignment on data protection and seeking adequacy with EU
 - o Prohibiting data localization provisions
- Protecting intellectual property
 - o Prevention of forced IP and source code disclosures
 - o Recognition of IP components of a product should be included within country of origin rules

Sage has spoken extensively to small businesses about their attitudes towards digital trade and data in the last few months.¹ Sage's response to the ITC inquiry builds on this research.

What are the main barriers faced by UK businesses engaging in digital trade?

Lack of investment in digitization for SMEs

COVID-19 has accelerated the shift to digital. Digital adoption has enhanced economic and social resilience throughout the crisis, especially in economies with high levels of digitalized SMEs. In the UK [73% of businesses](#) have turned to technology during the pandemic to keep their business functioning – although only 17% were planning investment before the crisis. The revenues generated via business conducted online in the UK has increased by 11 percentage points from before the

¹ Since February 2020 Sage has polled over 9000 SMEs on their attitudes to data, the impact of COVID, exporting and tech adoption

pandemic. 80% of UK SMEs think digital adoption will be critical for an enterprise-led recovery and job creation, but only a small proportion, 33%, have the bandwidth to continue to invest in technology across key business processes. Three quarters say that financial constraints are preventing the necessary investment in technology. As the UK government evaluates how we can return to pre-COVID growth, digital incentives should therefore be at the forefront of their agenda.

Lack of global alignment around data protection

One of the biggest barriers for SMEs is regulatory fragmentation and having to navigate different data regimes. 59% of SMEs cited data privacy laws and regulations as one of their biggest challenges. Businesses are struggling to cope with the different steps they need to take before they can legally engage in legitimately sharing information across subsidiaries and with trade partners.

Three quarters of SMEs who trade with the EU have had their business impacted by Brexit. Sage and its customers welcomed the EU-UK Trade and Cooperation Agreement's provision that allows for time to ratify an adequacy decision. Securing and retaining adequacy will continue to be a top priority for the business community. Sage supports the UK government's ambition in its National Data Strategy, to reduce burdens and complexity, particularly for SMEs, that will allow the UK to obtain and maintain a data adequacy regime with the EU.

Sage also urges the UK government to focus on other key mutual trading jurisdictions such as the US and Asia to ensure the least friction to flows of personal data. The recent Schrems II judgement shifts the onus of assessing other jurisdictions' adequacy to businesses. This places a disproportionate burden on data importers and exporters to evaluate whether a third country's legal regime is necessary and proportionate, impacting SMEs in particular.

Further, the UK Government's encouragement of, and involvement in, key data protection regime adequacy and consistency initiatives by global bodies is fully supported by Sage to further the success of our industry and SME customers.

What opportunities does digital trade present for UK businesses?

Unlocking exporting potential of SMEs can boost economic growth

Brexit uncertainty and the impacts of the pandemic persist, but there will be opportunities to expand exports during the recovery. In response to the economic effects of COVID-19, many SMEs have started to turn to trade, with 67% of SMEs either taking or considering measures to increase their revenue through exports in new markets. 375,000 SMEs have exportable products and services, but are not currently exporting. If all 375,000 businesses began to trade internationally, the economy could see a rise in [export revenues of £290 billion each year](#) - almost half the value of the trade agreement between the UK and European Union (EU). Stimulating e-commerce and digitalisation opens up international markets for smaller businesses.

What approach(es) should the UK take to negotiating digital and data provisions – including those concerning the free flow of data, protection for personal data, net neutrality, data localisation, and intellectual property– in its future trade agreements?

Free flow of data

Sage applauds the UK government's ambition as laid out in the National Data Strategy to secure adequacy from the EU while removing unnecessary barriers to data flows globally.

Data localization

Future UK trade agreements should contain provisions that prohibit data localization requirements. The Japan-UK trade deal is a recent best practice.

Intellectual property

Sage echoes CBI in that UK trade agreements should prevent the forced transfer of algorithms, software, or encryption keys as a condition of market access. Forced IP and source code disclosures as you have in countries like China is a major inhibitor to investment for SMEs. Further, recognition of IP components of a product should be included within country of origin rules. IP is now a high value component within manufacturing and any future trade agreements need to simplify the rules so that businesses can understand and benefit.

What does the UK-Japan Agreement indicate about the UK's approach to digital trade and data provisions in future trade negotiations?

The UK-Japan Agreement signifies the UK's forward-looking approach to digital trade and data in negotiating future trade agreements. Sage welcomes the new e-commerce provisions, more specifically, on data protection, open government data, free flow of data, data localization and intellectual property. The digital trade and data provisions of the UK-Japan deal marks a significant departure from the EU-Japan agreement and sends a strong signal of UK's intention to be a world leader in this space.

What approach should the UK take towards renewing the WTO's moratorium on customs duties on electronic transmissions?

The WTO Moratorium on Customs Duties on Electronic Transmissions helps prevent the creation of trade barriers and customs duties or tariffs on cross border data flows. The moratorium enables consumers to gain access to new products and services and enables the free-flow of data between servers and businesses that may be located in different jurisdictions and are collaborating to create value. Businesses around the world, especially SMEs, have consequently connected to new markets and innovations. By failing to make the moratorium permanent, both developed and developing economies will suffer the knock-on effects from a lack of market access. Sage would encourage the UK government to use the platform of the upcoming G7 to build consensus and momentum for making the moratorium permanent.

What objectives should the UK have when negotiating digital and data provisions during its accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)?

The progressive measures of the CPTPP to remove barriers to digital trade and protect the free transmission of data, which is increasingly the lifeblood of cloud businesses, mark positive steps for ambitious tech and service-based UK SMEs. Sage strongly supports the specific provisions on data protection, data localisation, the elimination of customs duties on electronic transmissions, and prohibition of access to source code as a condition of market access.

The dedicated SME Chapter of CPTPP and its measures to encourage countries to facilitate SME trade offers significant potential to help the UK's small businesses tap into some of the world's most exciting and high-growth economies.

Sage is encouraged by the objectives of the UK government thus far and encourages the UK government to continue build coalitions to further champion the benefits of liberalising digital trade in multilateral forums like the upcoming G7 and the WTO Joint Initiative on E-Commerce.

What domestic and international law is relevant to the Government's approach to digital trade?

Throughout COVID-19 as restrictions continue to rise on the movement of people and goods, the digital economy has kept out economy going – through digital conferencing, digital payments, cloud solutions, online schooling and e- health. While existing international agreements cover digital trade, the current frameworks need to be adapted to meet the realities of today and to ensure the benefits are shared more inclusively.

Sage encourages the UK government to push for a WTO e-commerce package, recognizing the urgency to create more certainty around the international rules governing e-commerce, digital trade and digital economies. New WTO rules are needed to enable SMEs access and the distribution of their goods more efficiently. Further these multilateral rules must not just drive growth, but trust for consumers, balancing data protection with innovation. Emerging technologies will continue to disrupt economies and society - Big Data, AI and IoT – and so an ethical, practical and positive set of rules that will enable trade agreements that will work as these technologies become widely used is key critical to enabling future benefits and prosperity.

Annex

Key findings from Sage research

Trade

- SMEs account for around 30 per cent of United Kingdom exports but have faltered recently
- Brexit uncertainty and the impacts of the pandemic persist but there will be opportunities to expand exports during the recovery
- In response to the economic effects of COVID-19, many SMEs have started to turn to trade, with 67% of SMEs either taking or considering measures to increase their revenue through exports in new markets.
- Three quarters of SMEs who trade with the EU have had their business impacted by Brexit
- Unlocking exporting potential of SMEs can boost economic growth
- 375,000 SMEs have exportable products and services but are not currently exporting.
- If all 375,000 businesses began to trade internationally, the economy could see a rise in export revenues of £290 billion each year - almost half the value of the trade agreement between the UK and European Union (EU).
- Stimulating E-commerce and digitalisation opens up international markets for smaller businesses

Digitization

- The revenues generated via business conducted online has increased by 11 percentage points from before the pandemic
- Almost 1/2 of businesses say the pandemic has made technology investment more urgent in order to remain competitive and boost productivity
- Nearly ¾ believe that further investment now into key areas of technology would deliver performance improvements and support recovery
- However, Covid-19 has dramatically reduced businesses' capacity to invest. 3/4 say that financial constraints are preventing the necessary investment in technology.

Data

- 100% of businesses data is important to their business
- Trust in data sharing, data security and data privacy are the main barriers to customers subscribing to a service.
- 8/10 SMEs want more control of their data.
- UK businesses have a higher level of trust in government and their policies, while US businesses have very low levels of trust
- 59 percent of SMEs cite data law and regulations as one of their biggest challenges