



EUROPE IN 2030: SUCCESSFULLY MANAGING DIGITALISATION

Working Session
Berlin, 24-25 November 2017

INTRODUCTION

The Club of Three’s 2017 Working Session – “Europe in 2030: Successfully Managing Digitalisation” – involved some 50 senior figures from industry, technology companies, politics and the media in France, Germany and the UK. The idea had grown out of the 2016 Plenary meeting in London when a number of participants from the commercial sector warned that digitalisation represented a challenge still greater than Brexit. There was strong enthusiasm for a follow-up conference focusing on the

implications for European corporations, governments and society.

The meeting that took place in Berlin at the end of November explored the opportunities that digitalisation could bring about as well as its disrupting effects on society and large parts of the traditional economy, and how Europe could rise to the challenge.

It was divided into three sessions. The first session, during which Jim Hagemann Snabe (Chairman-designate, Siemens AG) gave a



Left: Jim Hagemann Snabe (Friday afternoon session), Deutsche Bank Unter den Linden



Right: Ben Hammersley (Saturday sessions), Axel Springer Plug and Play Accelerator

keynote address, was held at Deutsche Bank Unter den Linden on the Friday afternoon and focused on the socio-economic aspects of digitalisation. This was followed by an evening reception at the British Embassy hosted by Ambassador Sir Sebastian Wood.

The two Saturday morning sessions were held at the Axel Springer Plug and Play Accelerator, focusing respectively on the information revolution and the opportunities and risks associated with highly connected cities.



Top left: Ed Vaizey MP speaking during the Friday afternoon session

Top right: John Penrose MP and Edmond Alphandéry (left)

Bottom left: Kay Oberbeck **Right-hand side:** Faiza Shaheen

MEETING PARTNERS

This meeting was made possible thanks to:



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FRIDAY 24 NOVEMBER

SESSION I – DIGITALISATION, GROWTH AND JOBS

Chair: Bernard Spitz

Speakers: Michel Yahiel | Iris Plöger | Ed Vaizey MP

A large number of participants, including senior industrialists, were ambivalent about what lay ahead. Many described themselves as “concerned optimists”, which reflected how difficult it was to anticipate with accuracy the level of disruption that was to be expected and what policy responses would be needed.

There had been industrial revolutions in the past of course – each one causing profound social and economic changes – but the speed and scale of the current digital transformation was unprecedented.

Until now, competitive advantage for Western manufacturers could be gained by achieving economies of scale: producing large quantities of the same product dramatically lowered the cost of production. This had meant outsourcing manufacturing to China where labour was abundant and

cheap. However, this longstanding economic reality was being challenged. Thanks to 3D printing technology, individualised products could now be made cheaply, paving the way for a re-industrialisation in Europe for the first time in decades, as manufacturers were moving closer to their customers in order to better respond to their specific needs. This was also helped by the increasing decentralisation of the energy system.

Risks vs opportunities

Several participants identified a tension between the benefits of digitalisation to business and consumers and the potential disruption it could cause to the existing

Bottom (left): Michel Yahiel during the session at Deutsche Bank Unter den Linden

Right: Margarita Mathiopoulos



workforce. The socio-economic groups on the receiving end were different to those affected in past industrial revolutions. While low-skilled workers had tended to be most impacted, highly educated professionals such as doctors and lawyers were this time set to lose their jobs to artificial intelligence. Financial services were another area deemed at high risk. It was pointed out that apps were now able to provide assessments and forecasts to investment banks in significantly less time than a human analyst.

If properly managed, however, this radical transformation could deliver vast improvements for modern societies. Artificial intelligence would cut healthcare costs and dramatically speed up medical diagnoses and treatments, resulting in leaner and more efficient public services. At the same time, staff would be redeployed to crucial and more rewarding front-line jobs. In the farming sector, the use of sensors to predict local weather conditions would help maximise yields. Technology would also drive greater efficiency and sustainability in transportation. In major urban areas, a move away from private ownership towards shared, driverless vehicles would lead to a more optimal use of passenger cars.

Information technologies were now very cheap and widely accessible, empowering a new generation of entrepreneurs, but rising technology-driven inequalities also had to be addressed. Who would look after those economically left behind? For some, part of the answer lay in a reform of the tax system. Taxing capital more heavily as well as resource consumption would help to reduce the burden on labour and therefore save jobs. Wage flexibility and universal income were also conceivable in a future in which technology would have significantly reduced the cost of living. For example, some participants foresaw a significant drop in energy prices in the future thanks to technological innovations. Taxing robots was not deemed workable however.

Whatever the policy solutions, in a world that could see even greater concentrations of wealth in even fewer hands, ethical behaviour was more important than ever before. Large corporations for instance would have to be transparent about the content of the algorithms they used in order to win people's trust.

Bottom (left): Edie Lush (Saturday sessions)

Right: Session I chair Bernard Spitz



European competitiveness

Several recommendations were made to ensure that Europe was able to compete with the US and China. One Brussels-based participant suggested that the EU's precautionary principle of regulating early to pre-empt risks might not sit well with something as rapidly developing as artificial intelligence. The establishment of a fully functional Digital Single Market that provided a level playing field across Europe's 500 million people was also an absolute necessity. This was being undermined by barriers to cross-border data flows such as data localisation. France and Germany were resisting moves to remove these barriers while others including Sweden and the UK were pushing for the free flow of data.

Participants also agreed that a European version of the US's Defense Advanced Research Projects Agency (DARPA) would be a worthwhile initiative as it would help boost investment in innovation projects.

Bottom (left): Sir Sebastian Wood

Right: Norbert Röttgen



EVENING RECEPTION

The Friday session was followed by a reception hosted by Ambassador Sir Sebastian Wood. During speeches from Ambassador Wood and Club of Three Vice-Presidents Edmond Alphandéry and Norbert Röttgen, there was optimism that a deal on the first phase of Brexit negotiations would be reached in December 2017. Britain remained immensely important to Europe and both sides would need to refrain from making hasty decisions that could close the door to creative win-win solutions.

The difficulty of forming a new government in Germany was a cause for concern. For the first time in recent history, political stability in the country was being called into question. There was no appetite for new elections. While a new CDU/SPD grand coalition would guarantee continued stability, it would be a weakened coalition with the risk of further popular discontent in coming years. A minority government would be unprecedented but might have the merit of opening up political debate in Germany. A new form of grand coalition seemed to be the most likely scenario given the country's long-established culture of stability.



SATURDAY 25 NOVEMBER

SESSION II – THE INFORMATION REVOLUTION: DIGITAL JOURNALISM, THE RIGHT TO INFORMATION, THE RIGHT TO PRIVACY

Chair: Philip Stephens

Speakers: Philippe Moreau Chevrolet | Ben Hammersley | Wolfgang Zehrt

Discussions during the first Saturday session focused on the media sector which was experiencing very challenging times. One of the participants predicted that half of the mainstream media in Europe would not survive beyond 2030. A number of publishing houses were already buying automated news content and according to a BBC report in the UK 90% of all news would be automated within 10 years.

Fake news

The impact of highly targeted fake news through advertising-led social media platforms was also a concern. The ‘first wins all’ logic of online platforms and their powerful gravity effect meant they had huge numbers of users and enormous power. Facebook and Google largely dominated the online advertising market. Targeted advertising on these platforms had been used to deliver fake news campaigns which had been very successful in the last US election. These could be specifically targeted at individuals based on their views and preferences, building bubbles of misinformation around them, reinforcing their prejudices and keeping them in closed echo chambers.

There was also concern about the effect of fake information on the work of

government. In November, reports had emerged that millions of submissions to the US’ Federal Communications Commission public consultation on a proposal to repeal Obama-era net neutrality rules had been sent from fake email accounts, and all of them were pro-repeal.

What could be done? Western democracies were fighting an asymmetric battle as the technology used to spread fake news was not nearly as advanced as the extremely sophisticated measures required to counter this threat. One of the participants suggested using built-in algorithms that would score the veracity of a piece of news.

Although stopping fake news seemed a very difficult task, authoritarian moves to rein in technology giants were not the answer. Firstly, the younger generation no longer recognised a top-down power structure as legitimate. The deterioration of trust in politicians over the past decade had been a major contributing factor, and for many the growth of the online space had brought about an important democratisation of information. Secondly, internet restrictions would unfairly impact communities that are not engaging in this information warfare. The only viable long-term solutions for democracies were to educate the public to

LIST OF PARTICIPANTS

Edmond **ALPHANDÉRY** *Euro50 Group* | Rowan **BARNETT** *Google for Entrepreneurs Germany* | Liam **BENHAM** *IBM* | Nick **COLEMAN** *IBM* | Philippe **COQ** *Airbus Group* | Eckhard **CORDES** *Bilfinger SE* | Jacob **DÜRINGER** *Robert Bosch Stiftung* | Peter **EDGAR** *Dawson & Andrews* | Lord **EVANS of Weardale** *HSBC* | Andrew **FRASER** *Mitsubishi* | Ben **HAMMERSLEY** *Technology journalist* | August **HANNING** *Former State Secretary, German Federal Ministry of the Interior* | Jacqueline **HÉNARD** *CNC Communications* | Wolfgang **ISCHINGER** *Munich Security Conference* | Christof **KUTSCHER** *AXA Investment Managers* | Armand **LAFERRÈRE** *AREVA* | Sergey **LAGODINSKY** *Heinrich Böll Foundation* | François **LE GOFF** *Club of Three* | Edie **LUSH** *Hub Culture* | Michael **MACLAY** *Club of Three* | Margarita **MATHIOPOULOS** *ASPIDE Partners* | Thomas **MATUSSEK** *Flint Global* | Douglas **MCWILLIAMS** *Centre for Economics and Business Research* | Ianthe **MCWILLIAMS** *Centre for Economics and Business Research* | Philippe **MOREAU CHEVROLET** *MCBG Conseil* | Anne-Elisabeth **MOUTET** *Daily and Sunday Telegraph* | Kay **OBERBECK** *Google Germany* | John **PENROSE** *House of Commons* | Friedbert **PFLÜGER** *Internet Economy Foundation* | Hella **PICK** *Institute for Strategic Dialogue* | Iris **PLÖGER** *BDI* | Sarah **RAINE** *International Institute for Strategic Studies* | Charles **RIOU** *Publicis Groupe* | Norbert **RÖTTGEN** *Foreign Affairs Committee, Bundestag* | Nikolaus **RÖTTGER** *WIRED Germany* | Bertram **SCHULTE** *SAP* | Heinz **SCHULTE** *griephan* | Faiza **SHAHEEN** *Centre for Labour and Social Studies* | Jim **HAGEMANN SNABE** *A.P Moller-Maersk* | Bernard **SPITZ** *French Federation of Insurance (FFA)* | Philip **STEPHENS** *Financial Times* | Sir Peter **TORRY STAR** *Capital Partners* | Ed **VAIZEY** *House of Commons* | John **WILLIAMS** *Association of Chartered Certified Accountants UK* | Michel **YAHIEL** *France Stratégie* | Harald **ZAPP** *Next Big Thing AG* | Wolfgang **ZEHRT** *ADDN* | Leon **ZUCCHINI** *Airbus Group*

be healthily critical of what they consumed online, and to systematically retaliate against the misinformation propagators themselves, especially in the case of overseas operations.

Data protection

It was also clear that rules were needed on data privacy and ownership. One participant suggested applying common sense as a starting point: in the digital world, we should not tolerate behaviours that we would find unacceptable in real life. “If a postman read your mail to find out what your interests are and tried to pre-emptively sell you goods on your doorstep, you would ask ‘are you out of

your mind’?”, he said. Another participant called for a clear digital charter about the rights that consumers should expect from technology giants. Many believed that the European Commission was right to try and hold these companies to account.

SATURDAY 25 NOVEMBER

**SESSION III – HIGHLY CONNECTED SOCIETIES: HARVESTING OPPORTUNITIES,
COPING WITH RISKS**

Chair: Norbert Röttgen

Speakers: Nick Coleman | Edie Lush | Harald Zapp

In order to prepare society for the radical transformations ahead and ensure that digitalisation was a bridging rather than dividing factor, it was crucial that education systems adequately equipped future generations with the right skills. This was a huge challenge as the speed of technological change meant that it was impossible to predict what tomorrow's skills would be. Some studies indicated that about 65% of children in primary school today would be doing jobs that did not yet exist. And throughout their adult life, they would need to frequently retrain in order to keep up with change. In this regard, the Spinelli Fund proposed by France Stratégie was offered as a solution. This was a lending mechanism that would finance training schemes for people in need of new skills.

Questions were raised about what effect digitalisation would have on the economic balance between cities and regions, particularly on those that had been left behind by de-industrialisation. Firstly, it was essential that European governments took digital infrastructure seriously. Connectivity was still poor in some areas. Secondly, they should offer bold support in the form of technology incubators – and not only in capital cities. In Germany, numerous cooperative clusters had been created across the country through the federal government's "go-cluster" programme.

Meanwhile, there was huge potential to improve democracy through digital. Estonia

Bottom (left): Christoph Keese (Axel Springer) welcoming the guests

Right: Philippe Moreau Chevrolet



had led the way on this. Online voting, online tax returns and paperless government had been features of the Estonian state for many years and were hugely time-saving, yet much of Europe lagged behind. One British participant saw this model as essential for other countries to emulate in order to provide faster, better services for citizens, for less money. The British government had made progress in this area but more had to be done.

Cyber security

The Estonian state’s unique approach had been developed with the threat of a major Russian cyber-attack in mind. All key data was stored abroad at Estonian ‘digital embassies’. This meant that if the Estonian government were forced to leave the country, they could operate from abroad and retain their legitimacy, or reboot the state from a ‘backup’ if their domestic servers were compromised. The Three had much to learn from this in terms of how to build a state fit for the digital age.

A solid framework was now in place at EU level with the NIS Directive on the security of networks and information systems.

However there were industry concerns that its implementation would give rise to burdensome reporting obligations, leading to a ‘box-ticking’ culture diverting resources away from anti-crime activities.

The rapid growth of interconnected devices and the possibility for cyber criminals to exploit Internet of Things vulnerabilities was giving rise to a new type of threats. Over the past 12-18 months there had been reports of multiple disruptions to home routers and other appliances through peripheral devices such as baby alarms or smart energy meters. Facing these threats required an ecosystem approach to cyber security.

Blockchain technology, which had originally been developed for cryptocurrencies, had a key role to play in making cyber ecosystems more secure. Bitcoin and its blockchain technology had successfully withstood cyber attacks until now. Major companies in the banking and insurance sectors were increasingly investing in this technology. Greater security was not the only gain. Blockchain allowed much faster and cheaper exchange of all kinds of data.

Bottom (left): Liam Benham (Friday session)
Right: Norbert Röttgen and Nick Coleman



CONCLUSION

Many of the concerns expressed during the meeting stemmed from a sense that the speed of change was making it difficult to anticipate the future and to provide adequate responses. Some felt that they had been by-standers in this digital transformation. Regulation would always be straining to catch up with technological innovation – which was only going to accelerate. The answer was not an authoritarian response but leadership. In order for technology to be a means rather than an end, western societies would have to set a clear vision of what they wanted to aim for and the rules they would abide by.

As a regional power, Europe was also feeling squeezed out. About 95% of online platforms were either American or Chinese. There was a deep well of talent in Europe : a lot more needed to be done to retain it. One way to achieve this was to create a digital market large enough to attract the level of investment seen in Silicon Valley. Was it too late for Europe? Many believed that it was still possible to do this if Europe showed vision and leadership. According to one participant from industry, European business leaders had to show the way. This responsibility could not fall exclusively on politicians, who were still struggling to get a grasp of the digitalisation challenge. With the right system of incentives in place, we could eventually ensure that the majority of people would benefit from the rewards of digitalisation. The future could be more sustainable and life-enhancing thanks to technology. But failing to manage this transition would lead to significant social and economic upheaval.