

Julian David: 'We need to get the data issue right in the Brexit negotiations'



*As businesses in all industries become increasingly digital, describing the technology sector as a separate category makes a little less sense. Banking, retail, the media and all kinds of services are going online. This digitalisation of economic activity poses a challenge to the idea of borders, and makes the Brexit negotiations especially difficult. Julian David, CEO of techUK, an association representing 950 tech companies, says that a large number of industries today exist in the context of moving data. "What is banking? It's 0's and 1's, isn't it?" he asked LSE Business Review's managing editor, **Helena Vieira**. "We need to get two issues right (in the Brexit negotiations): data and talent", he said. They spoke during Web Summit, in Lisbon, on 7 November.*

We know that 80 per cent of the UK economy is in services. How much of it is represented by the tech sector?

If you take a broader sense of technology, which is technology suppliers and digital intensive industries – things like banking, financial services, creative industries, and so on, we've done a report that has it at 16 per cent of total UK GDP, so it's huge. We define the digital sectors as the 12 most intensive digital-producing or digital-using sectors — a group that is likely to increase as more sectors digitise. And 96 per cent of these digital sector outputs are services-based.

We know little about how Brexit will evolve. Is it possible to foresee the impact on tech companies?

You're right, we don't know, which is a bit concerning in itself, a year on, and it depends on the outcome. Two issues really need to be got right among a list of five that we recently published. The first issue is data. The point about services is that it's really driven by data. Data flows in the UK is about 3 per cent of GDP, but it's 12 per cent of global data flows. So we're a data economy, and a lot of that goes to the EU, so if we don't get our data relationship right out of Brexit, that will be a big issue. The second big issue is talent and skills. The UK has attracted talent and skills from all around the world but a significant amount is from the EU, and in particular they're very easy and flexible, which is what you need in a fast growing tech environment, so if we aren't able to get those skills and keep them in the UK, that's going to be an issue.

Can you explain what you mean by data flows and what are these companies that are heavy in data?

Well, if you think about the sectors that our report features, industries from telecom to software to devices and more conventional computer equipment. And then you think about industries like financial services, professional services, creative industries, media and others like that... Those are the industries that exist in the context of moving data. What is banking? It's 0's and 1's, isn't it? Nobody carries a big chest of gold around anymore. It's all done in computers. And that is what goes on. So, any trade and e-commerce, anything like that is driven by data flows and you need data flows to make that happen. And increasingly even physical goods are getting data attached to that. If you think about supply chains, something like automotives, there's an awful lot of data that moves around with the components. If you don't have good data flows between the main economies, the main trading partners, that's going to be a problem.

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So the UK tech sector is data heavy...

Yes, it's a services-based sector and 75 per cent of those services go to the EU. Yes, we're looking to expand and we are expanding our trade with other economies around the world. But we need to preserve that 75 per cent while you expand.

In a recent [interview](#), Adam Posen, of the Peterson Institute, said the UK may even strike a trade agreement with the US, but it would be more symbolic than anything since the two countries' are about 80 per cent services, competing in the same sectors...

There's a lot of work and a lot of business between the UK and the US tech sectors. It already is happening. Building a free trade agreement with the US would be a great thing. Including services agreements in free trade agreements is not something that has been commonly done, it's not very easy to do. It's generally a small part or there are restrictions. It would be great to do that with the US, but it's not an easy thing to do. Do they compete with us? Yes, they do, but equally, they're also present in the UK. I mean, a huge amount of the UK tech industry is international companies based in the UK. These international companies are just as interested in getting the data flow arrangement and the services agreement and the trade agreement right with the EU, from the UK as our tech companies are. In fact, Wilbur Roth, the US Secretary of Commerce, was in the UK this week, talking at the CBI conference, and he made the point that a lot of US companies came to the UK in order to do business across Europe. And they're very interested in us getting the right deal, the right arrangement. You can say the same about Japanese, Chinese companies. International companies want to be able to trade across the whole of Europe.

Would Brexit not taking place be the ideal for you?

This is an interesting one. Our industry didn't want Brexit. That was very clear. We polled our members, and they were overwhelmingly (85 per cent) in favour of staying in the EU, particularly the single market. Looking particularly to exploit the growing digital single market. However we are where we are. So what people are now saying is, "well, if there is going to be a Brexit, then it's really got to take account of these issues, and the best way to do that is the single market. We're saying that our industry wants to stay in the single market. We had a conference last week and we asked the question, these instant feedback things that you do, instant polls, and again, it was 90 per cent of people saying the single biggest issue for them was Brexit.

A common example of the difficulties of Brexit is the automobile industry, whose supply chain crosses borders back and forth between the UK and Europe many times before the final product is ready to be shipped out of the UK. Is the example valid for the tech industry?

Yes, if you think about what I've mentioned on services and if you think about the number of international companies that trade across the whole of Europe, they do that as an integrated proposition. They want to be able to provide services, and if you think about the ancillary industries... I don't know if you know, but something like half of all TV production in Europe is done in the UK, and then it's broadcast in one shape or another. We're talking about all sorts of companies, including Amazon, Netflix, etc. So if you lose the ability to do that because of restrictions on country of origin or original content or just really other regulatory issues, that's going to have a big impact. The same applies to people running cloud services, or other services across Europe. They need to be able to service that from one single point, and at the moment a lot of that is in the UK. So it's really going to be a problem. Then if you broaden it out, you think about all of the other industries, they move data around the place just as much as the automotive industry moves. And we're already seeing again, there was a survey out recently that showed that European companies are starting to think about their supply chains, starting to look at how do they deal with the potential that they won't be able to move components from the UK the way they used to.

You want to be global, Britain? You've got to behave like it.

Access to the EU market is key, then...

Just to stress this, we want to be a global trading nation. We want to strike free trade agreements around the world. Well, there's a huge one right at our doorstep. So, really, it's really important to get on it. Despite what people say, proximity does matter. The UK does more trade with the EU than it does with the US. And particularly in services, the ability to move people, which is often a component part of the service provision... Yes, our industry makes stuff available now through virtual means, online means, etc, but there's still that need to do that and to have a recognition of your services, your professional standards, regulatory agreements, data arrangements, intellectual property rights, all things like that.

Without passporting rights, will fintech have to look for other markets? What would the impact be?

Fintech is looking for other markets and it's global. Even places that don't have a great financial services footprint can and produce fintech solutions. For instance, Israel doesn't have a big financial services industry but they have quite a lot of innovative stuff going on. The challenge is what makes you the centre for this stuff versus anywhere else, and sets a connection for everything. London is a perfect place. It has a financial services industry, a tech industry, legal and professional services, fantastic regulatory environment, all in one place. The time zone, English law, which is really important in financial transactions. A huge amount of financial transactions say that they will be done under the English contract law, even if they're not connected to England. Put all that lot together in one place and we have a standout success factor. Start to break it up, that's an issue. Now this is an issue for Europe as well, by the way, because the idea that you can disassemble London and grow it in six to ten other places around Europe, is just for the birds. It's not going to happen. Some stuff will move, we're seeing that. And some stuff will start to grow in new places. But the likelihood is that, if we don't reach an agreement, this stuff won't be moving to places in Europe. It'll be places like Hong Kong... That's the price for both Europe and the UK.

Europe doesn't have an English speaking capital that would be the equivalent to London...

No, although I think you can see here at WebSummit, everyone is working in English, even the French.

Are you worried about the UK losing access to the EU's pool of talent?

Yes, and that's quite a broad problem. If you look at our research and development places, if you look at universities, the whole science space, how many times do you see European talent in leading roles, and throughout the technology scene, you see it very much at start-ups. So many Europeans either moved their business to London or started their business somewhere in the UK because of the advantages that they see, and the fact that they don't have to worry about visas, about family members coming to visit, much of that stuff. Well, all of a sudden they do. We used to say EU skills are welcome here, EU people should stay here and contribute here. And tone is very important here. One of the most disturbing things is the tone of the conversation that was happening a year ago post-referendum. It's so important. You want to be global, Britain? You've got to behave like it. And that involves welcoming the best talent from around the world.

Universities are worried about that too. If students don't choose the UK anymore, and you don't retain them here, you don't allow them to work, then they'll leave...

Yes. We've always thought that including student numbers in immigration numbers is not right. Now there isn't the problem that the government said. The students aren't coming here in disguise and staying as illegal immigrants. But what they can do is they come here, bring skills, develop those skills, build the university sector in the UK, start to team up with other people, UK people, and build businesses in the UK, or contribute to them. Look at Graphene. Who are the people who had the breakthrough in that? It was incomers to the UK. And we must insure we get those. The best from all around the world, not just Europe, and we certainly mustn't make it difficult for the Europeans.

Can the government compensate by investing in technical education for UK students?

Yes, there are opportunities. If you are able to have a smarter, more agile approach to things in the UK, maybe even taking positions that the EU is unable to take or takes a long time to take, then you can see some advantages. So, can the UK do something about it? Yes it can, but it would require a different approach to investment, R&D, increase our R&D percentage by both the government and the private sector. We're behind other countries in this, or best practices in other countries in this. Skills and tech education. It's taking a long time for us to actually develop a proper tech education to build the proper skill base in the UK, and of course that takes a long time to come through. You're not going to solve the problem in 2019 by starting some computer courses now.

Is it possible for the UK to thrive without a free trade agreement with the EU?

We think it's really hard. Firstly because getting these kinds of agreement services-based, remember how significant the services side of our industry is, with other countries, is not an easy thing. That's going to take time, it will involve a give-and-take and a willing partner. That willing partner, all of them have said "we're interested, but we want to see what your agreement with the EU is, first". And like what Wilbur Roth said, if you don't have passporting, a lot of the US financial institutions are going to be concerned about investing in the UK. It's what he said this week. So, that's the first issue for us. The second issue is just the number game. How do you replace 46 per cent of your trade in one go? For us, although some parts of our industry, world trade, very small tariffs, it can't be accommodated. The pound has already gone down 15 per cent, so some people say, that's really not addressing the point of regulation, services agreements and recognition of those things. And those are the really important things. So we think not having a deal will be a bad thing for the tech industry.



- This Q&A is part of a series of interviews during the [Web Summit](#) conference in Lisbon, 6-9 November 2017. The conversation was edited for clarity and brevity.
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