The Impact of Brexit on the Digital Market in the Aftermath of the Trade and Cooperation Agreement


On January 1, 2021, the United Kingdom left the EU, putting an end to the free movement of persons, goods, services, and capital and making the EU and the U.K. two separate markets, as well as two distinct regulatory and legal spaces.

On December 24, 2020, EU and U.K. negotiators reached an agreement on the text of a new "Trade and Cooperation Agreement" to govern their relations. This agreement goes beyond traditional Free Trade Agreement (FTA) and provides the basis for a longstanding cooperation between the two blocs. The impact on the U.K. digital landscape will be limited and sector-varying, and it will be crucial to keep an eye on future negotiations. Starting from the agreement, four main elements that will affect the ICT market can be identified:

• Relocation/postponement of services provided

• Data management

• New technological adoption and redesigned supply chain

• Skills shortage

Understanding the main aspects of the deal, the industries affected, and the consequences in the medium term in terms of ICT investment is crucial for digital players, also considering the important role the U.K. has in the European digital landscape, accounting for more than 20% of regional spending.
"Uncertainty and the risk of obstacles to maintaining previous economic relations with the European Union are affecting the U.K. and European Digital landscapes with different nuances across tech areas and industries," said Luca Butiniello, research analyst, European Customer Insights & Analysis.

Among the multiple agreements, six key deal elements affect the European digital landscape the most:

- **Security and data protection**: The agreement includes a commitment by the EU and U.K. towards high personal data and privacy protection standards, but the rules are not yet finalized.
- **Financial services and equivalence**: This is one of the most complex and vague points of the agreement since it does not establish any rules or principles clarifying how financial institutions will operate among the two regions.
- **Professional qualifications recognition**: Since January 1, the recognition of professional qualifications among the two regions is no longer automatic.
- **Domestic rules and professional services**: European professional services suppliers operating in the U.K. will face the same treatment as U.K. suppliers operating in the U.K., and vice-versa.

**Facilitation of trade**: No tariffs or quotas (limits to the amount that can be traded) will be applied, but trade between the U.K. and the EU bloc will face new controls at borders, such as safety checks and custom declarations.
• Product standards and rules of origin: The two blocs agreed on a definition of international product standards, assuring that products from both sides will be based on the same international references and are therefore compatible to the extent possible.

"Looking at digital spending plan across industries, financial and professional services are the most hit sectors. The extent of the impact will depend on the ability to create a comprehensive regulatory framework," says Angela Vacca, IDC European MacroEconomics Center of Excellence Lead.

Sectors will be affected depending on how much they will be exposed to the agreement’s key points. Without further clarifications, financial and professional services will face the highest potential impact, while telecom & media, transportation, utilities, and government will take advantage of partially settled regulations. Data management and the qualification of professional skills are a threat for almost all sectors, while non-tariff barriers will result in more complex procedures for sectors such as retail and manufacturing.

FIGURE 1: BREXIT TRADE AND COOPERATION AGREEMENT IMPACT ON U.K. INDUSTRY ICT SPENDING

Figure 1
As rules are still often unwritten and market reactions in many cases still to come, digital players that want to compete in this market need to make sure they understand what is happening and future evolutions.

For more information on this topic, please refer to IDC #EUR147181621, Brexit In Action

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— A Redefined European Market Landscape, February 2021.

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