How could the Digital Services Act affect the digital economy in Bulgaria and Romania?

May 2020

What is the Digital Services Act?
The European Commission is planning to update, clarify and harmonise the existing e-Commerce Directive (ECD). The new regulation, known as the Digital Services Act (DSA), will set the rules for trade in online services within the EU. It has the potential to harmonise the single market for digital services, protect consumers and provide smaller businesses with legal clarity and a level playing field. However, if it creates imbalanced incentives, overextends the regulatory scope, or is unclear, the DSA could result in unintended consequences that harm businesses, consumers and wider society.

Scope: what is included?
The scope is expected to be wider than for the existing ECD, covering all digital services, including online platforms (e.g. social platforms and marketplaces), search engines, Internet service providers, cloud services, content delivery networks, domain name services, collaborative economy platforms, online advertising services, and services built on electronic contracts and distributed ledger technologies. It is likely to cover content, algorithms, data, and potentially business models. In addition, it may categorise services in scope on the basis of their market status—e.g. introducing a threshold based on the scale, scope, or reach of a service.

Intermediary liability and content moderation
Digital service providers in the EU are currently exempt from intermediary liability, as long as they have no knowledge of illegal content on their services. Policymakers are considering changing this. Proposed changes could range from extensive liability (meaning the provider must undertake moderation of all content and products offered), to obligations requiring certain processes be in place (such as notify-and-action mechanisms) in order for the provider to benefit from ‘Safe Harbour’ protection. Other proposals involve creating greater incentives for digital services to apply pro-active measures against illegal and harmful content (e.g. self- and co-regulatory moderation) while still exempting them from broad liability.

General monitoring
Until now there has been a ‘no general monitoring obligation’ on digital firms; however, the DSA could include changes to this. It may become mandatory to conduct upload checks and filtering, on top of due diligence obligations such as ‘Know your business customer’, as seen in financial services. Alternatively, there could be provisions governing algorithms for automated filtering technologies or mandatory external audits of such algorithms.

Country of origin principle
The ECD introduced this principle for selected areas of law. Where applicable, this means that EU digital services need only comply with the rules of the member state in which they are established. The DSA provides an opportunity to extend the scope of this principle to include consumer protection, commercial communications and contract law. This avoids EU digital services having to comply with 27 different legal regimes. However, digital services from outside the EU may face new regulation if the DSA extends the scope of the ECD to include services from third countries.

Introduction of a regulator
The DSA could introduce a spectrum of regulatory oversight: from an authority with wide-reaching powers to set ex ante regulation (e.g. mandatory audits of algorithms and codes of conduct or access to data), to a less strict system of rules covering transparency, guidance and oversight for service providers regarding adherence to their responsibility.

The importance of tech startups in Bulgaria and Romania
In 2016, Romania had around 532 startups, mostly located in Bucharest, with the tech industry accounting for 6% of GDP by 2018. In 2019, 82% of the 233 Bulgarian tech startups were based in Sofia, up from 71% in 2018. 45% of Bulgarian tech startups have ten employees or fewer. 42% of Bulgarian tech startups are building online platforms.

Figure 1 Sectors served by Bulgarian startups

<table>
<thead>
<tr>
<th>Sector</th>
<th>% of tech startups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>11%</td>
</tr>
<tr>
<td>Real estate</td>
<td>11%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>12%</td>
</tr>
<tr>
<td>Culture and entertainment</td>
<td>15%</td>
</tr>
<tr>
<td>Health and social work</td>
<td>16%</td>
</tr>
<tr>
<td>Business services and R&amp;D</td>
<td>16%</td>
</tr>
<tr>
<td>General services</td>
<td>22%</td>
</tr>
<tr>
<td>Education</td>
<td>22%</td>
</tr>
<tr>
<td>Finance and insurance</td>
<td>24%</td>
</tr>
<tr>
<td>Information and communication</td>
<td>34%</td>
</tr>
</tbody>
</table>

Note: Percentage of tech startups serving different economic sectors in Bulgaria (2019). Respondents may report serving multiple sectors.


Digital economy and platforms
- In 2019, 7% of the turnover for all non-financial enterprises in Romania came through e-commerce channels (up from 4% in 2010), while in Bulgaria, 4% of turnover came through e-commerce (up from 2% in 2010).
- In 2017, 8.1% of workers in Romania were involved in the gig economy and 12% of services were performed digitally. In Bulgaria, more than 43,000 freelancers were registered on the main platforms in 2018, up from 23,000 in 2015.
- In 2016, Romanian collaborative economy platforms generated a market of €88m and employed 6,254 people. Bulgarian collaborative economy platforms generated a market of €50m and employed 3,065 people.
- In Bulgaria and Romania, a third of enterprises use social media.

Digital engagement
Millions of people in both countries engage with platforms as consumers and providers of content, goods, and services.
- In Romania, 11m people are active on social media, equivalent to 56% of the population; while in Bulgaria, 3.8m people are active on social media, equivalent to 54% of the population.
- In Romania and Bulgaria, 23% and 22% of individuals order goods or services online respectively.
- In Bulgaria and Romania, 9% of people have used peer-to-peer online services for accommodation booking, while 5% of Romanians and 2% of Bulgarians have used peer-to-peer online services for transport.
Sources:


8 The percentage refers to 2019. Digital Agenda (2019), ‘Country profiles, the relative position against all other European countries’, eCommerce, https://digital-agenda-data.euc/eharts/country-profiles-the-relative-position-against-all-other-european-countriespageNumber=%22indicator group%22=%22ecommerce%22%22ref area%22=%22IE%22%22time-period%22=%222019%22


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