Why it matters to startups:

The continued digitalization of world economies has contributed to the significant growth of digital trade, letting startups and the smallest Internet companies reach users across the globe. A global patchwork of laws and regulations that stifle digital trade have a disproportionate impact on small startups that lack the compliance resources of their foreign and larger industry competitors. These non-tariff trade barriers hinder the growth of digital trade and stand in the way of U.S. startups’ ability to compete abroad. For example, the Privacy Shield Agreement had fostered transatlantic data flows and was overwhelmingly relied upon by startups. When it was invalidated in July 2020 over EU concerns with U.S. government surveillance, U.S. startups faced increased costs and difficulties as a result.

Key takeaways:

- Trade policy should seek to lower tariffs, reduce regulatory burdens, increase market access, and promote stability to ensure that startups are able to compete abroad.
- Exporting U.S. legal and regulatory frameworks and promoting digital trade will increase innovation, competitiveness, and opportunities for U.S. startups.

What policymakers can do:

Policymakers must support the legal environment necessary to foster innovation online, including through trade policy. Balanced intermediary liability frameworks, like those found in the U.S., provide the legal certainty needed for startups with business models that rely on user content—whether it’s comments, photos, reviews, etc.—to grow and thrive. Around the world, however, common methods for governing intermediaries are taking root that undermine a startup-friendly environment and create new uncertainties and costs for U.S. companies. Laws that require the appointment of local representatives, impose tight content takedown timelines, require automated filtering, require the removal of content that is not otherwise illegal, and threaten heavy fines create barriers to entry for startups and reduce the number of foreign markets available to them.

The Internet allows startups to access foreign markets with little additional investment, but many countries have policies that restrict how and when data can be transferred across borders. Policymakers must act to foster data flows and reduce barriers to trade that startups with limited resources have difficulty overcoming, especially compared to their larger rivals. To accomplish this, U.S. policymakers must be responsive to global concerns, including issues around U.S. government surveillance at the core of creating a permanent transatlantic data-transfer agreement.

Startup Spotlight

Onfleet
(San Francisco, CA)
Mikel Carmenes Cavia, Co-Founder

Onfleet uses logistics management software and route optimization to power last mile delivery services.

“The European Court of Justice’s Schrems II decision invalidating the EU-U.S. Privacy Shield was catastrophic for our company. As an American company with a large number of EU-based customers, we were forced to make major investments in building out a cloud environment within the EU....The unexpected difficulty of having to prioritize such a major change to our systems has been very costly to Onfleet and we have regrettably lost prospects and customers as a result.”