



## Innovatie Attaché San Francisco

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### WHAT WILL 2015 BRING FOR TECH AND IT FROM A POLICY PERSPECTIVE?

The 2015 Tech Policy Preview at SAP in Palo Alto, CA took place on January 9 and was moderated by California Tech Council's CEO Matt Gardner a long time relation of NOST North America. The meeting was centered around policy issues related to tech and IT that will be of important influence in 2015. Next to a few video messages from current members of the newly elected US Congress on tech policy issues the moderator and distinguished panel lively and openly discussed what's in store for tech and IT from a policy perspective in 2015.

The panel consisted of:

**Phil Bond**, Founder and CEO of Bond and Associates, and former Undersecretary for Technology of U.S. Department of Commerce during the G.W. Bush administration.

**Mike Lempres**, Atherton City Council Member and former Assistant General Counsel, Silicon Valley Bank, former Presidential appointee to roles as Vice President of the Overseas Private Investment Corporation and senior positions at the U.S. Department of Justice

**Kara Bush**, Director of Government Affairs, Western Region, TechAmerica

**Chris Finan**, Founder and CEO, Manifold Security, former Director at DARPA and Director Cybersecurity Legislation and Policy for the Obama White House.

#### Net Neutrality

This group of panelists was able to give a good perspective from both a federal and California state policy level. The first question raised by the moderator was to comment on what policy issues will cause most conflict for tech in 2015. The overall consensus was: net neutrality. According to Mike Honda, a Democrat from the 17<sup>th</sup> congressional district in California, which geographically represents the southern part of Silicon Valley, net neutrality – in other words the level playing field on the internet – needs to be protected by the FCC (Federal Communications Commission) in order to protect the interests of consumers and businesses alike. With net neutrality a startup can take on a big company. When big companies and big telecoms carve up the internet that will no longer be the case. Therefore the startup scene wants to keep the level playing field confronting the big telecoms. Phil Bond highlighted also partisan conflict – not surprisingly – in congress as a risk and the fear that no compromise on net neutrality could be reached and it will be send to the courts. Both Mike Lempres and Chris Finan mentioned cyber security and data sharing as political issues in which we could see legislative proposals this year. The content of those proposals – possibly accelerated by big cyber attacks – would not be necessary good for the tech community according to Mike.

Next up was the question what new U.S. Congress means for tech. Not a dramatic change was the overall feeling. There are some entrepreneurs, but not necessarily tech entrepreneurs, in Congress, but Capitol Hill still doesn't fully grasp the issues that are important for tech (entrepreneurs). Some issues that the new Congress could take on are immigration reform and that may happen rather quickly. Tech needs better access to talent. The time window is from now until early 2016 when everything will be politically locked up in the run up to the presidential elections in 2016. According to Phil Bond House Republicans will have more incentive to talk with Senate Democrats because



they will be heard better than was the case in the previous congress with a Democratic majority. Phil also mentioned that Republicans will be careful to repeal Obama's immigration reform since it is linked to the Homeland Security budget and they need to come up with a Bill that will be difficult to veto by President Obama in 2016. Also the Startup Act could have a chance. Entrepreneurship outside Silicon Valley has plummeted over the past couple of years and is now the lowest since end of World War 2. Talent is a high priority for tech and one important policy chance should be to let foreign graduates stay in the country after they get their degree. H1B (a visa for highly talented foreigners) also needs reform.

### **Cyber Security, surveillance and data sharing**

Jackie Speier, a Democrat who represents the 14<sup>th</sup> congressional district in California, which included large parts of Silicon Valley commented that cyber security and related issues will be at the top of the policy list in 2015. We had many security breaches etc. and the government needs to collaborate with the private sector. Legislation alone will not be enough. Consumers will have to be engaged and their rights have to be taken into account. But what will be different this year? According to Chris Finan an information sharing bill highlighting limited liability could come out. But not much more than that. Legislation to counter data breaches will be more difficult. Important to realize for lawmakers is that they should embrace a paradigm shift from protecting infrastructure to protecting information. The security and military establishment need to become more involved with the private sector. Expenditure by the government for security and intelligence solutions has already dramatically shifted from the public sector to the private sector over the past decade. That also means that military and commercial standards have to be much more aligned, which is not necessarily an easy topic. With regards to legislation coming out of Sacramento (the Capital of California) Kara Bush was clear in stating that California had taken more of a back seat on cyber security in recent years.

Zoe Lofgren, another Democratic Representative in U.S. Congress from California's 19<sup>th</sup> congressional district, said that preserving a free and open Internet and protecting society from unwarranted government surveillance are of utmost importance. Internet providers cannot pick winners and losers and the FCC needs to step in. She will take the initiative in forming a committee for looking into legislation on restricting government surveillance and protecting privacy and consumer rights. Lately there has been some public hostility towards tech, not only in Europe, and nowadays those issues are better understood by lawmakers.

Regarding surveillance the panel told us that we should not forget that it is a global issue that affects businesses world-wide and all companies throughout the world should call for legislation on this. Especially US companies should be careful for their position because of stricter legislation and public opinion elsewhere, mainly in Europe. Two very recent developments could have important repercussions on the surveillance debate the coming year. The Sony hack-case further enhances the disconnect that is developing between the public and the private sector and could lead to more government surveillance not only in the US but also elsewhere. But the recent terrorist attacks in France will have broader implications. It most probably will influence the political thinking in France and other European countries and at the level of the European Union regarding surveillance. Traditionally Europe has always been strong to protect privacy for European citizens and is strongly embedded into a European Data Protection Regulation. The 2014 ruling of the European Court of Justice on "The Right to Be Forgotten" has only enforced it further. But that could potentially shift and would have important consequences not only at the political level between the US and Europe but also for the big tech companies in the US. For Silicon Valley based IT companies the strict privacy regulations are a very serious issue and they are taking a stand. It will however be a long discussion because the delta between the US and European view on privacy is still very large.



Kara Bush said that for California we could expect Governor Brown introducing legislation on patent trolls and on online reviews (mainly instigated by larger corporations). The rise of car and ride sharing startups like Uber and Lyft could probably lead to proposal for legislation to call for some regulation and protect consumer interests. The corporate tax rate is a national issue but also very much a Californian one, since the State has one of the highest nationally. Tax reform will be big in California in the coming year and a proposal on lowering the corporate tax rate is likely to come out.

### **The IPO Market, Oil Price and Crypto currencies**

The IPO and venture market is having an extraordinary run for more than 2 years. According to Mike Lempres and Chris Finan 2015 brings a good chance for disruption. But there is a difference between now and 15 years ago during the Dotcom bubble. Business models now are much better than in the late 1990's and also venture and equity investors are making better investment choices overall. Company valuations are a different story and 2015 could bring a correction, which will probably be broader than in 2000 since tech is very different nowadays. It is much more invasive in other economic sectors since most have been digitalizing over the past decade. The valuation of Uber at USD 30 billion could be a wake-up call. Chris Finan also expects a correction in the security space.

The recent 50% decrease of the oil price has of course enormous influence. The US capacity to produce energy is absolutely enormous and it has a big ripple effect throughout the world. All the upheaval in the Middle East seems to have much less influence on the global oil price than it had just two years ago. The panel hopes we will not see any unrest in North Dakota in 2015. Clearly Cleantech will be under severe pressure because of all these developments. Also the partisan divide in Congress regarding the Keystone XL pipeline between the US and Canada for bringing tar sands based oil into the US seems more and more irrelevant since the economics of 50 US dollar a barrel oil makes the production on tar sand oil not profitable.

Finally the recent rise of crypto currencies such as bitcoin was discussed. According to Chris Finan crypto currencies would probably make more sense in other parts of the world. On a personal note I would say that it makes even less sense in Europe because the banking system is more modern and cost-effective than in the US. At the end of the line you still need to plug into the regular banking system (everyone wants to fall back on dollars or euros). There is a regulatory misfit and banks are under pressure from regulators. But the distributed trust network on which crypto currencies are based is very interesting apart from regulation. It can create new business models for consumers. Phil Bond ended on the down side saying that Congress does not trust the tech industry on crypto currencies, making decent regulation and legislation impossible in the short term.