

EU Dependence on U.S. Technology

Implications of the proposed delay in AI Act implementation

- Europe's proposed delay in implementing the AI Act, while understandable, would not solve the EU's tech competitiveness problems.
- By announcing strict rules and then delaying them, the EU would undermine its credibility as a global rule-setter without gaining the scale, capital, or technological autonomy it needs to compete with the United States and China.

Introduction

The EU has sought for many years to assert regulatory supremacy by leveraging its large consumer market to impose strict standards on digital policy, such as the General Data Protection Regulation (GDPR), Digital Markets Act, and Digital Services Act (DSA). The EU now hopes to put the brakes on some of these ambitious digital regulations in response to concerns from industry and policymakers about implementation and their potential impact on European competitiveness.¹

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In November 2025, the European Commission unveiled omnibus proposals on digital and AI to streamline and simplify existing laws and protect EU competitiveness.² It also proposed delaying the implementation sections of the landmark 2024 AI Act that govern high-risk AI systems that were due to enter into force in August 2026. Many companies welcomed the additional time to resolve technical uncertainties, while others are concerned about the impact of the delay in having clear, finalized AI standards.

Europe's dependence on U.S. digital infrastructure

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European firms rely heavily on U.S. cloud services, semiconductors, foundational AI models, and software platforms.⁵

In cloud computing, U.S. hyperscalers, such as Amazon Web Services, Microsoft Azure, and Google Cloud, account for 70% of the European market, while European providers account for just 15%.⁶

Semiconductors present an even clearer example of asymmetry. The EU produces less than 10% of global semiconductor output, while U.S. and

Asian firms dominate the production of advanced AI-relevant chips.⁷ Despite initiatives such as the EU Chips Act, Europe remains dependent on foreign suppliers for high-performance computing, a prerequisite for training and deploying advanced AI models.

This dependency also extends to AI. European businesses overwhelmingly rely on U.S.-developed large language models and foundation models, which benefit from superior access to compute, proprietary datasets, and capital markets.⁸ European alternatives exist, but they are typically under-resourced and constrained by limited scale. In 2024, U.S.-based institutions produced 40 notable AI models, and China had 15, while Europe had just three.⁹ In addition, U.S. private investments in generative AI exceeded the combined EU and UK total by \$25.5 billion in 2024.¹⁰

The EU depends far more on U.S. digital services than the U.S. depends on European providers

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This underscores the asymmetry in exposure and risk: the EU depends far more on U.S. digital services than the United States depends on European providers. In most cases, American alternatives to European services exist, while the reverse is often not true.

AI Act

The AI Act, as drafted, seeks to provide firms with clear implementation rules to accelerate the development and deployment of trustworthy AI and attract investment toward AI systems that meet high ethical and safety standards.¹¹ Prompt implementation of the regulation would also establish a stable, domestic market for EU startups to scale before foreign competitors fully adapt to European standards.

In the short term, the implementation of the AI Act may impose costs on firms, particularly on European small and medium-sized enterprises, as they tend to prioritize legal certainty over experimentation.¹² These compliance costs, particularly for high-risk AI, would likely slow some tech deployment to ensure quality. However, these costs are arguably a strategic down payment. By establishing a regulated, rights-compliant digital environment, the EU's efforts would reduce long-term strategic dependence on U.S. technology providers, so long as they are paired with capital market reforms.

Implementation is also expected to affect EU investment in the near term. The rollout of the GDPR led to a 13% reduction in venture capital investment deals in the EU by U.S. investors.¹³ The pullback of U.S. investors from EU deals eventually moderated, suggesting the market partially adapted to the new regulatory environment.¹⁴

Explaining and assessing the proposed delay

The Commission proposed a delay in implementing the AI Act to allow more time for the harmonized technical standards, guidelines, and support tools for high-risk AI systems to be finalized.¹⁵ The proposal would likely lead to improved enforcement quality and legal certainty. It would give firms a clearer path to compliance, time to comply with new guidelines, and align AI with

technical requirements. This would be expected to ease implementation and foster innovation.

One of Europe's core strengths in digital policy has been the so-called "Brussels effect," whereby EU regulation sets *de facto* global standards. Postponing implementation of key sections of the AI Act, however, would weaken the EU's ability to shape global AI governance. By announcing a far-reaching framework and then delaying its application, it risks undermining this credibility. Other jurisdictions may move ahead with alternative approaches.

The proposed delay also likely reflects a deep anxiety among policymakers.¹⁶ They probably fear that early and strict regulation, coupled with its dependence on U.S. digital infrastructure, could further disadvantage European firms relative to foreign competitors and heighten Europe's tech vulnerabilities.¹⁷ Cloud concentration raises concerns about data sovereignty and resilience, while reliance on foreign AI systems has implications for cybersecurity and defense. In an era of heightened geopolitical tension, technological dependence constrains foreign policy options and exposes Europe to external shocks.

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Recent tensions with the United States underscore these risks. In early December 2025, the Trump administration accused the EU and its Member States of pursuing "discriminatory and harassing lawsuits, taxes, fairness, and directives" against U.S. service providers.¹⁸ Later in the month, the government imposed a travel ban on former EU Commissioner Thierry Breton, who led the drafting of the DSA, and four others, alleging that their efforts to regulate online content amounted to censorship.¹⁹

Europe's exposure to U.S. technology also carries financial risks. Valuations in U.S. tech remain historically high and very concentrated. If market conditions change abruptly, it could create spillovers for European firms and investors.

Conclusion

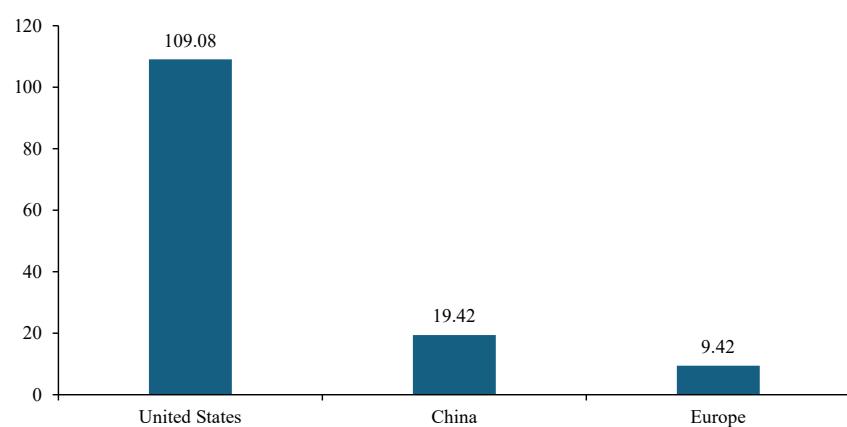
The Commission's proposal to delay some of the AI Act may allow more time for the harmonized technical standards, but it would not close Europe's tech gap. It is unlikely to attract investment in the near term, reduce U.S. dominance, or create meaningful space for European champions. On the contrary, it would likely generate uncertainty for firms, weaken the EU's credibility as a global rule-setter, and do little to narrow the widening technology gap with the United States and China.

The EU should resist the temptation to compensate for structural weaknesses by promoting national champions or relying heavily on sector-specific subsidies. Europe's core challenge is not a lack of regulation, but a lack of scale.

Instead, the EU should pursue policies that would enable firms to grow across borders, attract capital, and compete globally by deepening capital markets, harmonizing digital infrastructure standards, and reducing fragmentation.

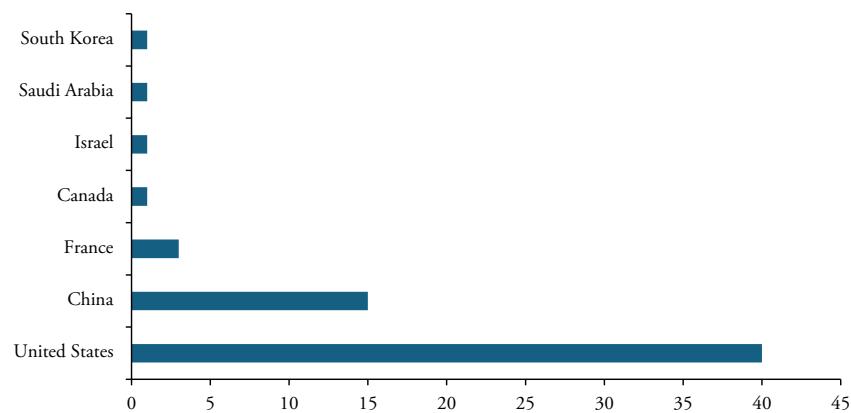
It should also leverage industrial policy measures that complement EU regulations to ensure the tech sector has the resources it needs to compete. Policymakers should use public procurement, which accounts for 14% of the bloc's GDP, to aggregate demand for European AI solutions, backed by the Commission's €1.3 billion commitment to AI-based public technologies.²⁰ Additionally, the EU should fast-track the 'AI Factories' initiative to provide startups with subsidized access to high-performance computer infrastructure.²¹

EXHIBIT 1.0 – GLOBAL PRIVATE AI INVESTMENT BY GEOGRAPHIC AREA, BILLIONS OF DOLLARS, 2024



Source: Quid.

EXHIBIT 2.0 – NUMBER OF NOTABLE AI MODELS BY SELECT GEOGRAPHIC AREAS, 2024



Source: Epoch AI.

Notes

- ¹ https://commission.europa.eu/topics/competitiveness/draghi-report_en
- ² https://ec.europa.eu/commission/presscorner/detail/en/ip_25_2718
- ³ https://www.wsj.com/tech/europe-big-tech-ai-1f3f862c?gaa_at=eafs&gaa_n=AWEtsqcSTJh6p2lq7t21ApcnosUOrErse6YAWIXpHAESKVs6Kd9-vsVU9MLVdchyYWo%3D&gaa_ts=69439645&gaa_sig=ZkaKJoA4E_5ssHH3FzuZbnjuCx3mscmXJ2HWd4tDWVEffFNKOsW1uAfvOQTma0X_jLMWKGrHq-SvKaY6nHG1ow%3D%3D
- ⁴ <https://www.dw.com/en/why-eus-dependency-on-foreign-tech-is-risky/video-74792902#:~:text=01:13,innovator%20not%20just%20a%20user.>
- ⁵ <https://www.euronews.com/next/2025/08/05/most-european-companies-rely-on-us-tech-giants-to-operate-their-businesses-study-warns#:~:text=About%20three%20in%20four%20European,abroad%2C%2080%9D%20the%20report%20said.>
- ⁶ <https://www.bankinfosecurity.com/europe-s-quest-for-domestic-alternative-to-us-hyperscalers-a-30276#:~:text=Europe%20Tries%2C%20Tries%20Again%20Amid,doubt%20into%20the%20transatlantic%20relationship.>
- ⁷ <https://digital-strategy.ec.europa.eu/en/policies/european-chips-act#:~:text=A%20Recommendation%20to%20Member%20States,share%20in%20semiconductors%20to%2020%25.>
- ⁸ <https://www.euractiv.com/opinion/without-its-own-ai-backbone-europe-will-be-a-powerless-rentier/>
- ⁹ <https://hai.stanford.edu/news/ai-index-2025-state-of-ai-in-10-charts>
- ¹⁰ *Ibid.*
- ¹¹ <https://digital-strategy.ec.europa.eu/en/policies/regulatory-framework-ai#:~:text=The%20AI%20Act%20is%20the,in%20AI%20across%20the%20EU.>
- ¹² <https://bipartisanpolicy.org/report/small-businesses-matter-navigating-the-ai-frontier/#:~:text=In%20roundtables%20BPC%20held%2C%20small,cost%20as%20the%20greatest%20concern.&text=Regarding%20barriers%20faced%20by%20small,employees%20lack%20of%20digital%20skills.>
- ¹³ <https://www.nber.org/digest/202509/privacy-regulation-and-transatlantic-venture-investment#:~:text=They%20analyze%20temporal%20variation%20in,lower%20in%20follow%20Don%20deals.>
- ¹⁴ *Ibid.*
- ¹⁵ [https://www.europarl.europa.eu/RegData/docs autres_institutions/commission_europeenne/com/2025/0836/COM_COM\(2025\)0836_EN.pdf](https://www.europarl.europa.eu/RegData/docs autres_institutions/commission_europeenne/com/2025/0836/COM_COM(2025)0836_EN.pdf)
- ¹⁶ <https://www.bruegel.org/analysis/european-union-needs-more-digital-omnibus-make-digital-services-competitive>
- ¹⁷ <https://www.politico.eu/article/top-european-ceos-plead-for-pause-in-ai-act/>
- ¹⁸ <https://x.com/ustraderep/status/2000990028835508258?s=46>
- ¹⁹ <https://www.politico.eu/article/the-eu-is-in-a-political-pressure-cooker-over-its-online-rules/>
- ²⁰ https://ec.europa.eu/commission/presscorner/detail/en/ip_25_907#:~:text=2%20min%20read-,Commission%20to%20invest%20E2%82%AC1.3%20billion%20in%20artificial%20intelligence%2C%20cybersecurity,the%20DIGITAL%20work%20programme%20include:
- ²¹ <https://digital-strategy.ec.europa.eu/en/policies/ai-factories#:~:text=AI%20Factories%20leverage%20the%20supercomputing,for%20AI%20startups%20and%20SMEs.>