



Powering Europe's AI Ambition Through Startups

Apply AI Strategy: Call for Evidence

4 June, 2025

Allied For Startups welcomes the opportunity to contribute to the upcoming Apply AI Strategy. We recognise the importance of supporting the deployment of AI across key industrial sectors and the public sector and share the Commission's vision to position Europe as a global leader in AI while fostering innovation and competitiveness.

The Apply AI Strategy comes at a critical moment for Europe's technological development and competitiveness, as the global race for leadership in artificial intelligence accelerates. The Strategy's ambition to make the EU a hub for AI excellence, foster industrial uptake, and improve public services is commendable. However, Europe must do more to overcome persistent challenges that limit AI adoption and innovation across the continent. Today, the EU still lags behind other major regions, notably the U.S. and China, in AI deployment, research, and investment.

For the EU to become the "AI continent," its policies must actively empower startups, not just accommodate them. The Apply AI Strategy is a timely opportunity to address barriers startups face in developing and deploying AI, while also boosting European innovation and competitiveness.

The Apply AI Strategy Must Work for Startups

AI is fundamental to the future of Europe's startup ecosystem. Startups are key drivers of innovation, growth, and competitiveness, often leading the way in developing and applying cutting-edge AI technologies. When startups innovate in AI, they push boundaries in ways that larger players often cannot. Yet, too often, policy frameworks, including those shaping the future of AI, are developed with only the largest market actors in mind. The Apply AI Strategy should be an opportunity to reverse this trend by empowering startups rather than sidelining them.

Startups operate with limited resources and cannot absorb complex, fragmented, or overly burdensome rules. If the Strategy is to support innovation, it must ensure that regulatory and compliance frameworks are simple, proportionate, and workable for smaller players. Startups need clarity, legal certainty, and access to the tools and infrastructure that allow them to compete. Regulatory stability is just as important as regulatory ambition, as startups won't thrive in an environment where the rules change faster than they can build. To unlock AI's full potential in Europe, the Apply AI Strategy must put startups at its core. We therefore urge the Commission not to increase the regulatory barriers to AI development and use in Europe – the AI Act introduces a new level of complexity into the AI ecosystem which is increasingly challenging for startups to navigate. Continuing uncertainty about the AI code of practice and the potential regulatory changes to general purpose AI and the treatment of Large language models act as a drag on European competitiveness in this area.

Europe stands at a critical juncture. As AI reshapes global value chains and transforms every sector from manufacturing to healthcare, the continent's large industrial players are at risk of being left behind – not because they lack capital or talent, but because they are structurally ill-equipped to engage with the very engines of innovation: startups.

The challenge is not just digitalisation – it is adaptability. While AI uptake requires access to data and infrastructure, it also demands speed, experimentation, and risk-taking – traits that startups embody and many legacy industries lack. Europe's industrial base, largely built in a previous industrial era, has not meaningfully integrated entrepreneurial thinking into its strategic core. Nowhere is this clearer than in the data on startup acquisitions.

Between 2019 and 2020, EU and UK firms with fewer than 250 employees made around 1,000 acquisitions. In contrast, U.S. companies of a similar size made over 1,800. Looking at startups founded in 2010, U.S. startups were involved in 3,761 acquisition deals – nearly double the 1,990 for their EU + UK peers. Moreover, 70% of U.S. startup acquisitions were domestic. In Europe, only 60% were intra-regional, and 16% came from American buyers. Just 7% of U.S. acquisitions involved European firms, revealing a stark imbalance in the transatlantic flow of capital and innovation.

This matters immensely for AI. Startups are often the first to deploy AI solutions in real-world environments, iterate on products rapidly, and create new markets. By failing to

actively acquire, partner with, or learn from these players, Europe's industrial champions are not only missing out on next-generation technologies — they are also missing the organisational DNA that makes AI adoption effective at scale.

Europe cannot afford to treat startups as a separate category or leave AI experimentation to the periphery. Large companies must evolve — integrating startup collaboration into their structures, embedding AI pilots into their core operations, and empowering teams to move fast, take calculated risks, and scale what works.

The cost of inaction is clear: fewer high-quality jobs, reduced productivity, and a diminished voice for Europe on the global stage. But with a deliberate shift towards entrepreneurial engagement, Europe can still lead in the industrial application of AI — on its own terms.

Supporting AI Factories to Scale AI Startups

We strongly support initiatives like the AI Factories and AI Gigafactories. These should act as collaborative spaces where startups access computational resources, high-quality datasets, and testing environments, crucial assets that are otherwise out of reach for many small players. Ensuring that startups can easily plug into these facilities, benefit from public-private cooperation, and tap into broader ecosystems will be key to their success. AI Factories should be implemented with clear pathways for startups to grow from experimental phase to market-ready deployment.

In parallel, Europe should actively position these AI infrastructure hubs as magnets for foreign investment. Building world-class AI Factories not only supports domestic innovation but also signals to global investors that Europe is a serious player in the AI race. By aligning infrastructure development with transparent regulatory frameworks and cross-border collaboration, the EU can attract strategic investments that strengthen its industrial base, foster technology transfer, and anchor international players within the European innovation ecosystem.

Generative AI as a Startup Accelerator

Generative AI offers transformational potential for society as a whole. Whether using existing foundation models or developing new ones, startups rely on generative AI to accelerate product development, reduce costs, and compete globally. The Commission's

GenAI4EU initiative is a welcome development, and it should explicitly include support for startup experimentation, access to compute resources, and guidance on responsible deployment. However, regulatory uncertainty around foundation models must be avoided. The AI Act's system-level, risk-based approach must not be undermined by additional burdens that would disproportionately impact startups.

Conclusion

Europe's AI future will be written by the most agile innovators. For the Apply AI Strategy to deliver on its ambition, it must do more than addressing sectoral use cases: it must ensure startups can participate fully and that larger industries increase their engagement with the startup ecosystem. This means reinforcing legal clarity, supporting infrastructure like AI Factories, and enabling the adoption of transformative technologies such as generative AI. With the right conditions, startups will not only adopt AI, they will build the systems that define the EU's leadership in the global AI race.