

BUILDING ONE EUROPE, ONE MARKET

Four strategic priorities for the digital single market

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Building One Europe, One Market – Four strategic priorities for the digital single market

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Foreword

This Sitra study proposes four strategic priorities, each with a concrete set of actions to address the key bottlenecks holding back Europe's digital single market.

Much has already been written about the digital single market, including by Enrico Letta and Mario Draghi in 2024, who set out powerful arguments for completing and deepening Europe's internal market as a foundation for competitiveness, resilience and strategic autonomy. While these and many other analyses produced in recent years by the European Commission, businesses, research institutes and think tanks have shaped the debate and sharpened the diagnosis, they have stopped short of providing a comprehensive and actionable set of measures.

This report builds on that work by going further in two ways: it maps bottlenecks systemically, highlighting how they reinforce each other, and translates this diagnosis into a concrete set of priorities and recommendations to be pursued together. It has been jointly prepared by the Centre for European Policy Studies (CEPS), the Finnish Innovation Fund Sitra and Professor Paul Timmers. It forms part of Sitra's broader work to strengthen Europe's capacity for renewal in a rapidly changing world.

We began this work with the law firm Bird & Bird by reviewing key studies and publications produced by the European Commission, businesses and think tanks between 2023 and 2026. This review was published as a separate report during CEPS Ideas Lab in early 2026. Drawing on this extensive body of work and the gap analysis, we identified the most pressing bottlenecks and grouped them into four broader structural dysfunctions, from which we derived the four strategic priorities. We also employed systems mapping to illustrate the key causal relationships between digital single market bottlenecks.

The EU faces multiple challenges at once: renewed power politics, the need for strategic autonomy, declining competitiveness, a changing security environment, uncertainty over climate policy, and questions around enlargement.

In this context, the digital single market can no longer be seen as merely an internal regulatory project. Fragmentation weakens Europe's economy and limits its ability to shape global rules for advanced digital technologies. Strengthening the digital single market is therefore essential to Europe's strategic autonomy.

We would like to express our sincere gratitude to CEPS, Professor Paul Timmers, Bird & Bird and the many experts and stakeholders who contributed their time, knowledge and insight to this work. Their input has been invaluable in helping us identify where Europe must act – and how the digital single market can become an even stronger foundation for Europe's future.

26 May 2026

Tiina Vainio and Kristo Lehtonen,

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Summary

Europe's digital single market can no longer be treated as a purely internal regulatory project. Fragmentation weakens Europe's economy, narrows its influence over the global development of digital technologies and erodes the resilience of Europe's critical digital infrastructure. This study examines structural challenges holding back the development of Europe's digital single market.

It addresses 10 key bottlenecks that consistently constrain companies' ability to operate and scale across borders with the EU. These bottlenecks cluster around broader structural dysfunctions: fragmented and unevenly implemented regulation, digital infrastructure that remains confined within national silos, skills and labour mobility that lag behind the digital transformation, and a financing and innovation ecosystem that does not adequately support the scaling of European digital companies to compete globally.

Based on this analysis, the study proposes four strategic priorities to unlock the full potential of the digital single market, along with recommendations grouped under each.

- 1) Generating demand to help European digital firms scale (Use digital);
- 2) Strengthening Europe's position in critical digital value chains (Control digital);
- 3) Aligning governance and financing, including stronger links between the digital single market and the Savings and Investments Union (Policy leadership); and
- 4) Making it easier to comply with legislation so that regulation supports integration rather than fragmentation (Simplify digital).

Progress on one strategic priority alone is not enough: Europe needs coordinated action across all four. Together, these actions aim to move Europe from a fragmented regulatory environment towards a truly integrated and globally competitive digital single market.

The study situates these recommendations within the broader One Europe, One Market Roadmap adopted in April 2026, which marked an important shift towards a more coordinated and operational approach to deepening the EU single market.

Tiivistelmä

Euroopan digitaalista sisämarkkinaa ei voida enää käsitellä pelkästään sisäisenä sääntelyhankkeena. Pirstaloituminen heikentää Euroopan taloutta, kaventaa sen vaikutusvaltaa digitaalisten teknologioiden globaalissa kehityksessä ja nakertaa kriittisen digitaalisen infrastruktuurin resilienssiä. Tämä selvitys tarkastelee rakenteellisia haasteita, jotka hidastavat Euroopan digitaalisen sisämarkkinan kehitystä.

Selvitys käsittelee kymmentä keskeistä pullonkaulaa, jotka jatkuvasti rajoittavat yritysten mahdollisuuksia toimia ja kasvaa yli jäsenvaltioiden ja EU:n rajojen. Nämä pullonkaulat kytkeytyvät laajempiin rakenteellisiin ongelmiin, joita ovat sääntelyn pirstaleisuus ja epätasainen toimeenpano, kansallisiin siloihin jäävä digitaalinen infrastruktuuri, digitaalisen murroksen perässä laahaava osaaminen ja työvoiman liikkuvuus sekä rahoitus- ja innovaatioekosysteemi, joka ei riittävästi tue eurooppalaisten digitaalisten yritysten kasvua globaalissa kilpailussa.

Tämän analyysin pohjalta selvitys esittää neljä toisiaan vahvistavaa strategista prioriteettia sekä niihin liittyvät toimenpidekokonaisuudet digitaalisen sisämarkkinan täyden potentiaalin vapauttamiseksi.

- 1) Kysynnän vauhdittaminen eurooppalaisten digitaalisten yritysten kasvun tukemiseksi (Use digital);
- 2) Euroopan aseman vahvistaminen kriittisissä digitaalisissa arvoketjuissa (Control digital);
- 3) Hallinnon ja rahoituksen yhteensovittaminen sekä digitaalisen sisämarkkinan kytkeminen tiiviimmin säästö- ja investointiunioniin (Policy leadership);
- 4) Sääntelyn noudattamisen helpottaminen siten, että sääntely tukee sisämarkkinoiden yhtenäisyyttä eikä hajota sitä (Simplify digital).

Yksittäisillä toimenpiteillä ei saavuteta riittäviä tuloksia, vaan Eurooppa tarvitsee koordinoituja toimia kaikilla neljällä osa-alueella. Yhdessä nämä toimet pyrkivät viemään Eurooppaa hajanaisesta sääntely-ympäristöstä kohti aidosti yhtenäistä ja globaalisti kilpailukykyistä digitaalista sisämarkkinaa.

Selvitys tarkastelee suosituksia myös laajemmassa kontekstissa suhteessa huhtikuussa 2026 hyväksytyyn One Europe, One Market -tiekarttaan. Se merkitsi merkittävää siirtymää kohti koordinoitumpaa ja käytännönläheisempää lähestymistapaa EU:n sisämarkkinoiden syventämiseksi.

Sammanfattning

Den digitala inre marknaden kan inte längre enbart ses som ett internt regleringsprojekt. Fragmentering försvagar Europas ekonomi, begränsar dess förmåga att påverka de globala reglerna för avancerad digital teknik och urholkar motståndskraften i Europas kritiska digitala infrastruktur. Denna studie undersöker strukturella utmaningar som hämmar utvecklingen av Europas digitala inre marknad.

Studien behandlar tio centrala flaskhalsar som återkommande begränsar företags möjligheter att verka och växa över gränserna. Dessa flaskhalsar samlas kring fyra bredare strukturella störningsfunktioner: fragmenterad och ojämnt implementerad reglering, digital infrastruktur som fortfarande är begränsad till nationella silor, kompetens och arbetskraftsrörlighet som släpar efter den digitala omställningen, och ett finansierings- och innovationssystem som inte i tillräcklig grad stödjer europeiska digitala företags möjligheter att skala upp och konkurrera globalt.

Utifrån denna analys föreslår studien fyra ömsesidigt förstärkande åtgärder för att fullt ut utnyttja den digitala inre marknadens potential.

- 1) Skapa efterfrågan för att hjälpa europeiska digitala företag att skala upp (Use digital);
- 2) Stärka Europas position i kritiska digitala värdekedjor (Control digital);
- 3) Anpassa styrning och finansiering, inklusive starkare kopplingar mellan den digitala inre marknaden och Spar- och investeringsunionen (Policy leadership);
- 4) Förenkla efterlevnaden av lagstiftning så att reglering stödjer integration snarare än fragmentering (Simplify digital).

Framsteg inom endast ett område räcker inte: Europa behöver samordnade insatser inom alla fyra. Tillsammans syftar dessa åtgärder till att ta Europa från en fragmenterad regleringsmiljö till en verkligt integrerad och globalt konkurrenskraftig digital inre marknad.

Studien placerar dessa rekommendationer inom ramen för den bredare färdplanen One Europe, One Market, som antogs 2026 och markerade ett viktigt skifte mot en mer samordnad och operativ ansats för att fördjupa EU:s inre marknad.

1. Introduction: Making the digital single market work

The One Europe, One Market Roadmap, signed in Limassol in April 2026 by the European Parliament, the Council of the European Union and the European Commission, marks an important shift towards a more coordinated and operational approach to deepening the EU single market. For the first time, the three EU institutions have jointly committed to a concrete legislative timetable, supported by a quarterly accountability mechanism. This level of operational specificity has been largely absent from previous digital strategies and represents one of the most tangible institutional commitments to advancing the single market since the 2010 Monti Report.

Yet the Roadmap should be seen as a starting point, not a sufficient response. The persistent underperformance of the digital single market is not primarily a problem of legislative ambition. It is structural. The EU now has a broad and growing body of digital legislation in force, but its cumulative effect has often been to add compliance layers rather than reduce fragmentation. Digital firms still face divergent national implementation, overlapping supervisory structures and differing interpretations of shared concepts across member states.

Without a fully integrated home market, European firms cannot achieve the scale required for global competitiveness. Similarly, unless capital market fragmentation is addressed in parallel with regulatory reforms, new instruments such as the Scaleup Europe Fund and the 28th regime, both operational from 2026, risk remaining underutilised due to insufficient market depth.

This report and its recommendations are based on an analysis of 15 key studies and reports on the state of the digital single market published between 2023 and 2026. The analysis builds on a background report jointly prepared by Sitra and Bird & Bird, drawing on insights from EU institutions, thought leaders such as Mario Draghi and Enrico Letta, and a range of think tanks and business organisations. Ten key bottlenecks were identified based on their significance for the functioning of the digital single market and, importantly, on their potential to be addressed through concrete policy, regulatory, or market-driven actions. In other words, the focus is on bottlenecks that are not only critical but also realistically remediable. They have a broader scope than the “Terrible Ten” in the 2026 Annual Single Market and Competitiveness Report and also take into account the changed geopolitical context.

4 strategic priorities

- 1) Use digital** focuses on how public institutions and businesses can accelerate the uptake of digital solutions while closing critical skills gaps and enabling cross-border data flows – targeting bottlenecks 3, 6, and 7.
- 2) Control digital** aims to build the sovereign and interoperable digital infrastructure Europe needs and ensure access to growth-stage financing to reduce dependencies on external providers – addressing bottlenecks 5, 8, and 9.
- 3) Policy leadership** examines how the EU can address structural governance deficits, connect the DSM to the broader competitiveness agenda, and build geopolitical resilience into digital policy design – targeting bottleneck 10.
- 4) Simplify digital** addresses regulatory complexity as a key driver of single market fragmentation – covering bottlenecks 1, 2, and 4.

These bottlenecks are not isolated problems. They reflect deeper structural weaknesses: fragmented and unevenly applied regulation, digital infrastructure confined to national silos, skills and labour mobility that lag behind digital transformation, and a financing and innovation ecosystem that does not sufficiently support European digital companies in scaling globally. This report therefore structures its recommendations around four strategic priorities, each analysed in the following section with specific policy recommendations.

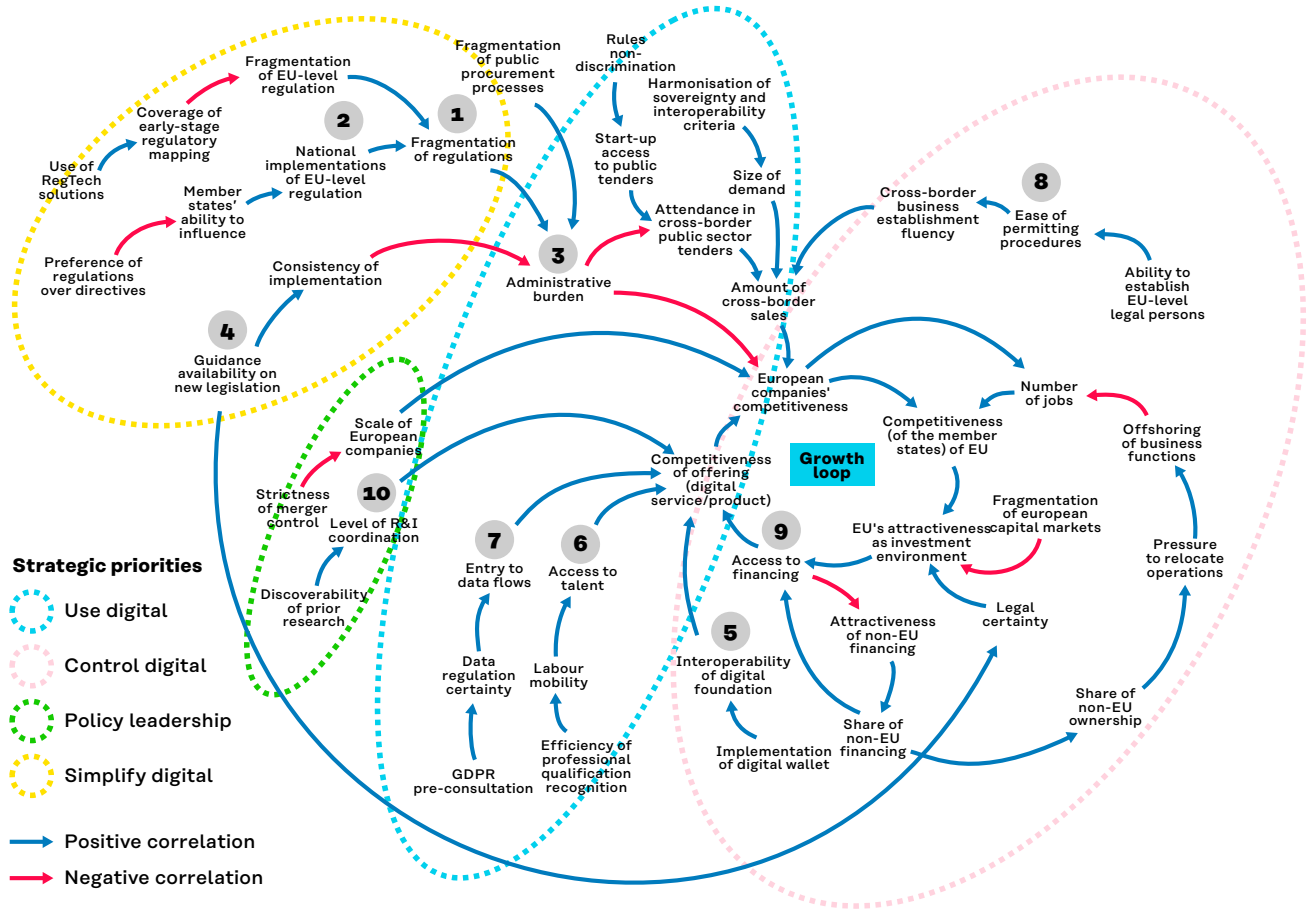
Together, these four strategic priorities form a mutually reinforcing framework: regulatory simplification creates the conditions for wider digital adoption, robust infrastructure enables data-driven value

creation, and coordinated investments in skills and innovation determine whether Europe can compete globally on its own terms.

Addressing only one of these dimensions will not be enough. Europe needs coordinated and purposeful action across all four. Public demand without regulatory clarity will not create scale. Strategic investment without market integration will not build globally competitive companies. Better governance without simplification will not reduce the burden on firms. And simplification without ambition will not be enough to secure Europe's position in the global digital economy.

The four strategic priorities, ten bottlenecks and their interactions are summarized in the system model diagram illustrated below.

Essential causalities between digital single market bottlenecks



10 key bottlenecks

- | | |
|--|---|
| <ol style="list-style-type: none"> 1 Fragmented and overlapping regulation across Member States 2 Divergent national implementation of directives, gold-plating and uneven enforcement 3 Excessive administrative burden 4 Lack of clear and timely guidance 5 Fragmented digital infrastructure and lack of interoperability | <ol style="list-style-type: none"> 6 Skills shortages and barriers to labour mobility 7 Barriers to data flows 8 Slow and complex permitting, certification and approval procedures 9 Limited access to finance 10 Lack of support and coordination in research and innovation |
|--|---|

Figure 1. The ten bottlenecks and four strategic priorities shaping the completion of the digital single market illustrated in a system model diagram.

What the One Europe, One Market Roadmap changes

The One Europe, One Market Roadmap, gives operational substance to the objectives the European Council set in March 2026 (Council of the European Union, 2026). It is a political commitment, not a legal instrument, but it is the most concrete tri-institutional commitment to single market deepening since the 2010 Monti Report. For the digital single market, it matters because, for the first time, the three institutions have agreed to be held jointly accountable, on a published timeline, for a body of legislation that, until now, has drifted through inter-institutional processes.

The Draghi Report (Draghi, 2024) was clear: Europe's productivity gap with the United States is concentrated in services, which make up around 70 per cent of EU GDP, and weak digital technology adoption is central to that gap. Letta (2024) reached a similar conclusion from the perspective of integration: in services and digital markets, the single market still functions too often as 27 nationally fragmented markets. The Commission's 2026 Annual Single Market and Competitiveness Report reinforced this diagnosis, showing limited progress across its key performance indicators.

The One Europe, One Market Roadmap is organised around five strategic building blocks: simplifying rules; a more integrated single market, including removal of the ten most harmful barriers; championing strong trade; reducing energy prices and decarbonising; and driving the digital and AI transformation. The annex names specific legislative proposals, responsible institutions and target dates for agreement. That level of specificity is unusual for an inter-institutional commitment, and is the principal difference from earlier strategies, which tended to describe outcomes rather than deliverables.

Within Building Block 5 – driving the digital and AI transformation – the Roadmap identifies eight priority deliverables directly relevant to the digital single market:

1. Digital Euro (proposal: Q2 2023; target for agreement: end 2026);
2. European Business Wallet (proposal: Q4 2025; target: end 2026);
3. Digital Networks Act (proposal: Q1 2026; target: Q4 2027);
4. EU Cybersecurity Act (proposal: Q1 2026; target: end 2026);
5. Cloud and AI Development Act, CAIDA (proposal: Q2 2026; target: Q4 2027);
6. Chips Act 2 (proposal: Q2 2026; target: Q2 2027);
7. Quantum Act (proposal: Q2 2026; target: Q3 2027);
8. AI Gigafactories (investment project proposals: Q2 2026; project launches from Q4 2026 onwards).

Building Blocks 1 and 2 add several instruments that condition the operating environment for digital firms. The simplification block (Building Block 1) commits to an Omnibus VII – Digital (AI), with a proposal in Q4 2025 and a target for agreement by June 2026 – the first real test of the Roadmap's simplification ambition. In Building Block 2 (a more integrated single market), the EU Inc. / 28th regime (target: end 2026), the review of merger control guidelines (end 2026), the Public Procurement Act (proposal Q2 2026; target Q4 2027) and the European Research Area Act (proposal Q3 2026; target Q4 2027) are all directly relevant for digital firms operating across borders.

The structural innovation of the Roadmap is its accountability architecture. The three institutions commit to meet on a quarterly basis to review progress, identify obstacles, coordinate action, and update the annex. The Commission commits to proposing the legislation; the Parliament and

the Council commit to treating the proposals as political priorities embedded in their annual interinstitutional legislative programming cycle (Council of the European Union, 2026). That is a structural shift from the Digital Compass model, which set worthy targets without anchoring them to inter-institutional deliverables. The Roadmap's instruments remain heavily supply-oriented – they specify what will be proposed, not what will be taken up by users, scaled by firms, or enforced consistently by member states. The implementation literature (Bruegel, 2025; Pelkmans, 2024) is consistent that the binding constraint on the single market is not legislative ambition but consistent application across twenty-seven jurisdictions. The Roadmap addresses that constraint only indirectly, through the parallel work of the single market Enforcement Task Force (SMET) – the joint Commission/Member State body created in 2020 to identify and remove persistent barriers to cross-border activity.

The Roadmap in the context of the Single Market and Competitiveness Report

The 2026 Annual Single Market and Competitiveness Report (COM(2026) 46), published at the end of January, is the analytical foundation against which the Roadmap's ambitions should be read. Its picture is mixed, and in places uncomfortable: drawing on 29 performance indicators, it finds six improved, six deteriorated, and fifteen essentially flat. The deteriorating indicators include intra-EU trade as a share of GDP, private investment, and – perhaps most telling – the proportion of transposed single market directives now facing infringement proceedings.

The Report identifies the “Terrible Ten” – the ten most significant barriers for

businesses, workers, and citizens in the single market – as a structural priority addressed by the Single Market Enforcement Task Force (SMET). In the digital domain, the most operationally relevant of these barriers include inconsistent regulation of services across member states, fragmentation in the digital single market, and insufficient cross-border digital public services. The Report explicitly frames the single market as the EU's primary shock absorber in a volatile geopolitical environment and calls for joint action at both European and national level to remove persistent barriers.

The One Europe, One Market Roadmap is, in this reading, the political instrument for translating those recommendations into almost binding commitments. The digital building block of the Roadmap addresses, directly or indirectly, several of the indicators that have deteriorated, notably by providing a legislative pipeline – the CAIDA, Cybersecurity Act, Digital Networks Act – designed to reduce directive-based fragmentation and establish uniform regulatory conditions across the single market. The Report's emphasis on enforcement – including a first Annual Single Market Enforcement Agenda for 2026 – complements the Roadmap's legislative ambition with an operational mechanism for ensuring that existing rules are applied consistently across 27 member states.

The geopolitical dimension of digital integration of the single market

The Draghi, Letta, and Niinistö (2024) reports have all noted the interaction between single market completion and external competitive conditions. What has changed is the pace and directness of that interaction. A decade ago, the relationship between European digital integration and

international technology policy was largely mediated through trade negotiations and standards bodies. Today, it is visible in the architecture of export control regimes, in the design of foreign investment screening frameworks, in the terms under which advanced computing infrastructure is made available, and in the conditions attached to access to frontier AI capabilities.

Completing the digital single market, in this environment, is not only a matter of removing internal barriers. It is a precondition for Europe's ability to participate in (and where possible to shape) the international structures that determine who can build and deploy advanced digital technologies, on what terms, and with what dependencies. A fragmented European digital market is not merely economically suboptimal; it reduces Europe's capacity to develop the companies and capabilities that would otherwise give it standing in these international processes.

The interaction between digital policy and international technology competition has become most concrete in advanced semiconductors and AI infrastructure. The export control framework developed by the United States and coordinated with Japan and the Netherlands – covering advanced chip manufacturing equipment and, increasingly, the most capable AI accelerators – represents a structural feature of the environment in which European digital investment decisions are made. The Netherlands, as the home jurisdiction of ASML, occupies an unusual position in this framework: a member state whose domestic export licensing decisions have direct implications for global semiconductor supply chains, for the Chips Act's investment targets, and for the terms on which European and non-European firms can access leading-edge production capacity.

The AI diffusion rule, introduced in the final months of the Biden administration and modified but retained by its successor, adds a further dimension (although it was eventually revoked and was never applied). By creating tiered access conditions for the most advanced AI chips – with different terms for different country categories – it introduced a framework in which the conditions of access to frontier AI infrastructure are determined by the foreign policy priorities of the producing country. The ability to influence those terms, or to develop credible alternatives, depends on the degree to which Europe can present a coherent position – which in turn depends on the degree to which its digital market is sufficiently integrated to generate the industrial base that would underpin such a position.

The development of European capacity in AI, cloud infrastructure, quantum technologies, and advanced connectivity is both a policy objective and an enabling condition for European participation in the international structures that will govern these technologies. Companies like Mistral AI in large language models, or the European cloud providers that have begun to articulate genuine alternatives to the incumbent hyperscale platforms, matter not only as economic actors but as the industrial base on which a credible European position in international technology governance depends. Developing them to globally competitive scale (through the investment instruments, procurement policy, and regulatory design addressed in the following sections) is therefore part of the same agenda as completing the single market, not an adjunct to it.

Box 1: “What if” the digital single market remains incomplete?

The risks of an insufficiently integrated digital single market materialise in concrete decisions made by companies, investors, and public authorities every day.

What if Europe fixes the rules but not the market conditions for scaling digital firms?

Even with better regulation, European cloud, AI and data companies may still struggle if capital markets remain fragmented, procurement remains nationally oriented, and customers continue to buy from established global providers. A digital single market that is legally open but commercially difficult to scale in would not suffice.

The result is not just slower growth. Europe may become increasingly dependent on non-European companies to run critical digital infrastructure, including systems used by governments, hospitals, and financial markets.

What if the AI diffusion rule in the US, introduced by the Biden administration and later retained in modified form, tightens further and limits Europe’s access to the most advanced AI chips and models? Without a competitive European foundation-model layer, European firms would be left to operate with constrained access to frontier AI or accept supply terms set by non-European providers. Neither path supports a competitive digital economy.

What if divergent national implementation of the AI Act, Data Act, and Cyber Resilience Act creates a compliance landscape so complex that only firms with deep legal and administrative capacity can operate across borders?

This would be regulatory design failing in practice. Europe may succeed in setting high standards for trustworthy digital markets while failing to build the firms, infrastructure and platforms needed to operate within them. In that scenario, Europe becomes a rule-maker but not a technology maker.

What if global standards for AI, telecommunications, quantum, and cybersecurity are increasingly developed outside Europe?

Technical standards shape how digital markets operate. If Europe regulates well at home but lacks influence in the international standard-setting processes that define its operating environment, the leverage of its market size will be steadily diminished.

What if the trilateral export control coordination among the United States, Japan, and the Netherlands on advanced semiconductor manufacturing equipment were to be extended in ways that affected Europe’s access to inputs for its own chip production ambitions?

The Netherlands is the home of ASML - the world’s only producer of extreme ultraviolet lithography systems, and therefore a central node in any credible European semiconductor strategy. The question of whether European equipment and materials producers operate under aligned or divergent export control frameworks has direct implications for the Chips Act’s success.

2. Policy recommendations for a true digital single market

This report organises its recommendations around four strategic priorities (use digital, control digital, policy leadership and simplify digital) designed to address the structural challenges outlined above.

2.1 Use digital

Use digital focuses on how public institutions and businesses can accelerate the uptake of digital solutions while closing critical skills gaps and enabling cross-border data flows. It targets bottlenecks such as excessive administrative burden, skills shortages, barriers to labour mobility, and restrictions on data flows.

EU digital policy has been much more productive on the regulatory side of this equation than on the adoption side. The legislative output since 2018 is substantial: GDPR, the Digital Services Act, the Digital Markets Act, the Data Governance Act, the AI Act. Each required years of political negotiation and represents real regulatory achievement. What has advanced more slowly is the deployment side. The actual use of digital infrastructure by public institutions, the absorption of new frameworks by companies trying to operate across borders, and the basic digital experience of citizens who still encounter radically different services depending on which member state they happen to be in on a given day.

The gap matters for a reason that often gets underweighted in policy discussions: scale. European digital companies do not develop globally competitive positions by succeeding in one national market. They

develop them by being able to treat the EU as a home market of 450 million people, which requires not just regulatory harmonisation but also an actual integrated demand environment. Public procurement is roughly 15 per cent of EU GDP.

Create a GDPR repair kit

A full reform of the GDPR would take years and could weaken legal certainty, delay investment and undermine competitiveness. A better approach is to make targeted amendments to specific provisions, going beyond the Digital Omnibus, to improve predictability for businesses that want to share data across organisational and national boundaries.

Evidence from more than 100 Sitra-funded data space pilots and other data initiatives shows that data protection and specifically GDPR related uncertainty is the most often cited barrier to data sharing, especially for companies without large legal teams.

GDPR should strengthen legal certainty through clearer prior-consultation procedures, company-specific codes of conduct and recognised certifications. Data protection authorities should be given an obligation to process voluntary prior notifications from controllers on intended personal data processing activities and to issue decisions or certifications within defined procedures. This would be based on information provided by the controller and would not limit the authorities' enforcement powers in other contexts.

In addition, the Commission, together with the European Data Protection Board and national data protection authorities, should develop a central digital directory for GDPR case law, decisions and guidance. This service should include interfaces that allow businesses to search for relevant interpretations by topic, sector and processing activity. By improving access to regulatory practice across member states, it would help harmonise interpretation, reduce compliance costs for SMEs and support GDPR-compliant data-driven business models across the single market.

Establish One Market Support Center for data flows

Data spaces designed around actual business models are a more likely route to functioning data-sharing infrastructure. The Gaia-X experience is instructive and should be applied explicitly. The lesson for successor initiatives is that simplicity in participation requirements is not a compromise of ambition but a precondition for uptake.

Although initiatives like AI Factories, Data Labs, and European Digital Innovation Hubs (EDIHs) have emerged, the current landscape is fragmented. Stakeholders struggle to identify the right points of entry and would benefit from a centralised, coordinated support structure. Experience from the circular economy shows that practical, hands-on support is often essential for driving systemic change – a lesson that applies directly to the data economy. The proposed model draws inspiration from the Sitra-led EU Circular Economy Resource Centre (EU CERC), launched in 2025 and consisting of policy hub, business hub and a knowledge hub. A One Market Support Centre for data flows would help both companies navigating compliance and policymakers trying to assess what needs

changing, without requiring major legislative initiative.

Public institutions as first adopters

The Public Procurement Act – proposal expected in 2026, adoption target Q4 2027 – is a legislative opportunity not yet being treated as such in most DSM discussions. The case is straightforward: introducing harmonised sovereignty and interoperability criteria into EU-wide public procurement of digital services could help create a demand signal large enough and consistent enough for European digital suppliers to actually orient their development around it. Right now, each member state procures differently, which means there is no common market for European digital providers in the public sector – only 27 smaller ones, each with its own requirements.

The Cloud Sovereignty Framework that DG DIGIT developed – and which the EUR 180 million sovereign cloud tender awarded in April 2026 operationalised – provides a working reference architecture that does not need to be invented from scratch. It assesses sovereignty across eight dimensions: strategic, legal, operational, environmental, supply chain transparency, technological openness, security, and compliance with EU law. Adapting this framework to broader digital procurement would not require starting over; it would require working out what the categories mean in contexts other than cloud – and managing the predictable complexity of applying common criteria within administrative traditions that differ substantially across member states.

Reforming procurement criteria matters as much as harmonising them. The current structural bias in public tendering toward established incumbents is well documented and little addressed: turnover thresholds designed for large suppliers, requirements for references from comparable contracts

that startups cannot have, and compliance documentation costs that are proportionately far heavier for smaller companies. EU industrial policy is actively trying to develop European technology startups and scaleups on one side of government while procurement rules exclude them on the other. Fixing this requires deliberate redesign, not just goodwill.

Scale public-sector AI deployment to create demand for European solutions

On the operational side, AI deployment within public institutions themselves remains underexploited. The Finnish Innovation Fund Sitra supports AI deployment in Finland's public sector by helping move promising solutions beyond pilots and into wider use across government, municipalities and wellbeing services. Its work combines funding, leadership training, foresight and expert support to build the shared platforms, governance models, procurement practices and scaling capacity needed for AI to improve productivity and public services. (Sitra, 2026b)

The EU does not have a shortage of digital infrastructure pilots. It has a shortage of mechanisms for converting those pilots into maintained, production-scale infrastructure that companies and public administrations can rely on.

For a company trying to operate across multiple member states, fragmentation is not an abstraction. It shows up as duplicate data entry across national portals with incompatible data models, manual workarounds for procedures that should be automatable, and a practical incentive to use non-European platforms whose APIs are well-maintained and whose integrations work at SME scale. The effect on AI application development is particularly

direct: European companies building AI tools need access to European data, but EU data assets are dispersed across incompatible national systems in ways that make aggregation – at the scale that makes AI development meaningful – technically and legally cumbersome.

There are several EU-related administrative processes that have huge potential for AI deployment. For example SOLVIT case handling and single market enforcement follow a relatively predictable pattern: information gathering, legal assessment, determination, procedural follow-up. The assessment stage requires genuine legal judgement; much of the rest does not require the same level of human time and attention. Deploying AI to support these workflows would improve administrative throughput and, as a side effect, generate sustained public-sector demand for European AI solutions – which is exactly the kind of anchor demand that the AI gigafactory programme would benefit from.

Scaleup Europe Fund with cross border focus

The EU Startup and Scaleup Strategy (May 2025) introduced the Scaleup Europe Fund (Q2 2026) and it is an instruments designed to address problems related to scaling in the EU. The Scaleup Europe Fund faces a design choice that will determine much of its practical effect: whether it treats cross-border digital products and services as a neutral category or as a priority. Companies whose products inherently span multiple member states – whose network effects require a pan-European user base to function – generate integration externalities that purely domestic companies do not. A fund designed to strengthen the digital single market should weight those companies accordingly.

Establishing a DSM scoreboard

EU digital policy has a well-documented implementation problem that is distinct from its policy design problem. Targets get set, timelines get announced, infringement proceedings are slow and rarely preceded by the kind of structured administrative dialogue that might produce faster results. The One Europe, One Market Roadmap's quarterly stocktaking should be connected to an accountability mechanism with actual consequences.

A DSM scoreboard formally adopted by the European Council and monitored through the European Semester would anchor political accountability at the right level. If unanimous commitment to binding targets is not immediately achievable – and in several areas it will not be – enhanced cooperation under intergovernmental arrangements should allow a willing group of member states to establish binding commitments and share both the methodology and the results. This is a more realistic path to DSM completion than waiting indefinitely for a consensus that has repeatedly failed to materialise – and in the absence of which no accountability mechanism gets established at all.

Use digital qualification recognition to improve cross-border skills mobility

Europe's digital skills challenge is well known: many citizens lack basic digital skills,

and companies report persistent difficulty filling digital roles. The more useful policy question is where the system is failing. The problem is not only the number of trained people, but the ability to move skills across borders and match them to demand.

Free movement of labour exists in principle, but the supporting information infrastructure remains incomplete. Qualification recognition is often slow, procedures in regulated professions are still paper-based, and social security and tax rules can make cross-border mobility difficult even where the right to move is clear. The European Digital Identity Wallet provides the technical basis for digital qualification recognition. The EU should set a clear deadline for using it in this role, including for professional qualification recognition under Directive 2005/36/EC.

Beyond recognition procedures, there is a coordination problem at the level of occupational definition. The digital single market requires specific professional roles – data engineers, AI auditors, interoperability specialists, cybersecurity practitioners for operational technology environments – for which the skills requirements, qualification pathways, and labour market terminology differ enough across member states to create real friction in cross-border hiring. A common framework for these roles, developed with employers and training providers rather than by public institutions working in isolation, is a precondition for training programmes that respond to market demand rather than to the sectoral classifications that national qualification systems use.

Table 1. Policy recommendations to tackle bottlenecks under Use digital.**Bottlenecks 3, 6 & 7: Admin burden, Skills gap, Data flow limits****Recommendations:**

Create a GDPR repair kit: Establish and extend prior-consultation procedures, company-specific codes of conduct and certifications. Develop a centralised directory service to provide access to case law and to support businesses.

Establish One Market Support Centre for data flows: Establish a central support centre to guide, monitor and document data flows, identifying where the current framework produces counterproductive outcomes - without new legislation.

Public institutions as first adopters: Introduce harmonised sovereignty and interoperability criteria for EU-wide digital public procurement to generate sufficiently large demand signal for European digital solutions.

Scale public-sector AI deployment to create demand for European solutions: The EU should move beyond AI pilots by creating mechanisms that turn promising public-sector solutions into maintained, production-scale infrastructure across member states. Deploying AI in predictable administrative workflows, such as SOLVIT case handling and single market enforcement, would improve public-sector productivity while creating anchor demand for European AI providers.

Scaleup Europe Fund with cross border focus: The Scaleup Europe Fund should give priority to companies whose products and services are designed to operate across multiple member states and depend on a pan-European user base.

Establishing a DSM Scoreboard: The EU should connect the One Europe, One Market Roadmap's quarterly stocktaking to a DSM scoreboard adopted by the European Council and monitored through the European Semester, so that implementation gaps are tracked at the political level. Where EU-wide agreement on binding targets is not possible, willing member states should use enhanced cooperation to set commitments, share methodologies and demonstrate progress.

Use digital qualification recognition to improve cross-border skills mobility: The EU should address digital skills shortages not only by training more people, but by making it easier for skills to move across borders and match labour market demand. Using the European Digital Identity Wallet for digital qualification recognition, with a clear implementation deadline, would reduce administrative friction and support labour mobility across the digital single market. It should also develop common definitions and qualification frameworks for critical digital roles, in cooperation with employers and training providers, so that skills can be matched more effectively to labour market demand across the digital single market.

2.2 Control digital

Control digital focuses on building the sovereign and interoperable digital infrastructure Europe needs and ensuring access to growth-stage financing to reduce dependencies on external providers. It targets bottlenecks such as excessive gaps in connectivity and digital infrastructure, slow and complex permitting procedures and limited access to finance.

Target investments at critical nodes of global digital value chains

Strategic positioning in value chains means strategically targetting investments at critical nodes of global digital value chains (the "ASML logic") rather than pursuing full ownership of entire technology stack.

Practically this means three different things.

First, the objective is competitive differentiation within the global value chain, not ownership of the whole stack. The relevant model is ASML, which does not manufacture complete semiconductor systems but holds a near-monopoly on extreme ultraviolet lithography equipment – a position of structural indispensability that gives Europe disproportionate leverage in one of the world's most strategically sensitive industries. Mistral AI's approach in large language models points in an analogous direction: rather than competing head-to-head with models trained on vastly larger compute budgets, it has developed specialised, vertically adapted capabilities for regulated European sectors – healthcare, legal, financial – where domain-specific performance and data governance matter more than raw scale. The task is to identify equivalent niches across cloud infrastructure, quantum hardware, edge computing, and cybersecurity tooling, and to orient investment accordingly.

Second, control means being able to guarantee continuity of supply at critical chokepoints. The question is whether Europe can sustain access to critical technologies under conditions of geopolitical stress. This requires distinguishing between layers of the stack where dependency is manageable and those where it constitutes a structural vulnerability – and designing policy accordingly.

Third, neither of the above is achievable without prior investment in the development of European digital capabilities. A stronger digital single market at the level of deployment presupposes capacity at the level of production.

Focus digital investment on critical technologies with strategic leverage

Europe should focus its digital investment on critical technologies where it can build strategic leverage, rather than trying to cover every layer of the technology stack. AI, quantum technologies, semiconductors, advanced

connectivity, space applications and cybersecurity provide a strong starting point. The EU Economic Security Strategy of June 2023 and the Observatory on Critical Technologies provide a reasonable starting point for prioritisation. The next step is to turn these priorities into an actionable investment framework based on two criteria: Europe's position relative to the global frontier and the level of risk created by each dependency.

Not all dependencies should be treated alike. Reliance on non-European cloud services for general commercial use is different from reliance on external infrastructure for public safety, judicial systems or critical communications. The Observatory on Critical Technologies should therefore move from periodic mapping to rolling, differentiated risk assessments that directly inform MFF 2028–2034 funding decisions.

EU digital industrial policy should also focus more on the connections between technologies. The most important capabilities increasingly emerge at the intersections of AI, semiconductors, quantum, cybersecurity, connectivity and energy systems. AI is a clear example: its value is highest when investment in compute infrastructure is coordinated with data infrastructure, application development, sectoral use cases and adjacent technologies.

The AI gigafactory programme illustrates both the opportunity and the challenge. Several of the AI Factories established under the EuroHPC framework are already encountering underutilisation – not from lack of computational capacity but from the absence of a surrounding ecosystem capable of generating the demand for that capacity: researchers, model developers, application companies, and, crucially, the data infrastructure needed to train and fine-tune models on European-relevant inputs.

Europe does not necessarily need to spend more overall in digital investments; it needs to coordinate funding better across programmes, timelines and administrations so that each euro has greater impact.

Box 2: Quantum technologies and critical digital infrastructures

Quantum technologies occupy an unusual position in the European strategic technology landscape: an area of genuine R&D strength where the primary near-term risk is not competitive displacement by foreign actors but self-inflicted regulatory fragmentation. Quantum sensing is already commercially real – quantum-enabled positioning, navigation, and timing systems are powering a new generation of drones that operate independently of GPS. Quantum key distribution for high-security communications is deployed at scale in China and approaching operational viability in Europe. Quantum computing at scale is advancing faster than most projections anticipated.

Europe has already seen what divergent national certification standards do to market development in cybersecurity, where distinct national frameworks have prevented the emergence of pan-European product markets and forced companies to replicate compliance processes across jurisdictions. The same dynamic is beginning to take shape in quantum, as member states develop national certification frameworks driven by security concerns that are legitimate individually but corrosive in aggregate. The Quantum Act is the opportunity to pre-empt this. Key actions include harmonised certification, joint harmonised procurement commitments by coalitions of member states for large-scale quantum deployment, a quantum dual-use strategy that keeps civil R&D as the primary driver, a pre-emptive foreign investment screening in quantum technologies, international standardisation partnerships with Canada, Australia, Japan, and Brazil, and a managed transition to post-quantum cryptography standards.

Coordinate EU funding and capital markets to scale digital companies

Adjustments should be considered for the next MFF 2028-2034. Funding windows for digital technologies must be explicitly coordinated – shared eligibility criteria, harmonised reporting, joint evaluation where projects span multiple domains – rather than merely co-located on the same platform.

Europe's main digital challenge is not research quality. Its universities and public research institutes produce strong work in AI, quantum computing, materials science and photonics. The weakness lies further down the pipeline: turning research into commercial products and scaling those products into global companies.

Europe does not lack startups relative to its research base. It lacks the capital and market conditions to retain and grow firms from Series B to pre-IPO stage, where

funding rounds often exceed EUR 50 million. Without deep European capital markets, successful firms face early acquisition or relocation, most often to the United States. This removes technology, talent and ecosystem density from Europe.

A second, less-discussed structural problem is the absence of large European digital incumbents capable of playing the role that large US technology companies play in the American innovation ecosystem – as customers, acquirers, investors, and talent recyclers for startups. In the US, the large platforms generate demand for startup innovation, provide acquisition exits that return capital to the ecosystem, and seed subsequent generations of founders. That flywheel runs largely outside European borders. Developing European digital companies at sufficient scale to serve these functions is therefore not just a competitiveness objective; it is a precondition for a self-sustaining innovation environment.

Box 3: Connecting the Savings and Investments Union to DSM scale-up financing

The Savings and Investments Union and the DSM completion agenda are administered separately and should not be. The capital market fragmentation that prevents European digital scaleups from raising growth-stage financing is the same fragmentation that the SIU is designed to address – and progress on one agenda directly enables progress on the other. Running them on separate tracks, which is how they are currently being managed, is an unnecessary self-imposed constraint.

The connection has been acknowledged since the Draghi and Letta reports; what has been missing is an operational plan that sequences the two rather than running them in parallel and waiting for convergence that has not arrived. A 'DSM scale-up financing pact' published by Q4 2026 – setting out capital mobilisation targets, eligible company criteria, and co-investment structures – would give institutional investors the forward clarity they need to make commitments before the instruments are fully operational, rather than waiting for operational certainty that arrives too late to influence capital allocation decisions already made.

The unified IPO gateway proposed in the Letta report should be activated. European capital markets are a less attractive listing destination than US alternatives partly because of fragmented supervisory arrangements that create legal uncertainty around cross-border issuances. Positioning ESMA as the single supervisor for cross-border digital issuances would address this directly – and is a more tractable near-term intervention than the full capital markets union that has been on the agenda for a decade without delivering its structural ambition.

Use public procurement and EU funding to create demand for European digital scale

Fragmented public procurement gets considerably less attention than regulatory divergence in DSM debates, but it is the more consequential near-term bottleneck. Without harmonised procurement standards, there is no pan-European demand signal for digital services – and without that signal, European suppliers have no commercial incentive to develop at EU scale. The current patchwork of national procurement approaches does not just create administrative inconvenience; it prevents the emergence of the demand-side conditions that would allow European providers to achieve the cost structures necessary to compete with incumbents that already have those conditions at home.

The EUR 180 million sovereign cloud procurement tender awarded by the

European Commission in April 2026 is instructive both as a model and as a measure of the gap that remains.

Four contracts were awarded – to Post Telecom (Luxembourg, partnering with OVHcloud and CleverCloud), STACKIT (Schwarz Group, Germany), Scaleway (Iliad Group, France), and Proximus (Belgium, partnering with S3NS – the Thales-Google Cloud joint venture – alongside Clarence and Mistral AI) – specifically to ensure diversification and avoid vendor lock-in. Three of the four achieved SEAL-3 sovereignty level; Proximus/S3NS reached SEAL-2. No provider reached SEAL-4, which is a concrete indicator that full supply-chain sovereignty remains currently out of reach.

The Commission is positioning this tender as a reference standard for member state procurement and is finalising an updated Cloud Sovereignty Framework for broader adoption. The limitation is structural: without a harmonised EU-level

framework governing member state decisions, individual governments will continue to apply divergent criteria, and the aggregate demand signal will remain too fragmented to drive the scale economics European providers need.

Make EU's digital wallets the default infrastructure for cross-border interaction

The European Digital Identity Wallet (EUDI Wallet), allowing citizens and businesses to prove their identity online and offline, the Once-Only Technical System, that lets public

authorities in different member states exchange official documents and data directly, as well as the European Business Wallet, that allow businesses to identify themselves, share data and interact with public authorities across borders, are each genuine technical achievements – and they should be made to function as the default channel for cross-border digital interaction rather than as a specialised option for early adopters.

The European Business Wallet could be positioned as the default channel for business-to-government interaction across all 27 member states, with full interoperability with the EUDI Wallet and the Once-Only Technical System.

Table 2. Policy recommendations to tackle bottlenecks under Control digital.

Bottlenecks 5, 8 & 9: Infra gaps, Permitting, Finance access

Recommendations:

Target investments at critical nodes of global digital value chains (the “ASML logic”) rather than pursuing full ownership of entire technology stack.

Focus digital investment on critical technologies with strategic leverage: Europe should prioritise digital investments in critical technologies where it can build strategic leverage, using rolling risk assessments to distinguish between different types of dependencies and guide MFF 2028–2034 funding decisions. Better coordination across AI, quantum, semiconductors, connectivity, cybersecurity, data infrastructure and sectoral use cases would increase the impact of each euro spent and help avoid underused infrastructure.

Coordinate EU funding and capital markets to scale digital companies: Coordinate funding windows in the next MFF by technology domain – AI, quantum technologies, semiconductors, connectivity – rather than along siloed programmes. The Savings and Investments Union should be connected to DSM scale-up financing.

Use public procurement and EU funding to create demand for European digital scale: The EU should harmonise public procurement standards for digital services so that public demand creates a single European market rather than 27 fragmented national ones. The Commission’s sovereign cloud tender should be used as a model for an EU-level procurement framework that gives European providers the scale, predictability and demand needed to compete.

Make EU's digital wallets the default infrastructure for cross-border interaction: The EUDI Wallet, Once-Only Technical System and European Business Wallet should be integrated into the default infrastructure for cross-border digital interaction, rather than treated as optional tools for early adopters. Positioning the European Business Wallet as the standard channel for business-to-government services across all member states would reduce administrative friction and make cross-border operations easier for companies.

2.3 Policy leadership

Policy leadership examines how the EU can better coordinate research and innovation investments to translate Europe's strong knowledge base into globally competitive industries. It targets bottlenecks such as insufficient support and coordination for research and innovation.

The barriers to completing the digital single market are political: completing the DSM requires managing short-term adjustment costs across member states, so policy leadership must address these constraints.

Four conceptions of digital leadership are outlined below, followed by the related recommendations.

Leadership as capabilities across the stack

The most ambitious conception of European digital leadership is full-stack capability: building strength across all layers of the digital economy, from semiconductors and cloud infrastructure to software platforms and applications. The European Parliament has articulated this vision as digital infrastructure “from semiconductors and connectivity to cloud and artificial intelligence”. It captures the right long-term direction. The gap between ambition and reality, however, remains substantial. Full-stack leadership is therefore the right strategic direction, but not a near-term operational programme.

Leadership in bottlenecks

A more practical approach is to focus on strategic control over the nodes whose disruption would have the greatest systemic impact. The semiconductor shortage of 2020–2022 made this risk visible: Europe's automotive and electronics sectors discovered that dependence on a small number external producers such as TSMC had created vulnerabilities far beyond what conventional risk assessments had anticipated.

Europe's response has partly followed this logic. The EuroHPC Joint Undertaking now coordinates one of the world's largest supercomputing networks, providing domestic compute capacity for research and AI model training. ASML's position in lithography is the clearest existing example of European control over a critical technological bottleneck. This model does not require full-stack capability. It requires identifying the nodes that carry the greatest systemic weight and ensuring European influence over them. The challenge is that these nodes change as technology evolves, making bottleneck leadership a dynamic strategy rather than a fixed list.

Leadership as operational resilience

A third conception focuses less on market position than on continuity of function. In a world where major powers increasingly use technology interdependencies as instruments of power through export controls, investment restrictions and infrastructure access conditions, the key question is whether Europe can sustain critical digital functions when external access is disrupted. This can conflict with productivity in the short term. A technically inferior European cloud solution that remains available under supply chain stress may be strategically preferable to a superior solution that creates a single-point dependency on a non-European supplier. This does not mean all procurement should be driven by resilience concerns. It means resilience should be built into decision-making from the outset, not added retrospectively after dependencies have already been locked in.

Leadership as disruptive innovation

The fourth conception sees digital leadership as the ability to produce technologies that shift the frontier itself. In such areas, first-mover advantage may be the only position that larger and better-capitalised incumbents

cannot immediately erode. The Commission's Quantum Strategy, backed by the EUR 1 billion Quantum Technologies Flagship and aiming for pilot quantum chip production lines and a quantum internet prototype by 2030, follows this logic. So do the IRIS² satellite connectivity constellation and reusable launcher programmes intended to secure Europe's role in the space-digital economy.

The risks are worth stating plainly. Technology development timelines are highly uncertain, and bets that look well-calibrated at the time of investment can prove either premature or misdirected as the technology matures. More fundamentally, first-mover advantages in digital technologies depend on the ability to scale from research breakthrough to market deployment quickly – and that requires capital access and market integration conditions that Europe has not consistently been able to provide. Moonshot investment without complementary improvements in scale-up finance and single market depth tends to produce research excellence that is commercialised elsewhere.

Improve institutional governance and accountability to address the coordination problem

DSM governance is spread across several Commission departments, including DG CONNECT, DG GROW, DG COMP, DG DIGIT and DG TAXUD, each with its own mandate, stakeholders and legislative priorities. This creates a structural coordination challenge across state aid, trade, competition and digital industrial policy. The issue is not a lack of ambition, but the absence of a single institutional mechanism with the mandate to identify and resolve inconsistencies.

National supervisory authorities, including data protection authorities, digital

services coordinators, cybersecurity agencies, financial supervisors and competition authorities, often apply EU rules through different interpretive and enforcement traditions. As a result, the same EU rule can have different practical effects across member states. The rising share of transposed directives under infringement procedures points to this implementation divergence and shows that the digital single market is less integrated in practice than it appears on paper.

The Roadmap's quarterly stocktaking and European Semester monitoring are useful tracking tools, but they should be complemented by a stronger governance mechanism. The European Competitiveness Laboratory, proposed by Spain and developed with France, Germany and the Netherlands, could provide this function. Its first task should be a structured audit of the 20–25 major digital legislative instruments currently in force, mapping where national implementation has diverged most, estimating compliance costs for cross-border firms and identifying which directives should be prioritised for conversion into regulations.

The Laboratory should also act as a testing environment for cross-border digital projects between public administrations. Member states could use it to pilot operational models before they are proposed as EU-level instruments. This would create a clearer pathway from national experimentation to EU-wide adoption and help ensure that future digital rules are grounded in practical implementation experience.

IPCEI reform

Important Projects of Common European Interest (IPCEI) have been the primary instrument for enabling cross-border technology collaboration at scale while legitimising the state aid required to support

it. The track record is mixed. The IPCEI on Microelectronics and Communication Technologies (IPCEI ME/CT), which received state aid approval in January 2023, has experienced significant implementation delays: a number of participating companies have struggled to translate approved funding commitments into operational R&D programmes, partly because the administrative complexity of IPCEI participation at national level has proven more burdensome than anticipated. The IPCEI on Cloud Infrastructure and Services (IPCEI CIS), approved in December 2023 with 19 companies across 7 member states, has been criticised for both the pace of capital deployment and for the fragmentation of its project portfolio – spread across too many small-scale components to generate the network effects that cross-border collaboration is supposed to produce.

The IPCEI mechanism could be reformed by simplifying governance and accelerating funding pipelines. Current administrative complexity has slowed the translation of funding commitments into operational R&D programmes. Future mechanisms should include interoperability requirements from the outset and provide more predictable deployment timelines.

Connecting the DSM to the broader competitiveness agenda to create market conditions for digital scale-ups to grow

Europe's weak global position in digital technology is not mainly a research problem. Its universities, research institutes and firms produce strong scientific and technical output. The problem is that European companies built on this output often cannot grow to global scale before facing larger competitors or being acquired by firms with better access to capital.

The One Europe, One Market Roadmap addresses the capital market dimension through the Savings and Investments Union pillar, and the Startup and Scaleup Strategy – adopted May 2025 – has assembled a reasonable set of instruments: the Scaleup Europe Fund, the European Innovation Investment Pact, and the EU Inc./28th regime. The Savings and Investments Union, the Scaleup Europe Fund and the European Innovation Investment Pact should be explicitly linked to the digital single market agenda. Their purpose should be to mobilise late-stage capital for European digital companies so that successful firms can grow in Europe rather than relocate or sell early.

The review of the EU Merger Control Guidelines, expected to conclude by end 2026, should assess whether current rules unintentionally prevent the formation of European companies at globally competitive scale. The review should take better account of digital market dynamics, including network effects, data accumulation and first-mover advantages.

Integrate EU policy tools to strengthen digital resilience

The EU has an underused structural advantage in digital policy: its ability to combine regulation, investment, trade and procurement in ways that individual member states cannot. Market access rules can be linked to public procurement, EU-funded R&D to the promotion of European standards in trade policy, and FDI screening to proactive investment in domestic alternatives. These instruments still operate largely in separate administrative streams.

Several integration priorities could be addressed. A systematic stress test for DSM initiatives would help identify which measures genuinely reduce structural vulnerabilities and which only use DSM language without addressing the underlying

problem. A Quantum-Chips-AI Industrial Coordination Group, reporting to the Competitiveness Council and supported by aligned funding under a single Competitiveness Fund window, would improve coordination across critical technologies. A coherent approach to the dual-use potential of civilian digital technologies, such as large language models, autonomous systems and smart city infrastructure, also requires closer institutional cooperation between digital and defence policy communities.

Geopolitics is not just the context for digital policy; it is now a design parameter. European digital infrastructure is exposed to geo-economic competition and, increasingly, deliberate coercion. Policy frameworks must therefore anticipate countermeasures and avoid assuming stable access to critical inputs. Building flexibility into implementation mechanisms and funding structures is not only a matter of strategic ambition, but of basic prudence.

Table 3. Policy recommendations to tackle the bottleneck under Policy leadership.

Bottleneck 10: R&I coordination & Governance

Recommendations:

Improve institutional governance and accountability to address the coordination

problem: Address the EU's digital coordination problem by clarifying mandates and reducing overlap. The EU should complement the Roadmap's stocktaking and European Semester monitoring with a stronger governance mechanism that can identify inconsistencies across digital legislation, implementation and enforcement. The European Competitiveness Laboratory could audit major digital rules, map national divergence, estimate compliance costs and test cross-border administrative solutions before they are scaled EU-wide.

IPCEI reform: Reform the IPCEI mechanism through simplified governance and faster funding pipelines. Current administrative complexity has significantly slowed the conversion of funding commitments into operational R&D programmes. Future mechanisms should be designed with builtin interoperability requirements and more predictable deployment timelines.

Connecting the DSM to the broader competitiveness agenda to create market conditions for digital scale-ups to grow: Europe's digital weakness is not mainly a lack of research, but a lack of market conditions that allow successful digital companies to scale in Europe before relocating or being acquired. The Savings and Investments Union, Scaleup Europe Fund, European Innovation Investment Pact, EU Inc./28th regime and review of merger control guidelines should be explicitly linked to the digital single market agenda to mobilise late-stage capital and support globally competitive European scale-ups.

Integrate EU policy tools to strengthen digital resilience: The EU should make fuller use of its ability to combine regulation, investment, trade and procurement, instead of allowing these tools to operate in separate administrative streams. Digital policy should be designed for geopolitical competition by stress-testing DSM initiatives, coordinating critical technologies such as quantum, chips and AI, and building flexibility into funding and implementation mechanisms.

2.4 Simplify digital

Simplify digital addresses regulatory complexity as a key driver of single market fragmentation. It targets bottlenecks such as fragmentation and overlap of regulation, divergent national implementation and gold-plating as well as lack of clear and timely guidance.

The IMF estimates the equivalent tariff burden on intra-EU services trade at roughly 45 per cent (IMF, 2024). That figure reflects the accumulated cost of incomplete harmonisation over three decades. The cost is not evenly distributed. Large firms can build compliance functions capable of navigating the regulatory complexity. SMEs and scale-ups generally cannot.

Use RegTech to simplify compliance and strengthen the digital single market

Complex regulations can be burdensome, particularly for small businesses with limited resources. By reducing red tape and supporting compliance automation, the EU has a strategic opportunity to enhance competitiveness. Regulatory technologies (RegTech) are digital tools designed to make compliance more efficient, adaptive and user-friendly (Sitra, 2023). The EU could support the emergence of a regulatory technology ecosystem, following the example from Finland.

In Finland, Finnish Innovation Fund Sitra has helped build a RegTech ecosystem by bringing together startups, regulators and supervisory authorities, and by funding tools that help SMEs navigate EU data and AI regulation. Building on its work in Finland, Sitra is also building “EurLexGPT”, an open source, EU-specific AI model for legal document automation that RegTech companies can use without needing to maintain full legislative datasets or risk hallucinated outputs. (Sitra, 2025a & 2025b)

Regulatory technologies (RegTech) are digital tools that make compliance smarter and more efficient. They include:

- *Machine-readable regulations* that enable automated compliance
- *Natural language processing tools* for interpreting complex rules
- *Real-time reporting platforms* for ESG or financial compliance
- *AI-based risk monitoring* for emerging threats
- *Digital rulebooks and APIs* enabling integration into business systems

Reform the Better Regulation toolkit

The EU’s Better Regulation toolkit should be strengthened so that it more effectively reduces fragmentation and supports competitiveness. Impact assessments should reflect not only the Commission’s original proposal, but also the legislation as finally adopted. Delegated and implementing acts should be assessed more systematically, especially when they shape the practical application of digital rules. Shared definitions across digital legislation should also be monitored to avoid unnecessary divergence between files.

Competitiveness impacts should be assessed earlier and more consistently. The key question is not only whether an individual proposal is justified, but how it affects European firms when combined with existing and forthcoming rules. A stronger cumulative assessment would help ensure that digital legislation remains coherent, proportionate and easier for businesses to apply across the single market.

The EU also has useful tools for reducing single market friction, but they should be better connected and deployed at greater scale. SOLVIT, the Single Digital Gateway, the Once-Only Technical System, the Internal Market Information system and the

European Digital Identity Wallet can all help firms operate across borders more easily. Their impact would increase if they were integrated into a clearer digital architecture for the single market, rather than developed through separate portals and systems.

Make digital regulation more predictable and coherent

The One Europe, One Market Roadmap takes important steps to reduce fragmentation. Its preference for regulations over directives can support more uniform single market rules. The EU Inc. proposal and 28th regime could also give companies an optional EU-wide corporate framework, making it easier to incorporate and scale across borders.

These mechanisms are promising, but their impact will depend on implementation. Regulations will still need to interact with existing directives for many years, and the 28th regime will only be attractive if its terms are competitive with national alternatives, including on tax, labour law and enforcement.

The Digital Omnibus offers a near-term opportunity to make digital regulation more predictable. The Commission should introduce a binding rule requiring all implementing and delegated acts to be published at least six months before the parent regulation applies. If this deadline is missed, companies should be granted an automatic deferral. This would reduce legal uncertainty and give businesses, especially smaller firms, enough time to prepare.

Each new digital proposal should also include a regulatory interaction map. This would show how the proposal's definitions, obligations and enforcement mechanisms interact with existing EU rules, where inconsistencies may arise and how they should be resolved. Identifying these issues at the drafting stage would make digital regulation more coherent, easier to apply

and better suited to a functioning single market. The European Parliament has flagged this (European Parliament, 2025); Bruegel has proposed analogous mapping requirements (Bruegel, 2025). The practical design question is whether the interaction map is produced by the Commission as part of the impact assessment or by an independent body with a mandate to challenge Commission assessments. The latter is preferable but requires institutional design that the current framework does not support.

Strengthen enforcement to make harmonised rules work in practice

Harmonised rules only strengthen the digital single market if they are applied consistently. The 2026 Annual Single Market and Competitiveness Report shows that a growing share of transposed directives is subject to infringement proceedings, indicating that legal convergence does not always translate into practical integration.

The Commission could make enforcement more transparent and predictable by publishing the criteria it uses to decide when to open infringement proceedings. This would help businesses understand when national deviations from harmonised rules can be challenged and would strengthen trust in consistent enforcement.

A fast-track procedure at the Court of Justice could also be created for single market cases with clear market-distorting effects, including the possibility of interim suspension of national rules where likely incompatibility can be demonstrated. Pelkmans (2024) has outlined the legal basis for this; it is not an unprecedented instrument but would require political agreement on its use.

The EU could strengthen the institutional architecture, following the

governance architecture proposed by Letta (2024), for monitoring digital single market enforcement. Single Market Offices with a digital remit, supported by a Chief Enforcement Officer at Executive Vice-President level, could provide sustained oversight. To be effective, this function should have a clear reporting line, independent monitoring capacity and a requirement to publish annual assessments of enforcement divergence with specific cases.

Apply proportionality consistently to reduce digital compliance costs

Proportionality should be applied more consistently in EU digital legislation. A practical assessment should ask four questions: whether the measure is necessary, how administrative burdens affect SMEs and scale-ups, how it interacts with existing

reporting requirements, and whether the choice between a directive and a regulation could create implementation divergence.

The Technical Regulation Information System offers a useful model for preventing fragmentation before national rules are adopted. Its scope should be applied more systematically to digital measures, with clearer grounds for Commission opinions on measures that may restrict the single market. This could be done through updated guidance and a stronger enforcement posture, without new legislation.

The EU can also reduce compliance costs by making existing information tools work better for firms. The Your Europe portal, Points of Single Contact and the Single Digital Gateway should provide practical, up-to-date and searchable guidance on what companies need to do in specific sectors and member states. Improving content quality, update frequency and language coverage would make compliance easier, especially for SMEs operating across borders.

Table 4. Policy recommendations to tackle bottlenecks under Simplify digital.**Bottlenecks 1, 2 & 4: Fragmentation, Gold-plating, Guidance gaps****Recommendations**

Use RegTech to simplify compliance and strengthen the digital single market. The EU should support a European RegTech ecosystem that helps businesses, especially SMEs, comply with complex digital, data, AI and sustainability rules more efficiently. Machine-readable rules, AI-assisted legal tools and digital compliance platforms can reduce administrative burden, improve regulatory consistency across member states and turn smarter compliance into a competitiveness advantage.

Reform the Better regulation toolkit: Extend the impact assessment obligation to cover the most significant delegated and implementing acts. establish a binding standard for assessing competitiveness impacts, improve information exchange between authorities by making better use of existing systems (OOTS, IMI, EUDI), and expand SOLVIT's mandate to cover cross-border commercial barriers faced by digital businesses alongside individual cases

Make digital regulation more predictable and coherent: The EU should use the Digital Omnibus to make digital regulation easier to implement by requiring implementing and delegated acts to be published at least six months before the parent regulation applies, with automatic deferral if the deadline is missed. Each new digital proposal should also include a regulatory interaction map to identify overlaps, inconsistencies and enforcement conflicts with existing EU rules before they create fragmentation in practice.

Strengthen enforcement to make harmonised rules work in practice: The EU should make digital single market enforcement more transparent and predictable by publishing infringement criteria and creating a fast-track procedure for market-distorting single market cases. Dedicated Single Market Offices, supported by a Chief Enforcement Officer, would provide sustained oversight and help ensure that harmonised EU rules are applied consistently across member states.

Apply proportionality consistently to reduce digital compliance costs: The EU should apply a clearer proportionality test to digital legislation, assessing necessity, SME and scale-up burdens, interaction with existing reporting rules, and the risk of implementation divergence. It should also use tools such as TRIS, Your Europe, Points of Single Contact and the Single Digital Gateway more effectively to prevent fragmentation early and provide firms with practical, up-to-date compliance guidance.

3. Conclusions

The digital single market starts from a position of real strength. Europe has world-class research, a legal framework that has shaped global standards, a continent-wide talent base and companies in every member state with the potential to grow. The challenge is not a lack of ambition, but the gap between ambition and practical function. Rules designed for a single market still often operate as overlapping national systems. Cross-border digital infrastructure remains underused. Capital capable of scaling European companies globally is too often deployed elsewhere. Closing the gap between the digital single market as designed and as experienced by firms and citizens is the central task addressed in this report across four connected dimensions: Use digital, Control digital, Policy leadership and Simplify digital.

Use digital is about adoption. Public institutions represent a major source of digital demand, but that demand remains fragmented across national procurement systems. Common procurement criteria would create stronger market conditions for European digital providers than supply-side measures alone. AI gigafactories illustrate the point: capacity is being built, but demand from a wider ecosystem must develop alongside it. Adoption and investment should therefore move together.

Control digital is related to Europe's strategic positioning. Europe does not need to own every layer of the digital stack to exercise digital leadership. A more realistic and durable goal is to build indispensable positions in critical nodes of the global digital value chain, such as ASML in semiconductor lithography or emerging European strengths in domain-specific AI for regulated sectors, such as the work by Mistral. The next MFF should reflect this logic by coordinating funding windows

across AI, quantum, semiconductors and connectivity, rather than treating them as separate programmes.

Policy leadership is about governance in the new geopolitical reality. It is imperative to transform Europe's strong knowledge base into globally competitive industries. This requires better coordination of research, innovation and investment, and a clearer focus on the bottlenecks that prevent promising technologies from scaling. The main barriers to completing the digital single market are no longer analytical, but political and institutional. Completing the DSM requires managing short-term adjustment costs across member states and aligning policies that are still too often developed in separate tracks. Effective policy leadership therefore means coordinating EU instruments, addressing implementation constraints directly and using the single market as a platform for European digital scale.

Simplify digital dimension is about process and reduction of regulatory complexity. A regulatory pipeline that produces more rules than the market can absorb, with guidance arriving too late, favours incumbents over entrants and larger jurisdictions over smaller ones. The aim is not deregulation, but better regulation that is easier to understand, apply and enforce consistently. A simpler and more predictable regulatory environment would lower compliance costs, especially for SMEs and scale-ups, and help the digital single market function more like a single market in practice. Binding publication deadlines for implementing and delegated acts, regulatory interaction maps for new digital files and transparent infringement criteria would make the system more predictable and easier to use. These are practical changes that would shift the focus from producing new

rules to ensuring that existing rules work as intended.

The One Europe, One Market Roadmap is a major step forward by the European institutions gives these questions a timetable

and clearer accountability. The tools to complete the digital single market are largely in place. The next step is to use them coherently and decisively.

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