The EU's Tech Sovereignty Package: What It Means for Business

A new era of investment, innovation, and competition in Europe's digital future

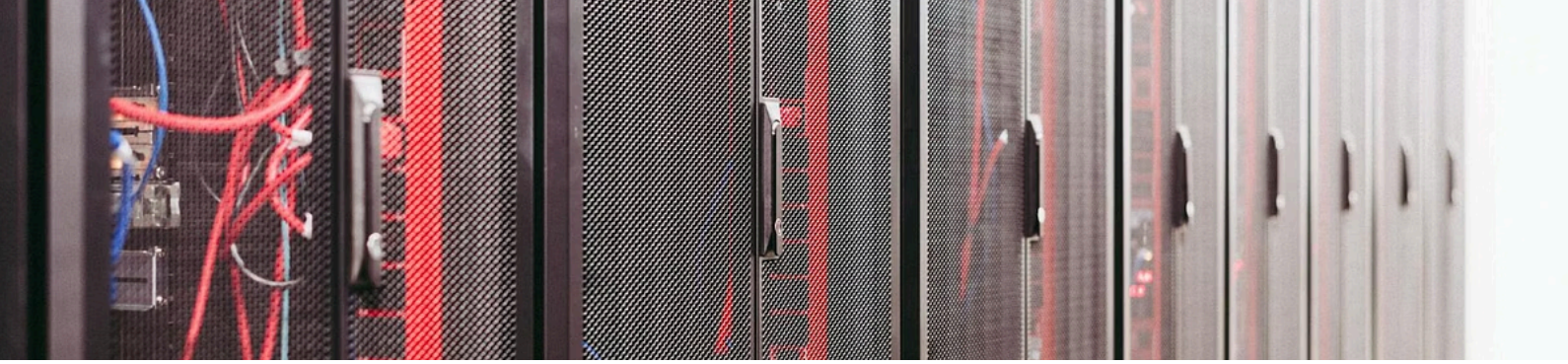
CHIPS ACT 2.0

CLOUD & AI DEVELOPMENT ACT

EU OPEN SOURCE STRATEGY

DIGITALISATION & AI IN ENERGY

SECURING EUROPE'S TECHNOLOGICAL FUTURE



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On 3 June 2026, the European Commission released its long-anticipated technological sovereignty package — a four-part initiative comprising the **Chips Act 2.0**, the **Cloud and AI Development Act (CADA)**, an **EU Open Source Strategy**, and a **Strategic Roadmap for Digitalisation and AI in Energy**. For companies operating in or seeking access to the European market, this represents a structural shift in how the EU intends to shape procurement, investment, and competitive conditions across the digital economy — not merely incremental regulatory development.

80%

Foreign Digital Dependence

EU digital products, services and infrastructure relying on non-EU providers

70%

Cloud Market Share

EU cloud market controlled by three US hyperscalers

9%

Semiconductor Output

EU's share of global semiconductor production vs. ~20% consumption

Europe has historically pursued a *regulatory model* of sovereignty — the GDPR, the DSA, the DMA, the AI Act — excelling at setting standards and binding foreign companies to its values. However, the EU now recognises that the structural gap cannot be closed by regulation alone. Commission estimates indicate that more than **80% of Europe's digital products, services, and infrastructure rely on non-EU providers**. Three US hyperscalers control over **70% of the EU cloud market**, and Europe consumes nearly **20% of global semiconductor output** whilst producing only around **9%**. These are investment and industrial failures, and the package is designed to address them directly.

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The Four Pillars: A Brief Map of the Package

The package comprises four distinct but interconnected instruments, each targeting a specific dimension of Europe's digital dependency. Together they represent the most ambitious coordinated industrial and regulatory intervention in the EU's digital economy to date.

01

Chips Act 2.0

Builds on roughly **€53 billion** in announced investments under its predecessor, pivoting toward AI-related components projected to represent around **70% of the semiconductor market** going forward. Introduces demand stimulation mechanisms, faster permitting, and supply chain monitoring. Its flagship proposal is an EU-based open foundry for advanced nodes at **3nm and below**, with pilot production potentially between 2030 and 2033. Strategic project status carries significant implications for State aid access and accelerated approvals.

02

Cloud and AI Development Act (CADA)

The central pillar for the cloud and AI industry, pursuing three objectives: research and innovation in AI-enabling infrastructure; sustainable data centre deployment targeting a **tripling of EU capacity** within five to seven years; and cloud sovereignty for critical public sector use cases. Establishes **Data Centre Acceleration Zones** with harmonised permitting and streamlined access to land and energy infrastructure across Member States — directly addressing barriers that industry stakeholders frequently identify as key constraints on investment.

03

EU Open Source Strategy

Targets the approximately **€264 billion** the EU currently spends annually on IT products and services. Promotes open source alternatives across the public sector technology stack, supports stewardship organisations for critical open source components, and seeks to embed open source principles into public procurement evaluation criteria. For European software SMEs and open source vendors, this represents a meaningful structural shift in procurement conditions that have historically favoured large proprietary incumbents.

04

Strategic Roadmap for Digitalisation and AI in Energy

Addresses the intersection of digital infrastructure and energy systems, recognising that the data centre expansion and AI compute build-out embedded in the package's other pillars carry significant energy implications. The roadmap situates the package's investment objectives within the broader context of Europe's energy transition and infrastructure planning, providing a strategic framework for coordinating digital and energy investment across Member States.

The Sovereignty Framework: A New Compliance and Market Access Reality

The most consequential element for companies selling to European public administrations is the CADA's **four-tier cloud sovereignty assurance framework**, which is likely to reshape access conditions for public sector contracts. Levels are defined by criteria covering infrastructure location, software supply chain control, processing of AI inference data, and cybersecurity standards. Member States and EU institutions will be required to conduct sovereignty risk assessments before procuring cloud services and to select an appropriate assurance level for each use case — effectively embedding sovereignty considerations into procurement decision-making.

In practice, this creates a tiered market. For sensitive public sector contracts, providers that cannot demonstrate compliance with the higher assurance levels may face exclusion from certain high-sensitivity contracts, regardless of price or performance. **US hyperscalers have already signalled concern**, with Microsoft publicly calling on the EU to avoid measures that discriminate against non-EU actors under WTO Government Procurement Agreement commitments. The legal tension between the sovereignty framework and existing trade obligations remains unresolved and may influence how the framework is ultimately implemented.

EU-Based Providers: Opportunity

The framework is an opportunity for EU-based cloud and AI providers — if they can organise effectively to meet its requirements and communicate their assurance levels clearly. Early positioning within the framework may confer durable competitive advantages in the public sector market.

- Demonstrate compliance with higher assurance tiers
- Leverage "EU added value" procurement criteria
- Capture public sector contracts from which non-EU rivals may be excluded

Non-EU Providers: Adaptation Required

The path forward for non-EU providers is likely to involve investment in EU-based infrastructure, EU-controlled operations, and partnerships with European firms to reach the required assurance thresholds. Several hyperscalers have already moved in this direction with sovereign cloud offerings — the CADA formalises the incentive structure that makes such investments commercially rational.

- Invest in EU-based infrastructure and operations
- Build partnerships with European firms
- Monitor WTO legal tensions closely

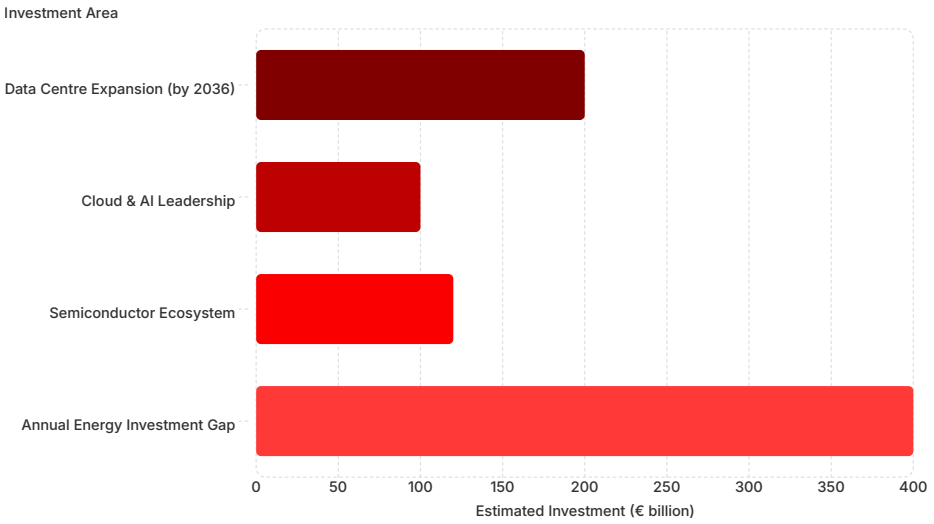
ⓘ The "EU added value" criterion in public procurement of cloud and AI services, explicitly promoted by the CADA, adds a further layer. Whether that principle extends cleanly to broader public procurement across all Member States remains to be tested, but the policy trajectory is clearly moving in that direction.

The Investment Gap: Risk and Opportunity at Scale

The Commission's own figures illustrate the scale of investment required to support the package's objectives. These are not marginal funding requirements — they represent a structural challenge that exceeds the capacity of existing public funding instruments and implies a central role for private capital.

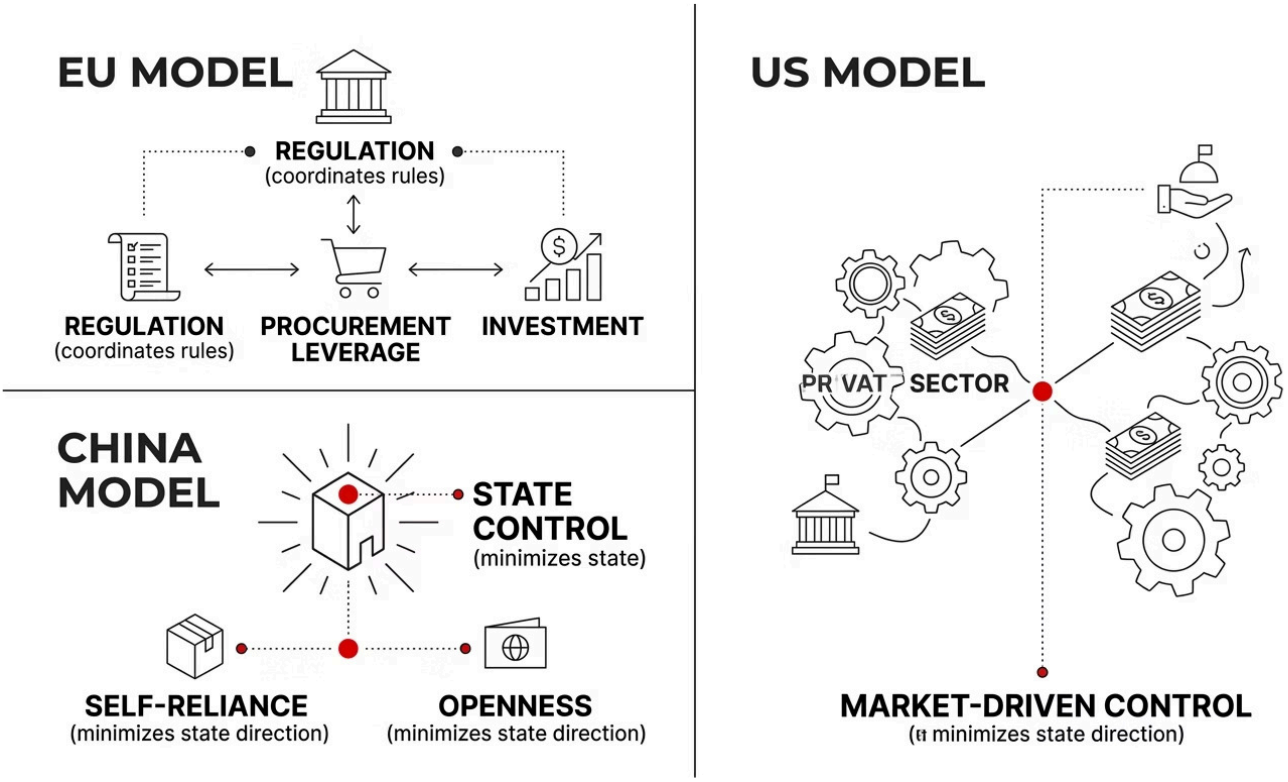
This scale of investment cannot be met through grants and pilot programmes alone. The Commission acknowledges a structural equity financing gap and has opened a consultation on establishing a new **strategic asset management mechanism** aimed at crowding in private capital at scale. Available data indicates that **Europe raises only around 5% of global venture capital**, compared to 52% in the US and 40% in China. The proposed mechanism, still at the feasibility stage, would target large-scale equity investments in advanced technologies and infrastructure, complementing existing instruments which primarily operate through loans, quasi-equity, and fund-of-funds models.

For investors and deep-tech companies, this signals priority areas where EU capital is expected to be directed over the next decade. The **European Competitiveness Fund's Digital Leadership Window**, the **AI Gigafactory initiative** targeting industrial-scale computers, and the **Data Centre Acceleration Zones** are all designed to reduce investment risk and crowd in private capital. Companies that position themselves within these frameworks early — whether as infrastructure providers, technology suppliers, or platform operators — may benefit from first-mover advantage, particularly as the window for early positioning narrows.



Europe's Distinctive Approach: Constraint and Competitive Asset

It is important to be clear about what Europe's model of technological sovereignty is — and is not. Unlike **China's state-centric approach**, which has achieved a high degree of digital self-reliance albeit with trade-offs in openness and attractiveness to foreign investment, or the **US's market-driven model**, where private sector actors retain primary control, Europe is pursuing technological sovereignty through a combination of regulation, procurement leverage, and coordinated investment whilst remaining formally open to the world. The package is explicit: **technological sovereignty does not mean protectionism or decoupling**.



For companies operating in or entering the EU market, that distinction is important. The sovereignty framework creates new compliance requirements and competitive dynamics, but it does not close the EU market — particularly for firms able to meet the emerging requirements. Instead, it raises the bar for participation in the most sensitive segments of the public sector market and signals that the EU intends to use its procurement power, investment instruments, and regulatory tools in a more coordinated and assertive way than in the past.

Whether the package ultimately delivers on its ambitions will depend on Member State implementation, private sector co-investment, and the Commission's ability to resolve the legal and political tensions embedded in the sovereignty framework. The window for establishing competitive positioning is narrowing. **The key question is no longer whether to take the sovereignty agenda seriously, but how quickly companies can adapt their operations, partnerships, and investment strategies in response.**

Key Takeaways for Business

The EU's Tech Sovereignty Package represents a decisive and durable shift in the competitive and regulatory landscape for any company operating in or targeting the European digital economy. The following strategic implications merit immediate attention from business leaders, investors, and policy teams.

Assess Your Sovereignty Tier Exposure

Companies selling cloud or AI services to European public administrations must urgently map their position against the CADA's four-tier sovereignty assurance framework. Exclusion from high-sensitivity public sector contracts is a real commercial risk for providers unable to demonstrate compliance with higher assurance levels, regardless of price or performance.

Align with Priority Investment Frameworks Early

The Data Centre Acceleration Zones, AI Gigafactory initiative, and Digital Leadership Window represent the primary channels through which EU capital will be directed over the next decade. Infrastructure providers, technology suppliers, and platform operators that position themselves within these frameworks early stand to benefit from reduced investment risk and first-mover advantage.

Monitor the WTO Legal Tension

The unresolved tension between the sovereignty framework and WTO Government Procurement Agreement commitments may materially influence how the CADA is ultimately implemented. Companies and investors should track these developments closely, as the outcome will determine the practical scope of market access restrictions for non-EU providers.

Revisit Procurement Strategy for Open Source

The Open Source Strategy's embedding of open source principles into public procurement evaluation criteria — targeting €264 billion in annual EU IT spend — creates a structural shift in conditions that have historically favoured large proprietary incumbents. European software SMEs and open source vendors should move quickly to capitalise on this shift.

The package is explicit that technological sovereignty does not mean protectionism or decoupling. The EU market remains open — but the bar for participation in its most sensitive segments is rising. Adaptation is not optional; it is a competitive imperative.

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