

## **A plan for Europe's tech fightback**

THE RUPTURE in the relationship between America and Europe has highlighted Britain's perilous position: out of the EU, yet no longer able to rely on the "special relationship" to protect its interests. Britain is further adrift geopolitically than it has been for a century or more. One way or another, it must re-establish a stronger footing, and exercise greater leadership, in Europe.

Despite cornering themselves with needlessly rigid commitments not to reconsider single-market membership and ruling out joining the customs union, Britain's prime minister and chancellor of the exchequer have at least started to make the case for a broader EU rapprochement ahead of a summit in Brussels this summer. Yet so far the government has been strangely silent on one area where greater integration across the English Channel is an obvious win-win: technology.

Europe has vast market potential, with a nearly-\$4trn tech sector—and considerably more headroom if the EU's capital-markets union and digital single market are fully realised. Britain has leading venture-capital (VC) and startup scenes. It has produced 200 unicorns (private firms worth over \$1bn), funds more startups than Germany and France combined and boasts the world's best-funded fintech hub. The opportunity is clear for Europe's tech sectors, in and outside the EU, to become the sum of their parts.

As American and Chinese technology becomes more deeply embedded, there is much talk in Europe's capitals about the importance of tech sovereignty. But the truth is no European country, including Britain, is big enough to stand on its own feet across the full range of AI-related technologies. The tech supremacy of America and China is in large part a function of their hemispheric scale. European nations will need to learn to act at hemispheric scale themselves if they want to compete.

There are signs that Europe's tech scene is stirring. European VC investment has quadrupled in a decade, comfortably exceeding China's. For the first time, tech workers are just as likely to move from America to Europe as the other way round.

To capitalise on this opportunity—and emerge stronger from the transatlantic shock exacerbated by the Iran war—Europe needs to learn to become a market that can innovate at scale. This should not be confined to the EU, but a broader “Eurovision” concept of Europe (sans Australia perhaps). Ukraine is already a world leader in AI defence innovation; Norway is well placed to lead in low-cost, sustainable data-centre capacity. Along with Britain, they should be included in an overarching approach to boost Europe's performance in bits as much as economic integration in previous decades focused on atoms.

There are some early steps the EU and Britain can take. Some are modest, most technocratic. But together they could help spark a continental tech renaissance.

First, they should bring together efforts to develop competitive AI capabilities. The European High-Performance Computing project is about to fund five AI gigafactories, massive facilities for training and operating frontier models. British companies should bid in conjunction with peers from the EU. Britain could also use the upcoming review of the EU-UK Trade and Co-operation Agreement to negotiate reciprocal access for researchers and businesses to new supercomputers.

Second, Britain should join the European Investment Fund's tech-scale-up fund-of-funds, which provides late-stage growth capital. This would increase the finance and expertise available to the most promising companies. British firms could tap a source which has already helped almost a dozen unicorns.

Third, Britain's researchers should become full members of Horizon Europe, the EU's research-and-innovation programme. Rejoining as “associated” members in 2024 has already been a boon for them. Full membership would give them access to the European Innovation Council's equity fund for startups.

Fourth, Britain should join the EU in embracing the bloc's “28th regime”. Anyone doing business in the EU faces 27 overlapping compliance systems; under the 28th regime, they could register once then operate freely across the bloc—much as

Delaware incorporation allows in America. British participation is feasible with commitment from both sides.

Last, it should be made easier for talent to start and grow firms in Europe by lifting visa restrictions and granting special status for tech entrepreneurs across greater Europe, including Iceland, Norway and Ukraine as well as Britain. The ecosystem would be more vibrant if Europe embraced the proposal from Oliver Coste and Yann Coatanlem, two French entrepreneurs, to lift labour-market rules for the top 10% of earners, unlocking the febrile talent-swapping that makes Silicon Valley so dynamic without sacrificing employment rights for the vast majority of workers in tech.

Britain and the EU can take these steps now. Clearly their effects would be amplified if Britain were to take the natural—and widely popular—step of reintegrating more fully into the EU. Tough choices lie ahead for the EU too: for example, ditching or at least significantly redrafting recent AI legislation which, if enacted, would discourage AI firms from training models in Europe just as the EU is trying to build the infrastructure for them to do so.

Britain's temporary estrangement from its continental hinterland masks the true strength of Europe's position. Together, the EU and Britain enjoy a vast reserve of ideas, capital and innovation. Europe is no musty backwater: it has the talent, resources and incentive to lead. It should start to think, and act, like it.