

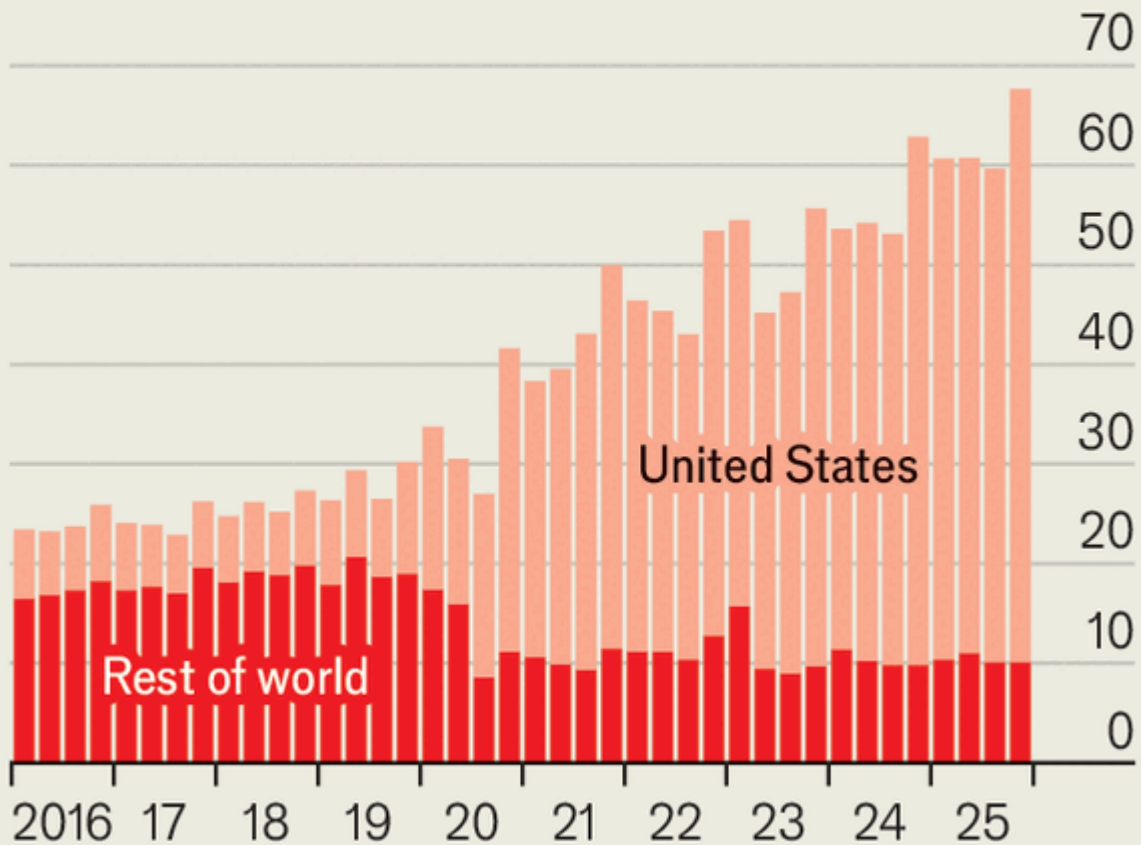
How Europe is fighting for digital sovereignty

A LOOK AT Europeans' software budgets shows why they are worried about dependence on America. Germany's federal government pays almost half a billion euros a year in licence fees to Microsoft, an American software firm. A rough calculation by a French business association finds that large French companies buy more than \$50bn in software and cloud services annually from Uncle Sam's tech giants. Euro-zone imports of intellectual property services from America have ballooned to \$200bn a year and counting (see chart).

That is not surprising. Cloud and artificial-intelligence services could prove more transformative than online shopping, social media or internet search. And the four biggest American cloud and AI firms—Amazon, Google, Meta and Microsoft—are miles ahead of Europe. German politicians crow about a new €1bn (\$1.16bn) data centre near Munich; America's big four invested over 350 times that in 2025 alone. Of almost 100 notable AI models released in the past year, according to Epoch AI, a research firm, only one was from the European Union. The grip of American tech is, if anything, growing tighter.

Cloud cost

Euro area, imports of intellectual-property services, €bn



Source: ECB

Policymakers are keen to change that. On June 3rd the EU will unveil a tech-sovereignty package, including a cloud and AI development act. In April France announced it was switching all government computers from Windows to Linux, an open-source operating system originally from Europe. Germany is likely to task domestic firms with setting up a cloud for administrative data, and its domestic intelligence service has opted for ArgonOS, a French data analytics firm, over America's Palantir. Businesses are also diversifying. In 2022 most firms surveyed by Accenture, a consultancy, said they only considered American cloud providers. That share dropped to less than 20% in 2025.

Europeans have three big worries. The first is that sensitive data and services may not be safe. America's Cloud Act gives its government the power to request data from tech firms even when hosted by a subsidiary abroad. Some fear that America might wield tech as a geopolitical weapon, in the form of a kill-switch that can turn off services. That scenario is somewhat cartoonish, says an EU insider, but the dependence is real. Karim Khan, the chief prosecutor of the International Criminal Court, lost access to his email after being placed under sanctions by America.

American tech giants and big cloud service providers, known as hyperscalers, respond to such fears with what they term "sovereign offerings". Microsoft promises European users never to cut them off, and to fight American data requests in court. Google has an "air-gapped" cloud with no connection to the public internet for clients with high security needs, including one of its newest customers, the German armed forces. But critics call such offers "sovereign-washing", as the firms are ultimately under American control. Europe needs a layered approach, argues Topi Manner, CEO of Elisa, a Finnish telecoms and cloud provider: "The most sensitive data [should be] kept in Europe, in highly secure data centres, and the big hyperscalers for the less sensitive parts."

A second worry is that American digital services spread harmful content, and dominate markets to the detriment of European businesses and media. The rise of AI has intensified that concern, as users turn to ChatGPT and its competitors for advice on everything from shopping to politics.

Europe has countermeasures, but they are controversial and slow. The bloc's Digital Markets Act (DMA) and Digital Services Act (DSA) let it punish anti-competitive behaviour and force tech giants to change their services. In April alone, the European Commission sent preliminary warnings to Meta, for breaching age restrictions, and to Google, demanding that it grant third parties access to search data. Other investigations are under way. One concerns whether Google's and Microsoft's cloud services are governed by the DMA—if so, it could require them to unbundle their services.

Such measures may create a bit more room for competitors, but are unlikely to make Europe much less dependent on America. Fear of alienating America and putting NATO at further risk looms. Mario Draghi, a former chairman of the European

Central Bank, argued this month that the EU must become more assertive, but “what is holding us back is security.”

The third reason for Europe’s digital sovereignty drive is growth. Europe is losing the technological race against America and China, including in AI, which reaches into many sectors where Europe remains strong. Building domestic providers is seen as necessary to stay competitive.

One question is whether users will be able to switch. Hyperscalers provide integrated services and the scale to make them efficient. “That bundling of services then leads to lock-in effects,” says Svea Windwehr of D64, a digital-progress association in Germany: users cannot count on easily taking data with them. Quality and cost also matter. A survey of Danish firms, which use clouds more than any others in Europe, found that their top concerns (after security and legal compliance) were quality, ease of use and price.

That often argues for American providers. So does the fact that European firms’ customers tend to use American tech, too. “For many industrial applications,” says a European industrial executive, “there are no capable alternatives to software-as-a-service from American providers.”

Chicken, meet egg

“Europe’s challenge is one of industrial co-ordination and animal spirits,” argues Georg Riekeles of the European Policy Centre, a think-tank in Brussels. There is demand for sovereign solutions, industry representatives say. But building an ecosystem, from chips to data centres and services, is hard. America’s strong economic momentum makes it harder still. Anne Hidma of ASML, the Dutch-based company that leads the world in the machines that make chips (but which sells only 1% of its machines in Europe), says Europeans start with their strong suit, innovative technical ideas. Then they see whether there is a market for them. In contrast, “America starts from the end market and builds its ecosystem from there,” she says.

To get things moving, the EU wants to help build large data centres and strengthen the supply chain for chipmaking. The forthcoming package will probably include faster permitting procedures, some public funds to support investment and procurement rules that prioritise European suppliers. The hope is that this will create demand both for

chip design and manufacturing, and for cloud and AI services made in Europe. It is a tall order.