Policy Brief - Rewiring the EU's AI Future: From Linear Regulation to Dynamic Ecosystem

Introducing a Dynamic AI Value-Chain Framework (DAVF)

Introduction

- In June 2024, the EU adopted the world's first risk-based AI Act, yet Europe continues to lag behind the US and China in AI start-up investment, faces persistent funding gaps, and loses innovative firms to more innovation-first ecosystems.
- Without AI leadership, the EU risks losing its ability to shape safe, rights-preserving AI aligned with European values, as an outdated regulatory framework misidentifies where risks and innovation arise and constrains effective technological development from design to deployment.

What the EU is Doing:

- The AI Act, written prior to the emergence of general-purpose AI, is the central instrument of the EU's AI governance plan.
- Scheduled to take effect in 2026, the Act promotes human-centric AI by categorising systems into four risk tiers based on their application or context of use.
- The EU is governing a rapidly evolving, non-linear technology through a linear, ex-ante regulatory model, creating a gap between policy intent and real-world technology implementation.

Flaws of the Current Regulations

- The EU AI Act uses a linear value-chain model, recognising only providers and deployers, while overlooking actors critical to AI development, integration, and deployment.
- High-risk AI deployment upstream of the EU internal market is unregulated by the Act, which encourages offshore operations, lowers competitiveness, creates security vulnerabilities, and weakens EU-value embedding.
- SMEs are prevented from participating in real-world testing by blanket restrictions on high-risk deployers. Large companies bear the cost of compliance, which strengthens incumbents and limits innovation.
- Strict consent requirements and testing limits restrict access to public datasets, reducing public procurement's ability to foster innovation and embed EU values collaboratively.
- Overlapping GDPR, EHDS, and sandbox exemptions create complexity, which leads to fragmented testing pathways and uneven access to datasets and validation environments across member states.

What the EU Should Do

- The EU should adopt a Dynamic AI Value-Chain Framework (DAVF) to move beyond the two-actor model. Its three principles are Shared & Proportional Responsibility across all actors, Accelerated Testing & Competitive Regulation with EU-wide supervised pathways, and Evolving and Investment-Ready, aligning compliance with investment incentives to boost AI scale-up.

Implementation of DAVF

Step 1: Dynamic AI office

Expand the EU AI Office to coordinate value chains, classify actors by function and risk, and implement adaptive review processes with early reassessment triggers.

Step 2: Open-Up Public Services

Set EU-wide standards for high-risk AI testing, protect data rights, enable controlled dataset access, and use public procurement to embed EU values and support start-ups and SMEs.

Step 3: Establish Incentive Pathways

Introduce a unified incentive system to replace hard-to-enforce upstream oversight with market-based mechanisms that reward responsible behavior, integrate validation, funding, and onshoring, and ensure EU-based development.

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