

The Hidden Cost of AI Regulations for EU and UK Startups and SMEs

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Executive Summary

Artificial intelligence (AI) is reshaping how small technology businesses compete and grow. For startups, scaleups, and small and medium-sized enterprises (SMEs), it is not only a tool to cut costs and improve efficiency, but also a driver of innovation, new business models, and market expansion. Small tech startups, the backbone of the digital economy, are using AI to improve their workflows and develop new apps, copilots and enterprise solutions to today's challenges.

The European Union (EU) and United Kingdom (UK) are pursuing a "regulate first" approach unintentionally creating bottlenecks, delaying access to frontier AI models, increasing compliance burdens, and holding back launches of new tools.

This report draws on two surveys, commissioned by ACT | The App Association and conducted by TechnoMetrica, of more than 1,000 technology MSMEs across the European Union (EU), United Kingdom (UK), and United States (U.S.).¹ The surveys sampled AI users (respondents adopting and integrating AI

tools into their operations) and AI developers (respondents building AI models, apps, or services) on their perspectives for AI adoption and growth, and the policy environment. The results reveal a widening transatlantic opportunity gap. While U.S. SMEs have the flexibility to move faster, integrate deeper, and monetize better, their peers in the EU/UK face regulatory delays, lost clients, and rising costs.

Top three takeaways:

- **Delays shrink savings and rack up costs:** EU and UK tech SMEs lose on average €94K/£81K–€322K/£280K annually per firm from delayed AI models and launches; for directly affected small-tech firms, the loss rises to €160K/£139K–€453K/£393K. More U.S. SMEs (91 vs. 85 percent) are realizing greater cost savings (10.7 vs. 8.9 percent) than their EU/UK counterparts.
- **Europe's adoption gap:** Only half of EU and UK startups actively use AI, compared to nearly two-thirds in the U.S.
- **Regulation drives delays and downgrades:** Six in 10 EU and UK tech startups and SMEs face delayed access to frontier AI models. Nearly 60 percent of EU and UK developers report launch delays, and more than one-third are forced to strip or downgrade features to comply.

¹ 2025 Small Business AI Survey — EU & UK Findings ([TechnoMetrica, full report link](#)) and Raw survey data tables — EU/UK cross-tabs ([link](#)). 2025 Small Business AI Survey — U.S. Findings ([TechnoMetrica, full report link](#)) and Raw survey data tables — U.S. cross-tabs ([link](#)).

Digging deeper: What the data shows

The combined survey data, outlined below, shines a light on how businesses in the European Union and the United Kingdom encounter delayed access to frontier AI tools, heavier compliance burdens, and smaller returns on investment compared to their peers in the United States. By examining adoption patterns, regulatory consequences, and the direct financial toll of delays, we can see clearly how this form of regulation is not just slowing innovation but imposing measurable costs on startups and small tech.

1 AI Adoption & Integration

AI is becoming mainstream worldwide, but European startups integrate it more slowly. While 62 percent of U.S. tech SMEs actively use AI, only 50 percent of EU/UK firms do.

Looking specifically at AI users: while 73 percent of EU/UK firms say AI is important today, just 32 percent have fully integrated it into workflows. In the United States, 83 percent say AI is important and 45 percent have fully embedded it. U.S. firms are more extensively reorganizing their business models around AI.

2 Regulatory Burden & Its Consequences

Six in 10 EU/UK MSMEs report **delayed access to frontier AI models**, and more than a third of developers say they have had to strip or downgrade features to comply with rules. Regulations are also **slowing firms' own launches**: 58 percent of developers report regulation-driven delays, while only 37.5 percent say they are unaffected. For those caught in these slowdowns, the consequences are real. Half report slower innovation, 45 percent face higher costs, one in three falls behind competitors,

and nearly 30 percent lose clients.

The picture looks much different across the Atlantic. In the United States, 44 percent of developers report launch delays tied to regulation, but most describe them as moderate. More than half, 54 percent, say they have experienced no delays at all. In Europe, the effect is systemic, regulation often functions as a brake rather than a safeguard for startups.

“We’re restricted from accessing innovative new tools and features that Apple and other companies release in the U.S. and other regions. These include Apple Intelligence and iPhone Mirroring. In the EU, when these tools do arrive, they’re often late and degraded versions. Competing with the United States has never been more challenging than it is today.” — Mitchel Volkering, Vaic.at, ACT | The App Association EU member

The takeaway is that in the United States, regulation is a speed bump. In the EU/UK, it is a brake, stalling both access to innovation and the ability to deliver it to market.

3 Quantifying the Cost of Delay²

EU/UK tech SMEs bear measurable financial losses from regulatory-driven delays.

²**Methodology:** These estimates reflect two approaches. **Revenue at risk** is calculated as median firm revenue (\$2.15M) × share of firms losing clients (29 percent) × conservatively assumed revenue loss (5–10 percent). This outputs \$31K–\$62K average lost revenue across all tech SMEs, or \$107K–\$215K for the 29 percent directly affected subset. **Cost savings foregone** is calculated as median operating expenses (\$1.75M, derived using Eurostat’s gross operating rate of Information & Communications Services Sector of 18.5 percent) × delay length (3–12 months) × a set of adjustment factors. These adjustment factors reflect (a) 85 percent of firms report cost savings from AI, (b) 60 percent report facing delays, (c) conservatively, only 50 percent of savings depend on the delayed models, and (d) firms offset roughly

- **Annual Revenue at Risk (all tech MSMEs):** €26.5K/£23K–€53K/£46K average lost per firm; €92K/£80K–€184K/£160K for directly affected firms.
- **Foregone Savings (users)³:** €67K/£58K lost for a 3-month delay, rising to €268K/£233K for a 12-month delay.
- **Annual Total Impact (all tech MSMEs):** €94K/£81K–€322K/£280K average per firm; €160K/£139K–€453K/£393K for directly affected firms.

“Policymakers often look at problems from the perspective of big companies with big resources, but their decisions affect all of us, especially MSMEs. If regulation makes it harder for our clients to innovate, it makes it harder for us and them to grow. We need a market that’s not just free, but fair and doesn’t create barriers that do not exist in major regions we compete with. Otherwise, the region as a whole will fall further behind in the tech race and more and more successful startups will leave the EU to set up shop in more competitively advantageous locations.” — James Hansen, Layers Studio, ACT | The App Association UK member

4 Comparative Insights: EU/UK vs. U.S.

Both regions see AI as essential, but the ability to turn adoption into results diverges. EU/UK firms are adopting AI, but U.S. firms are embedding

it faster, aiming at higher-value apps, and reinvesting harder.

- **Adoption and integration are deeper in the United States.** Nearly two-thirds of U.S. SMEs use AI, and 45 percent have fully integrated it into workflows, compared with 50 percent and 32 percent in the EU/UK. What in Europe is still in the pilot stage is, in the U.S., becoming everyday practice.
- **U.S. developers lean toward faster-scaling apps.** Both regions build consumer apps (EU/UK 56 percent vs. U.S. 52 percent) and creative tools (54 percent vs. 53 percent), but U.S. developers lean more toward enterprise apps such as AI copilots (57 percent vs. 41 percent) and software-as-a-service (SaaS)/business tools (55 percent vs. 42 percent), which monetize faster and scale better. This signals a tilt toward profitability and recurring revenues in the United States, while European developers remain more evenly spread across niches.
- **Cost savings are larger in the U.S.** In the EU/UK, 85 percent report cost savings (8.9 percent median reduction); in the United States, 91 percent report savings cost (10.7 percent median reduction). Micro-firms, with fewer than 10 employees, highlight the gap: only 60 percent of EU/UK micro-SMEs see savings (7.9 percent median reduction), while 76 percent of U.S. peers do (8.6 percent median reduction).

30 percent of lost savings through workarounds (so we apply 70 percent). Multiplying these together ($0.85 \times 0.60 \times 0.50 \times 0.70$) produces a multiplier of 0.1785, meaning that about 18 percent of operating expenses can be treated as “at risk” due to AI delays.

³ Cost savings foregone applies only to AI users (firms integrating AI into workflows). Developers are impacted differently, through revenue at risk from launch delays and feature downgrades.

- **U.S. MSMEs are investing more aggressively.** While SMEs on both sides of the Atlantic are optimistic, U.S. firms are pushing harder. In the EU/UK, 89 percent of tech SMEs plan to increase AI investment, but only 13 percent of

micro-firms (with fewer than 10 employees) expect to make significant increases. In the United States, the overall share rises to 94 percent, and double the rate of micro-firms (27 percent) plan significant increases. Mid-sized U.S. firms (51-100 employees) are especially aggressive, with 42 percent significantly scaling up. Developers show a similar split: over 91 percent of European developers and 92 percent of U.S. developers plan to scale, but American developers lean more heavily toward significant jumps (33 percent vs. ~20 percent in Europe).

“We’ve already seen how trusted marketplaces convey security and scale to small business offerings, opening markets and fueling growth. Assuring Responsible AI raises the stakes and the expectations by orders of magnitude, making the stabilizing and standardizing influence of trusted platforms more important than ever before. I would be hard-pressed to find a worse time to impose DMA-style obligations. High-speed trains are not limited by their engines. It’s the quality and trust in the tracks that hold them back. The wrong kind of regulation will have small businesses moving at 20th-century speeds in a 21st-century race.” — Sebastian Holst, Fool Me Once, LLC, ACT | The App Association U.S. member`

Policy Recommendations

To close the gap and deliver on Europe’s own ambitions, policymakers should:

1. Ensure timely access to frontier AI models for startups and SMEs.
2. Apply proportional compliance rules that reflect startup realities, not just large enterprises.
3. Expand regulatory sandboxes and testbeds to support experimentation and scaling.

4. Align AI policy with Europe’s Digital Decade goals, making startups central to digital sovereignty and competitiveness.

Conclusion

Europe’s startups, scaleups, and SMEs are ready to lead in the AI economy. They have the ideas, the talent, and the drive to innovate. What holds them back are ex-ante rules (rules imposed up front before products can reach the market) that make it harder for small tech firms to compete. Laws such as the EU’s Artificial Intelligence Act (AI Act), the General Data Protection Regulation (GDPR), and the Digital Markets Act (DMA), alongside the UK’s General Data Protection Regulation (UK GDPR), and the Digital Markets, Competition and Consumers Act (DMCCA), are built to preempt any weighing of harms against benefits by restricting access and front-loading compliance. If Europe wants to achieve its strategic goals, it must design policies that enable startups to access frontier tools, innovate responsibly, and compete globally.

Meanwhile, U.S. startups, scaleups, and SMEs are proving what is possible when rules focus on outcomes rather than up-front controls (ex post). This report outlined just a portion of the significant costs SMEs bare because of the bright-line prohibitions Europe has placed on the complementary services SMEs rely on to build, grow, and succeed. Without regulatory barriers that stand in the way of their access to platform-provided services, small business innovators move faster, reinvest savings, and scale innovations into recurring revenues. The results of these surveys illustrate the significant and quantifiable costs of overly broad regulation that put small business innovators’ ability to succeed and grow at great risk.