

Written Evidence Submitted by ACT | The App Association (AI Growth Lab: Call for Evidence)

I. About ACT | The App Association

ACT | The App Association is a global trade association representing small business technology companies from across the United Kingdom (UK), European Union (EU), and the United States (U.S.). Our members are entrepreneurs, innovators, and independent developers within the global app ecosystem that engage with verticals across every industry. We work with and for our members to promote a policy environment that rewards and inspires innovation while providing resources that help them raise capital, create jobs, and continue to build incredible technology.

Small and medium-sized enterprises (SMEs) are a key engine of the UK technology economy. The UK has the third largest tech sector in the world, valued at more than £800 billion. In 2021, 56 per cent of the digital sector's £182.1 billion gross value add contribution to the UK economy came from SMEs. SMEs account for more than 50 per cent of all private sector jobs in the UK.¹

Our members are early adopters and integrators of artificial intelligence (AI), using these technologies to improve productivity, develop new business models, and compete in global markets. At the same time, our members are disproportionately sensitive to regulatory complexity, uncertainty, and delay, particularly where compliance frameworks are fragmented, discretionary, or designed around the resources and risk profiles of large firms.

ACT has engaged extensively with UK, EU, and U.S. policymakers on AI governance, regulatory reform, and innovation policy. Across these engagements, we have consistently supported risk-based, proportionate, and evidence-led approaches to AI governance that leverage existing legal frameworks, promote clarity, and enable responsible innovation, especially for smaller firms that lack dedicated compliance teams.

II. ACT's High-Level Policy Positions Relevant to the AI Growth Lab

Across jurisdictions, ACT has articulated several consistent positions that inform our perspective on the proposed AI Growth Lab:

- **AI is not a standalone sector** but a general-purpose technology that cuts across regulated domains. Regulatory approaches should therefore prioritise coordination and clarity over new, centralised regimes.
- **Risk-based and outcome-focused governance** is essential. Regulatory scrutiny and obligations should scale with demonstrated risk and harm, not apply uniformly across AI use cases.
- **Regulatory flexibility should reduce friction, not relocate it.** Pilot programs, sandboxes, and testbeds are most effective when they simplify compliance pathways and

¹ Tech UK - [UK Tech SMEs: A Global Force to Be Reckoned With](#) - 2023

generate evidence for reform, rather than creating bespoke or discretionary processes that only well-resourced firms can navigate.

- **SMEs require predictability and accessibility.** Even well-intentioned regulatory experimentation can unintentionally exclude small businesses if participation criteria, timelines, or reporting obligations are not designed with SME realities in mind.

These principles shape our responses to the specific questions below.

III. Responses to Specific Questions

Question 1: Are you responding on behalf of an organisation or in a personal capacity?

On behalf of an organisation

Question 2: Please select the group you most closely belong to

- A business or industry group developing AI products or services
- A business or industry group using AI services

ACT represents small and medium-sized companies that both develop and deploy AI-enabled tools.

Question 3: What is the size of your organisation (number of employees)?

10-49

Question 4: Which sector do you work in?

Information and Communication

Question 5: We may want to follow up with you - if you are happy to be contacted, please provide us with a contact name, organisation (if relevant) and email address.

ACT | The App Association

Contact: Stephen Tulip, UK Country Manager

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Question 6: To what extent would an AI Growth Lab make it easier to develop or adopt AI?

Somewhat easier

Question 7: What advantages do you see in establishing a cross-economy AI Growth Lab, particularly in comparison with single regulator sandboxes?

A cross-economy AI Growth Lab could offer advantages where AI systems cut across multiple regulatory domains and where existing sandboxes are limited by sector-specific remits. Many AI-enabled tools developed and deployed by SMEs span areas such as data protection, consumer protection, product safety, and professional regulation simultaneously. A coordinated, cross-

economy approach may therefore help reduce fragmentation and conflicting regulatory interpretations.

For SMEs, a single, coordinated framework would reduce the administrative burden of engaging with multiple regulators, if participation criteria, oversight mechanisms, and reporting obligations are clear and proportionate. If well-designed, a cross-economy Lab could also help regulators build shared institutional understanding of AI-enabled systems and generate evidence that supports consistent guidance across sectors.

However, these advantages depend heavily on implementation. The Lab must avoid becoming an inaccessible or subjective process that only larger and more experienced firms can navigate. Its value lies in improving clarity, coordination, and predictability across the regulatory landscape, not in creating parallel compliance tracks.

Question 8: What disadvantages do you see in establishing a cross-economy AI Growth Lab, particularly in comparison with single regulator sandboxes?

A primary risk of a cross-economy AI Growth Lab is that increased coordination could come at the cost of clarity and accessibility, particularly for SMEs. If governance structures are complex, approval processes opaque, or supervisory expectations unclear, smaller firms will be discouraged from participating. An AI Growth Lab must avoid falling into the same trap that many funding organisations have found themselves, where SMEs are significantly disadvantaged if they cannot afford to hire a specialist to write their applications for them.

Finally, if participation in the Lab introduces uncertainty about post-pilot obligations or creates regulatory uncertainty, firms may face additional risk rather than reduced friction. These disadvantages can be mitigated through clear scope, defined timelines, and transparent decision-making.

Question 9: What, if any, specific regulatory barriers should be addressed through the AI Growth Lab?

ACT's research on the impacts of AI regulation on UK and EU startups and SMEs² shows that regulatory burdens and uncertainties (and related delays), rather than any single legislative provision, are among the most significant barriers to innovation. Survey data from more than 500 tech SMEs indicates that many firms experience delayed access to frontier AI models, postponed product launches, and forced feature downgrades due to compliance uncertainty.

These delays translate into negative impacts, including lost revenue, foregone efficiency gains, and reduced competitiveness relative to firms operating in jurisdictions with clearer, more flexible regulatory approaches. SMEs are particularly affected because they lack the legal and

² <https://actonline.org/the-hidden-cost-of-ai-regulations-a-survey-of-eu-uk-and-u-s-companies/>.

compliance resources of their larger competitors to navigate overlapping or ambiguous requirements.

The AI Growth Lab could be most valuable where it helps clarify how existing laws apply to AI-enabled systems, coordinates regulatory interpretations across domains, and identifies where guidance or targeted reform, rather than new obligations, would reduce uncertainty and delay.

Question 18: What criteria should determine eligibility to participate in the Lab?

Eligibility criteria should be designed to ensure meaningful participation by SMEs, including consideration of firm size, resource constraints, and the proportionality of compliance and reporting requirements.

Question 22: Do you think a successful pilot would justify streamlined powers to make changes permanent?

Maybe

Question 23: If yes or maybe, what is the most effective way to achieve streamlined powers?

Any pathway for making regulatory changes permanent should remain scaled to demonstrated harms, be evidence-led, and subject to appropriate democratic oversight; however, where an AI Growth Lab pilot demonstrates clear benefits and manageable risks, there should be a credible and efficient mechanism to translate those findings into lasting reform. Successful pilots should not merely inform future discussions but actively enable timely regulatory modernisation.

The most effective approach would be to allow evidence generated through the AI Growth Lab to support streamlined legislative or regulatory pathways, particularly where pilots demonstrate that existing rules impose unnecessary barriers without delivering corresponding protections. In such cases, targeted and proportionate legislative amendments—supported by pilot data and subject to defined parliamentary scrutiny—can help avoid prolonged regulatory uncertainty and delay.

For startups and SMEs in particular, timely permanence matters. Prolonged interim arrangements or repeated reliance on temporary exemptions can perpetuate uncertainty and discourage investment. A streamlined route to permanent change would provide greater legal certainty, reduce compliance friction, and allow smaller firms to plan, scale, and compete with confidence, while still preserving appropriate safeguards and accountability.

IV. Conclusion

ACT welcomes the UK Government’s focus on enabling AI innovation and appreciates the opportunity to contribute to this call for evidence. We encourage policymakers to ensure that the AI Growth Lab is designed to improve regulatory clarity and support SMEs.

ACT stands ready to engage further and to share additional insights from the small business AI ecosystem as this proposal develops.