Journal of Iran and Regional Studies

Online ISSN: 2645-6060
Home Page: https://jices.ut.ac.ir/

Strategic Governance and Soft Power: How European AI Firms Reshape Regulation to Challenge Tech Giants

Ali Sabbaghian[1*], Rajdeep Singh[2]

1. Corresponding Author, Associate Professor, Department of Regional Studies, Faculty of Law and Political Science, University of Tehran, Iran. Email: sabbaghian@ut.ac.ir
2. PhD in Regional Studies, Department of Regional Studies, Faculty of Law and Political Science, University of Tehran, Iran. Email: rajdeep.singh@ut.ac.ir

Article Info

Article type:
Research Article

Article History:
Received 18 September 2025
Revised 24 January 2026
Accepted 28 April 2026
Published Online 16 May 2026

Keywords:
AI ethics,
Artificial intelligence regulation,
Experimentalist governance,
EU digital policy,
Norm entrepreneurship.

ABSTRACT

The European Union has developed a distinctive regulatory approach to artificial intelligence that combines risk-based obligations with participatory and experimentalist governance mechanisms. This article addresses the following research question: how do European AI startups participate in experimentalist governance mechanisms within the EU's AI regulatory framework, and what implications does this participation have for norm formation, regulatory design, and competitive dynamics in EU digital policy? Drawing on qualitative case studies of firms including Mistral and Aleph Alpha, the analysis is based on policy documents, stakeholder consultations, ethics-related deliberations, and legislative negotiations surrounding the EU AI Act. The findings indicate that participatory instruments—such as ethics advisory frameworks, consultation procedures, and interinstitutional negotiations—create channels through which private actors may contribute to the articulation of regulatory norms while simultaneously reinforcing institutional legitimacy. The resulting regulatory architecture reflects a hybrid model that combines general transparency requirements with differentiated, risk-based obligations, aiming to balance ethical considerations, innovation incentives, and market competition. This app roach resonates with broader debates in AI ethics that emphasize accountability, transparency, and value-sensitive regulation. At the same time, the analysis highlights concerns regarding asymmetric access to governance processes and their implications for democratic accountability. The article contributes to scholarship on experimentalist governance and AI regulation by clarifying how ethical discourse, institutional design, and stakeholder participation interact in shaping the EU's emerging framework for artificial intelligence governance.

Cite this article: Sabbaghian, A. & Singh, R. (2025). Strategic governance and soft power: How european AI firms reshape regulation to challenge tech giants. *Journal of Iran and Regional Studies*, 8 (2), 187-211. http//doi.org/10.22059/jices.2026.402634.1102

 Publisher: University of Tehran Press.
DOI: http//doi.org/10.22059/jices.2026.402634.1102

1. Introduction

As artificial intelligence becomes a strategic domain of global competition, the European Union (EU) has positioned itself as a regulatory and normative actor seeking to govern AI through ethical oversight, transparency, and democratic accountability. In contrast to the largely market-driven regulatory app roach of the United States and the state-centered model of China, the EU has adopted an experimentalist governance framework characterized by multi-level participation, iterative norm-setting, and stakeholder engagement. This app roach underpins the EU Artificial Intelligence Act, which combines horizontal transparency obligations with differentiated, risk-based regulatory requirements, aiming to balance innovation, ethical safeguards, and market competition.

Within this governance architecture, European AI startups such as Mistral and Aleph Alpha have become increasingly visible participants in regulatory and advisory processes. Through engagement in stakeholder consultations, ethics-related deliberations, and interinstitutional negotiations, these firms interact closely with EU institutions during the formulation and implementation of AI regulation. Their participation highlights the expanding role of private actors in EU governance and raises questions about how regulatory norms, institutional design, and competitive conditions are shaped within participatory policy frameworks. At the same time, the EU's reliance on inclusive governance mechanisms reflects a broader strategy of projecting normative influence in global AI governance through regulatory design rather than coercive power. Against this background, this article addresses the following research question: how do European AI startups participate in experimentalist governance mechanisms within the EU's AI regulatory framework, and what implications does this participation have for norm formation, regulatory design, and competitive dynamics in EU digital policy? The article advances the hypothesis that participation in governance processes enables startups to contribute to norm articulation and institutional legitimacy, while also influencing regulatory arrangements that affect market structure and competition. Rather than presuming regulatory capture, the analysis examines these dynamics empirically within the EU's institutional context.

This article is organized as follows: The subsequent section reviews the pertinent literature on AI governance, ethics, and the regulatory frameworks established by the EU. In the third section, we develop a theoretical framework that integrates perspectives from experimentalist governance and soft power. The fourth section outlines the research design and methodology employed in this study. Following that, the fifth section presents an empirical analysis of how European AI firms engage with EU governance mechanisms. Finally, the concluding section discusses the findings and their implications for EU AI governance, as well as suggestions for future research

2. Theoretical framework

This article develops a theoretical framework that integrates experimentalist governance with insights from soft power theory in order to analyze how regulatory participation, norm formation, and influence operate within EU AI governance. Experimentalist governance, as theorized by Sabel and Zeitlin (2010), is characterized by recursive, multi-level processes in

which policy goals are provisionally defined, implemented by decentralized actors, and periodically revised through peer review and public justification (Sabel & Zeitlin, 2010: 1–28). Originally designed to enhance democratic accountability and institutional learning, this governance model enables a broad range of actors—including private firms—to participate in shaping regulatory objectives and standards. To capture the broader implications of this participatory architecture, the framework draws on Joseph Nye's concept of soft power, defined as the ability to influence outcomes through attraction, legitimacy, and persuasion rather than coercion or material incentives (Nye, 2019: 3–15). Within the EU context, experimentalist governance functions not only as a regulatory tool but also as a mechanism for projecting normative influence. By embedding ethical principles, transparency requirements, and stakeholder participation into regulatory processes, EU institutions cultivate reputational authority and position the Union as a normative leader in emerging domains such as artificial intelligence governance.

The integration of these perspectives in this study highlights how experimentalist governance enables the EU to operationalize soft power through institutional design. Participatory mechanisms—such as ethics advisory bodies, consultation procedures, and peer review—signal a commitment to inclusive, rights-based governance, enhancing the EU's legitimacy both internally and externally. The provisional and revisable nature of experimentalist governance further allows the EU to promote flexible and adaptive regulatory models that can be diffused across diverse political and economic contexts. At the same time, this governance architecture creates opportunities for private actors, particularly firms with greater resources and institutional embeddedness, to shape evolving regulatory benchmarks. Participation in governance processes may confer reputational benefits and allow firms to align regulatory standards with their operational models. However, these dynamics remain embedded within a broader institutional framework in which EU institutions retain agenda-setting authority. Corporate influence, in this sense, is nested within an overarching regulatory strategy orchestrated by public institutions. From a critical perspective, this interaction raises questions about the balance between democratization and concentration of influence. While experimentalist governance promotes transparency and peer accountability, it also risks facilitating performative compliance or strategic positioning by well-resourced actors. In the context of AI governance—marked by normative uncertainty and multipolar power structures—both EU institutions and corporate participants may use governance participation to signal ethical leadership while subtly shaping policy outcomes. This duality underscores the need to examine how soft power operates not only between states, as originally conceptualized by Nye, but also within transnational governance networks where public and private actors jointly produce regulatory norms.

3. Literature review

The adoption of artificial intelligence across economic, social, and political domains has generated complex challenges in governance, ethics, and legal responsibility, prompting scholars to examine the mechanisms through which AI can be deployed responsibly. Cobbe and Singh (2021) explore AI delivered as a service, emphasizing how cloud-based

deployment expands access to advanced technologies but also disperses liability among providers, developers, and end-users. This distribution of responsibility raises critical questions about accountability and the need for transparent, adaptive governance frameworks to mitigate potential harms (Cobbe & Singh, 2021: 45–47). While illuminating, this analysis does not fully address how legal and ethical concerns intersect with governance structures in the EU context. The European Union has responded to these challenges with a multi-layered regulatory framework that combines ethical oversight with participatory and experimentalist mechanisms. Outeda (2024) details how the AI Act establishes coordination between national authorities and the European AI Office, creating an institutional network that integrates technical expertise, socio-economic considerations, and private sector input (Outeda, 2024: 12–18). This structure allows for iterative rule-making and continuous learning, ensuring that regulations adapt to emerging AI technologies while maintaining oversight. Complementing this framework, Novelli et al. (2024) highlight the governance roles of the AI Office, AI Board, Scientific Panel, and national authorities, emphasizing how this coordinated network balances flexibility, legal enforcement, and stakeholder engagement across levels of governance (Novelli et al., 2024: 566–590).

Regulatory sandboxes have emerged as a particularly effective tool within this experimentalist architecture. Sandboxes provide controlled environments where startups and regulators can test AI applications, refine rules, and develop ethical and technical standards collaboratively. Due et al. (2025) argue that sandboxes strike a balance between innovation and oversight, fostering iterative learning among regulators, companies, and other stakeholders while enabling responsible experimentation (Due et al., 2025). These mechanisms demonstrate the EU's approach to embedding private actors in governance processes, enabling companies to participate in norm-setting and regulatory refinement without undermining institutional integrity. Ethical considerations are central to these governance mechanisms. Villani et al. (2018) argue that coherent AI strategies at national and European levels must align with human values, societal needs, and technological leadership, emphasizing transparency, accountability, and coordination across countries (Villani et al., 2018: 18–22). Nazari (2025) extends this perspective by framing AI as a political and regulatory phenomenon, highlighting how ethical norms such as responsibility, transparency, and public accountability shape institutional design and rule-making (Nazari, 2025: 5–7). Jobin et al. (2020) further demonstrate that international AI ethics guidelines converge on similar principles, reinforcing the EU's position as a normative leader in global AI governance (Jobin et al., 2020: 389–399).

Despite these advances, existing research has largely treated liability, governance, and ethics as separate strands, leaving gaps in understanding how European AI startups strategically engage with experimentalist governance mechanisms. This paper addresses this gap by examining how participatory governance, ethical discourse, and regulatory design intersect in practice within the EU AI Act framework. By considering how startups leverage institutional participation, the analysis reveals how private actors can influence norm-setting,

shape regulatory outcomes, and navigate competitive dynamics, while simultaneously reinforcing the EU's broader ethical and institutional objectives.

4. Normative Power through Governance: EU Institutions and the Soft Power Strategy in AI

In the evolving landscape of global AI governance, European Union institutions have increasingly positioned themselves as normative leaders, leveraging experimentalist governance not only as a regulatory framework but as a strategic tool of soft power. Through recursive, multi-level policymaking that invites public justification and peer review, the EU cultivates a reputation for ethical leadership, transparency, and rights-based innovation. This governance architecture enables the EU to project influence beyond its borders—not through coercion, but through attraction and normative framing. Whether through legislative initiatives, multilateral forums, or symbolic branding such as "Made in Europe" AI, EU institutions seek to embed their values into the global technological order. The examples examined in this section—from the European Parliament's critique of China's AI model to the Commission's push for transatlantic cooperation—illustrate how soft power is enacted through institutional design and reputational signaling. By contrasting its human-centric app roach with the surveillance-heavy strategies of geopolitical rivals, the EU not only defends its ethical model but actively promotes it as a global benchmark. Participation in initiatives like the Global Partnership on AI and the Transatlantic Trade and Technology Council reflects a deliberate effort to shape international norms through dialogue and coordination. In this context, experimentalist governance becomes a vehicle for influence, allowing EU institutions to assert their normative identity while navigating the competitive terrain of global AI regulation.

Globally, competition from Chinese state-owned AI investments and US private sector dominance has intensified, prompting the EU to refine its strategic position and heightening the importance of a distinctly European perspective on AI governance. For the EU and its startups, principles associated with experimentalist governance—such as fairness, multi-stakeholder participation, and social responsibility—serve not only as normative guidance but also as instruments for building trust and social credibility. Through this governance model, European actors aim to challenge US and Chinese tech giants and establish a framework for "unbundling" vertically integrated companies within the EU market.

This strategic orientation is reflected in EU discourse. In a speech at the 2019 Digital Europe Conference entitled "Shaping Competition Policy in the Digital Age," Commissioner Margrethe Vestager emphasized the normative and strategic stakes of digital competition: "We're at a critical time, in the story of digital technology; a time when we need to decide between possible futures. There's still hope for a future where digital technology lives up to its potential to make our lives better, where innovation is strong, where values, like fairness and democracy, are deeply embedded in the way that technology operates" (European Commission, 2019: 4).

Concerns over the competitive edge of these vertically integrated companies also prompted expert recommendations before the establishment of the EU AI Act. The German Commission of Experts for Research and Innovation, an independent advisory body

established in 2008 to advise the federal government on science and innovation policy, noted in its February 2019 report that, while the long-term federal AI strategy provides a crucial foundation for research, transfer, and applications in Germany, vague commitments to disruptive innovations and public startup funding risk undermining strategic focus (Commission of Experts for Research and Innovation, 2019: 12–13). Recognizing Europe's relative weakness in data-rich AI compared to China and the United States, the commission recommended facilitating access to machine-generated datasets and developing "non-data-driven AI research" as a means to strengthen global competitiveness while ensuring AI serves the public interest responsibly (Commission of Experts for Research and Innovation, 2019: 15–16).

What we observe is the building of community trust through transparency, which also serves as a competitive advantage for EU companies. The speech by Cédric O, Minister for Digital Affairs, on artificial intelligence in the French Senate on 2 October 2019, is particularly significant. He praised the success of the Intergovernmental Panel on Climate Change for Artificial Intelligence initiative, supported by France and Canada, as well as France's cooperation within the G7 to establish an international legal framework for AI. Cédric O emphasized that "the transparency of algorithms is a key issue" and highlighted the importance of considering the EU's trade policy in the field of AI, particularly regarding facial recognition technology, where China currently leads. He stated that "we must not accept the distortion of competition based on practices that are contrary to our own ethics." He called for a strategy that is both defensive and assertive in the digital sphere, citing inadequate taxation of big tech companies and insufficient respect for privacy as critical challenges. He concluded by stressing that "the issue of transparency is the mother of all battles" (French Ministry for Digital Affairs, 2019: 3). The European Commission's AI and Data Strategy reflects a dual app roach that balances innovation with regulation. Margrethe Vestager, the EU's Competition and Digital Policy Chief, emphasized that "artificial intelligence is not good or bad in itself, it all depends on why and how it is used," highlighting that the EU's regulatory app roach aims to enable technological development while ensuring public protection (Amaro, 2020, para. 11). Vestager described this strategy as a "double-sided app roach" that seeks to build trust and social acceptance while providing a level playing field for European AI companies (Amaro, 2020, para. 12). At the same event, Thierry Breton, the EU's Internal Market Commissioner, acknowledged that Europe "missed the first wave, or the first battle, which was the battle of personal data," but suggested that the EU now understands that the next competition — focused on industrial data — presents a unique opportunity for European leadership (Amaro, 2020, para. 4). This strategic framing reflects a shift from earlier liberal policies toward a regulatory posture designed to protect European businesses from the dominance of U.S. and Chinese tech giants. As part of this broader strategy, the European Commission's AI and data strategy announced in February 2020 aimed to create a coordinated framework that leverages European industrial expertise while ensuring ethical AI deployment, particularly by assessing which technologies pose risks to fundamental human rights and subjecting high-risk systems to stricter requirements (Amaro, 2020, para. 8). The EU cultivates an environment of trust and social

credibility by framing its AI governance initiatives around ethical principles and participatory, bottom-up mechanisms. A prime example is the public consultation on the AI White Paper, conducted between February and June 2020. This consultation served as a participatory reporting exercise, gathering a total of 1,215 responses, including 73 from public authorities, 406 from businesses, and 352 from civil society organizations (European Commission, 2020: 12). Most contributions—84%—originated from the 27 EU Member States, while additional responses came from countries worldwide, including the UK, the US, Switzerland, Norway, Japan, India, Turkey, and China (European Commission, 2020: 15). By extending the consultation beyond the EU, the Commission signals an ambition to position the governance standards developed in Europe as a model for global AI regulation. However, the report does not specify the precise distribution of responses from non-European countries, particularly in the Global South, nor does it identify the specific groups that participated from these regions (European Commission, 2020: 18).

A clear illustration of the European Union's strategic use of soft power through its governance architecture is highlighted in a September 2021 report by the European Parliamentary Research Service (EPRS), which contrasts China's AI trajectory with Europe's regulatory model (Jochheim, 2021: 1–3). The report frames China's approach as a normative counterpoint, underscoring the need for Europe to establish robust governance mechanisms to prevent the global adoption of a model that prioritizes state control over ethical, transparent, and accountable AI deployment. The document notes that China's strategic embrace of AI is closely linked to its broader economic and geopolitical vision, initially articulated by President Xi Jinping in 2013, which emphasizes public policy as a tool for long-term planning and national power. This vision was operationalized in the 2017 "Next-Generation AI Development Plan," which sets ambitious goals for China to become a global AI leader by 2030, significantly expanding AI integration across industry, governance, and defense, and promoting increased R&D investment alongside incentives for public officials to engage with the sector (Jochheim, 2021: 4–7). This comparative framing highlights Europe's emphasis on ethical oversight, multi-level participation, and regulatory transparency as key instruments for cultivating soft power in AI governance while simultaneously shaping global norms. Despite limited transparency – especially in defense – China has rapidly increased its AI capabilities and by 2020 became the top producer of AI research papers and inventions, raising concerns among global powers such as the United States. China's AI development has accelerated due to its large domestic market and initially lax privacy regulations, enabling widespread deployment in areas such as pandemic response, e-commerce, and surveillance (Jochheim, 2021: 8–10). AI played a pivotal role in tracking COVID-19 cases and supporting the social credit system, which has evolved from its origins as a financial rating tool to a broader mechanism for public security and social control. Critics have highlighted limitations in the originality and cultural foundations of AI research, as well as ethical concerns regarding surveillance and military applications. International observers have also raised concerns that China's investment in military AI technologies could destabilize global security. However, some Chinese officials have signaled a willingness to engage in international cooperation on

AI norms (Jochheim, 2021: 11–13). Initiatives such as the "Campaign to Stop Killer Robots" indicate increasing global efforts to regulate the military use of AI, even as China asserts its sovereign right to develop such technologies.

In response, the European Union has adopted a proactive normative stance. In its resolution dated 12 September 2018 on autonomous weapon systems, the European Parliament called for international negotiations aimed at prohibiting lethal autonomous weapons. Furthermore, in its resolution of 17 December 2020 concerning "Forced Labor and the Situation of Uyghurs in the Xinjiang Uyghur Autonomous Region," the Parliament strongly criticized widespread digital surveillance practices, including facial recognition monitoring, mobile phone scanning, and the extensive collection and processing of personal data (Jochheim, 2021: 15–18). These concerns led to EU sanctions on 22 March 2021 against four Chinese officials and one state entity deemed responsible for severe human rights violations in Xinjiang, illustrating the EU's commitment to linking ethical governance principles with international regulatory and diplomatic measures (Jochheim, 2021: 18–19). By highlighting China's centralized planning, opaque military integration, and pervasive surveillance—especially in Xinjiang—the report positions the EU's rights-based, deliberative app roach as a global alternative. This framing is not merely descriptive; it is performative. Through resolutions condemning autonomous weapons and digital repression, the European Parliament signals its commitment to ethical innovation and human rights, thereby cultivating reputational capital. These actions exemplify how EU institutions use experimentalist governance not only to regulate but to narrate a vision of global AI governance that is attractive, inclusive, and normatively anchored.

Within this architecture, soft power operates as a recursive dynamic: the EU sets provisional standards, invites multi-level participation, and revises norms through peer review—while simultaneously exporting its values. The contrast with China's model allows the EU to showcase its governance framework as a template for ethical leadership. This is especially salient in domains like AI, where normative uncertainty and geopolitical competition are pronounced. By embedding private actors in transparent deliberation and ethical standard-setting, the EU enhances its legitimacy and global influence. Thus, the report serves as a strategic artifact of soft power projection, illustrating how EU institutions leverage experimentalist governance to shape global norms, attract alignment, and assert their role as a normative power in the evolving AI landscape.

Another illustrative case of EU soft power projection through experimentalist governance is its strategic promotion of an ethically-driven European model of AI. The European Commission's legislative initiatives, supported by the European Parliament, reflect a deliberate effort to position the EU within the global AI landscape—not merely as a regulatory actor, but as a normative leader. This ambition is evident in the branding of "Made in Europe" AI products, which are marketed as safe, human-centric, and trustworthy. Such framing transforms regulatory standards into reputational assets, allowing the EU to influence global preferences and purchasing behavior through values-based differentiation. The emphasis on ethical AI, privacy, and responsibility—especially in contrast to the US and

China—underscores the EU's attempt to turn normative coherence into a locational advantage, where soft power is exercised through attraction to European principles rather than coercive leverage. At the same time, the policy-making role of international institutions and the EU's competition to present an ethically-driven European model, achieved within the EU's experimentalist governance, were also important in the Commission's legislative drive. While the EU emphasizes its desire to participate in the global AI competition between the United States and China, it has simultaneously focused on preventing potential military confrontations where AI could play a decisive role. More importantly, the European Parliament has prioritized the development of an ethically-driven European model of AI, aiming to enhance Europe's soft power on the global stage. This strategy involves promoting European AI products—branded "Made in Europe"—as safe, human-centric, and reliable for international markets. To support these objectives, the EU has sought to create and engage in new platforms for dialogue and coordination, reminiscent of the historical role of European missionaries in propagating European norms and values abroad. A notable example is the European Commission's proposal to establish a "Transatlantic Trade and Technology Council," designed to harmonize standards for emerging technologies and promote the European model through transatlantic cooperation (Franke, 2021: 7–10).

In June 2020, the Global Partnership on Artificial Intelligence (GPAI) was established to foster the responsible development of AI, providing a platform for Europe to showcase and promote its model of ethical AI governance. Members include the United States, four European countries, and the European Union itself, illustrating how participation in internationally created spaces can advance European norms (Franke, 2021: 12–14). Similarly, in September 2020, the United States formed a coalition of like-minded countries to provide global leadership in AI policy based on shared values, including seven European states as well as Australia, Canada, and South Korea. Other forums, such as the Ten Democracies (D-10) and the "Summit for Democracy," have been proposed as venues for coordinating ethical and value-driven AI approaches. The European Parliament emphasizes that participation in these initiatives is essential not only to defend Europe's normative model but also to maintain coherence across member states. According to the Parliament, "Europeans should strive for coordination across Europe, not to create more divisions" (Franke, 2021: 14–15). Rather than creating new forums, the EU seeks to leverage existing multilateral structures to advance ethical AI and make "trustworthy AI" a unique selling point for Europe. Many EU policymakers view this insistence on ethical AI as a potential locational advantage, with public concern about unethical AI and data privacy likely to favor "European-made" solutions. The Danish National AI Strategy similarly frames ethical AI as a distinctly European approach, one that avoids replicating the United States or China, whose policies pay comparatively little attention to responsibility, ethics, and privacy (Franke, 2021: 16–17). From a broader perspective, the European Parliament's insistence on coordination and ethical leadership exemplifies how soft power is cultivated through recursive participation, reputational signaling, and the creation of governance ecosystems that reflect European values. In this sense, experimentalist governance functions both as an internal regulatory tool

and as a vehicle for external influence, whereby the EU's soft power is enacted through the very architecture of its policymaking (Franke, 2021: 17–18).

5. Corporates and EU AI Governance

In April 2016, the European Commission launched the Digitising European Industry (DEI) initiative as part of its Digital Single Market strategy, allocating an official budget of around €50 billion to drive digital innovation and strengthen Europe's industrial and technological base (European Commission, 2016). The initiative aimed to reinforce EU competitiveness in digital technologies and ensure that businesses of all sizes across the Union can benefit from advances in digitalisation, including through the development of regional Digital Innovation Hubs that link national and local innovation ecosystems (European Commission, 2016; Digitising European Industry initiative in a nutshell, 2018).

The Commission's 2018 overview of the initiative noted that Europe's industrial landscape includes strong performance in key technological sectors such as automotive semiconductors, robotics, photonics, and embedded systems, supported by a vibrant ecosystem connecting SMEs, mid-sized companies, large industries, and research institutions. However, the review also identified persistent structural gaps that continued to hinder inclusive digital transformation, including uneven digital uptake across regions and sectors, remaining disparities in digital skills, and a lag in digitalisation among small and medium-sized enterprises (Digitising European Industry initiative in a nutshell, 2018; European Commission, 2016). For example, only a minority of enterprises were fully digitalised, and many firms still struggled to adopt advanced technologies in their operations, pointing to the ongoing need for targeted support and coordinated policy action (Digitising European Industry initiative in a nutshell, 2018). These findings highlight the importance of not only reviewing the policy legacy of DEI but also considering its role as a continuing framework for promoting ethical, inclusive, and competitive digital transformation across the EU. The initiative's emphasis on regional digital hubs and coordinated national efforts reflects broader EU objectives to balance technological innovation with social inclusion and workforce preparedness in the digital era (Digitising European Industry initiative in a nutshell, 2018; European Commission, 2016). Thus, the "Digitizing European Industry" initiative, launched by the European Commission in 2016, exemplifies how EU institutions strategically deploy experimentalist governance to foster both industrial modernization and normative influence. With a €50 billion budget and a regionalized structure of Digital Technology Hubs, the initiative embeds governance within local innovation ecosystems, enabling recursive feedback, peer review, and adaptive standard-setting. The Commission's 2018 review highlights both technological leadership and structural gaps, positioning the initiative not only as a policy legacy but as a living framework for ethical digital transformation. By branding Europe's industrial base as technologically advanced yet socially inclusive, the EU cultivates reputational capital—projecting soft power through its governance architecture and signaling its commitment to human-centric innovation.

The EU's Digitising European Industry initiative also demonstrates direct engagement with industry and the private sector, operating within an experimentalist governance framework that emphasizes peer review and retrospective evaluation. A particularly illustrative example

comes from German industry, where the concept of digitalization and Industry 4.0 originated. The term "Industry 4.0" first app eared in Germany's High-Tech Strategy 2020, published in 2011, and has since influenced European discussions on digital transformation and AI in industry. In the European steel sector, digitalization and Industry 4.0 initiatives have been implemented through various collaborative efforts, such as the STEP Integrated Smart Manufacturing Working Group established in 2008 and the Industry 4.0 Working Group created in 2014 (Arens et al., 2018: 259–268). These examples highlight how industrial stakeholders contribute to shaping both technical standards and governance practices in alignment with broader EU objectives. While in the latter initiative, steelmakers from German-speaking countries and the research institute Steel Institute are members of the group, the STEP Working Group covers a wider range of stakeholders. Alongside European or multinational steelmakers, the group also includes plant manufacturers and several European universities and research and development institutions. The Digitizing European Industry initiative actually supports the development of Industry 4.0 here, aiming to coordinate the activities of the member states, help to create standards and create Industry 4.0-specific skills in Europe. Examples of tools to achieve this include coordination activities, monitoring measures and research and development projects, all of which are aimed at fostering experiential governance and multi-level interaction between the private, transnational and national sectors, so that traditional boundaries of division and classification are broken down and in finding the best solutions we see interaction and cooperation between the European Commission and transnational institutions and the national and European private sectors.

Thus, European companies—particularly in Germany's Industry 4.0 ecosystem—leverage their participation in these governance processes to enhance their legitimacy and global visibility. Initiatives such as the STEP Working Group and the Industry 4.0 consortium illustrate how firms, research institutes, and universities co-create standards and skills under the EU's coordination. This multi-level interaction blurs traditional boundaries between public and private actors, allowing companies to align with EU ethical norms while showcasing their contributions to responsible innovation. In doing so, firms gain reputational benefits and strategic positioning, while the EU amplifies its soft power by exporting a governance model that integrates industrial excellence with normative leadership. Thus, the initiative reflects a symbiotic relationship: EU institutions and companies co-produce soft power through recursive, participatory governance. In the meantime, we see a kind of pooling of financial resources to link the different Union programs to create synergies and coordination, so that the official budget of the Digital Initiative includes all the costs of the Member States for their Industry 4.0 activities and all the projects related to Horizon 2020 and the European Supercomputing Plan, seeking to create a leverage effect (Arens et al., 2018). In addition, additional funding for the Digitising European Industry Plan is allocated to coordination activities and digital innovation hubs. European companies, not just steelmakers, can benefit from these initiatives in other sectors or by actively participating in research and development projects and transfer actions supported by the European Commission.

The Digital Transformation Monitor serves as a key tool for review and revision,

strengthening the knowledge base and enabling peer assessment of the state and evolution of digital transformation across Europe. First presented publicly in Brussels at a workshop organized by the European Commission's Director-General for Growth on 9 December 2016, the Monitor employs a structured methodology to evaluate national initiatives for digitisation and the integration of AI into industries across EU Member States. Its reports draw on desk research, stakeholder interviews, and validation processes involving implementing authorities, with selection criteria emphasizing scalability, innovation, impact, and stakeholder access (Berz, 2016: 12). The methodology also tracks public and private funding models, implementation strategies—both top-down and bottom-up—and barriers to adoption, while questionnaires assess conceptual design, drivers, achieved results, and lessons learned, incorporating both qualitative insights and quantitative indicators. National approaches under the Industry 4.0 umbrella illustrate the diversity of strategies within the EU. Germany's Industry 4.0 Platform exemplifies a strong public-private partnership, backed by a €200 million budget, focusing on integrating research into practice through extensive stakeholder engagement. In contrast, Spain's Connected Industry 4.0 initiative prioritizes support for SMEs and microenterprises through loans, mentoring, and combined public-private leadership. Germany emphasizes architectural frameworks and technology networks, whereas Spain targets workforce development, employment, and competitiveness through digital enablers. These differences demonstrate how national priorities—whether technological leadership, entrepreneurship empowerment, or workforce upskilling—shape the design and implementation of digital transformation strategies across the EU (Berz, 2016: 12). At the same time, the Digital Transformation Monitor allows for peer review and experimentation of different approaches, where member states can see the results of implementing these strategies against set targets and benchmarks, and thus provides an important part of experiential governance. For example, the German Digital Transformation Monitor: Industry 4.0 was launched in January 2017 by this tool. The site provides a monitoring mechanism to monitor key trends in digital transformation(Klitou et al., 2017). The site provides unique insights into statistics and initiatives to support digital transformation, as well as reports on key industry and technology opportunities, challenges and policy initiatives related to digital transformation.

The Digital Transformation Monitor, launched by the European Commission in 2016, exemplifies how EU institutions institutionalize experimentalist governance to foster digital transformation while simultaneously projecting soft power. By offering structured peer review, benchmarking, and retrospective evaluation, the Monitor enables Member States to assess and revise their national AI and digitisation strategies within a shared European framework. Its methodology—combining desk research, stakeholder interviews, and validation processes—reflects the recursive logic of experimentalist governance, where provisional standards are refined through multi-level participation. This architecture not only strengthens the EU's internal coherence but also enhances its reputational capital as a global leader in ethical, inclusive digital governance. Meanwhile, national initiatives such as Germany's Industry 4.0 Platform and Spain's Connected Industry 4.0 illustrate how Member States and private actors engage with EU-led frameworks to pursue context-specific priorities.

Germany's emphasis on architectural integration and public-private partnerships contrasts with Spain's focus on SME empowerment and employment competitiveness, demonstrating the flexibility of the EU's governance model. The Digital Transformation Monitor facilitates this diversity by enabling comparative learning and showcasing successful models, thereby allowing both EU institutions and companies to signal their commitment to responsible innovation. In this way, soft power is co-produced: the EU sets the normative stage, while national actors perform and refine it—reinforcing Europe's image as a values-driven technological power.

During the trilogue negotiations between the European Commission, the Council of the EU, and the European Parliament on the EU AI Act, disagreements over the regulation of foundation models (also known as general-purpose AI systems) became particularly intense. In one meeting on 10 November 2023, representatives from several large Member States, including France and Germany, reportedly asked to retract the proposed regulatory app roach for foundation models, which had been under discussion as part of a tiered, risk-based framework (Bertuzzi, 2023, para. 3). When Parliament officials continued to press for obligations on such models, including transparency and documentation requirements, the meeting was cut short and negotiations temporarily stalled, illustrating the depth of contention between intergovernmentalist positions and the Parliament's push for robust safeguards (Bertuzzi, 2023, para. 4–5). The controversy escalated to the point that Members of the European Parliament walked out of a session in protest, with some stakeholders—including startups based in France (e.g., Mistral) and Germany (e.g., Aleph Alpha)—expressing concern that stringent rules could disproportionately burden EU-based AI innovators and stifle domestic competitiveness (Bertuzzi, 2023, para. 6). These events underscored the challenge of reconciling national innovation interests with ambitions for a comprehensive, risk-based regulatory regime within the AI Act.

Indeed, a kind of horizontal regulation is seen in the European Parliament's June amendment to the AI law (European Parliament, 2023). This horizontal regulation means that the same rules are announced for all basic models, regardless of scale or risk, and includes transparency obligations such as documenting data and training processes, disclosing the capabilities and limitations of the model, and assessing benchmarks before deployment. At the last political tripartite meeting on 24 October, the Commission's proposal for a tiered approach created a relative consensus, introducing stricter rules for the most powerful ones with the greatest impact on society. This approach, similar to the Digital Markets Act and the Digital Services Act, still did not overlap with the horizontal approach of the Parliament, but was better than no regulation of basic systems at all. The tiered approach aimed to impose the strictest obligations on leading providers, currently non-European companies. However, this approach had faced growing opposition from the major European countries, in particular the trio of Germany, France and Italy, which had already published a joint document In 2023, Germany, France, and Italy released a joint position advocating for "mandatory self-regulation" for foundation models. The three countries emphasized strict oversight of fundamental AI systems, proposing that developers produce detailed model cards to provide clear information on a model's

performance, capabilities, and limitations (Thoms, 2023, para. 4). This initiative reflects a coordinated effort by key EU Member States to shape the regulatory approach to high-risk AI technologies while balancing innovation and accountability within the EU framework. The three governments propose mandatory self-regulation for all AI companies, regardless of size. However, during a meeting of the Council of Ministers' Telecommunications Working Group—a powerful intergovernmental body that often shapes digital regulation prior to Commission proposals—ministers from France, Germany, and Italy opposed stringent regulation of foundation models. French AI startup Mistral has been at the forefront of these discussions, with lobbying efforts reportedly led by Cédric O, the former French Minister for Digital Affairs, who argued that the AI Act could severely harm or "kill" the company. Similarly, Germany faced pressure from its leading AI firm, Aleph Alpha, which maintains high-level connections with the German government. Both companies expressed concern that overly restrictive EU regulations could place them at a competitive disadvantage relative to American and Chinese AI firms (Bertuzzi, 2023, para. 6).

5.1. Elite Networks and Participatory Governance: A Franco-German Contrast

What is noteworthy is the different approach of European companies in influencing AI governance: 1) participation in AI reporting; 2) involvement of policymakers within companies. While German companies prefer the first model and, given Germany's federal structure, the cooperation of German companies, for example in driverless and smart cars, is essential in federal-private reporting, in France the second approach is more attractive and evokes the same idea of an elite network, which this time is evident in the private sector. The company Mistral is an interesting example in this regard.

This tension between EU-level normative ambition and national-industrial interests becomes especially visible in the trilogue negotiations surrounding the AI Act. The European Parliament's push for horizontal regulation—applying uniform transparency and accountability standards to all foundational models—clashed with the intergovernmentalist stance of the Council of Ministers, particularly from France, Germany, and Italy. These member states, influenced by domestic startups like Mistral and Aleph Alpha, resisted strict regulation, fearing it would stifle innovation and disadvantage European firms against global competitors. The Commission's tiered approach, inspired by the Digital Markets Act and Digital Services Act, sought compromise by imposing stricter obligations on high-impact models, mostly non-European. Yet even this model faced opposition, revealing how experimentalist governance, while designed for flexibility and consensus-building, can become a battleground for competing visions of strategic advantage and normative leadership.

What emerges is a dual mode of corporate influence within EU AI governance: one rooted in technical participation and peer review, as seen in Germany's federal-industrial reporting structures, and another shaped by elite networks and direct lobbying, exemplified by France's Mistral. France and Germany's resistance to regulation, driven by these startups, shows that companies are not only aware of their soft power credit within experimentalist governance—they actively seek to shape it. Mistral's lobbying and elite networks reflect a reputational strategy distinct from the Commission's ethical branding, one that leverages proximity to

policymakers and national influence to steer regulatory outcomes. These divergent strategies reflect not only national regulatory cultures but also different pathways for companies to accrue legitimacy and shape evolving norms. While the EU institutions aim to project soft power through ethical leadership and inclusive governance, companies within the Union simultaneously seek to position themselves as global actors—sometimes in alignment with EU values, sometimes in tension with them. This interplay underscores the recursive nature of experimentalist governance, where soft power is not only exercised by institutions but negotiated through multi-level interactions between public and private actors. Germany's approach to AI governance, particularly in the domain of autonomous vehicles, exemplifies the first mode of corporate influence within experimentalist governance: active participation in structured, interdisciplinary peer review. The German federal government created an ethics commission in 2017, which is responsible for issuing rulings specifically on driverless cars, and this commission published its first report in August 2017, in which the recommendations presented can serve as criteria for resolving ethical dilemmas and as guidelines for the planning of driverless cars equipped with AI. The Commission on Ethics in the Field of Automated and Connected Driving – chaired by former Constitutional Court judge Dr. Udo Di Fabio – appointed by the German Federal Minister of Transport in September 2016, brought together interdisciplinary experts to develop ethical guidelines for automated transportation (Di Fabio et al., 2017: 5). The committee formed five working groups that discussed issues related to unavoidable accident situations, security and data economics, the human-machine interface, software and infrastructure liability, and the ethical context beyond traffic. Each of these groups produced separate working papers, which were later merged into the final code of ethics and its longer, annotated version (Luetge, 2017: 547–558). Among the most influential participants were representatives from two German automotive giants: Daimler AG (Mercedes-Benz) and Volkswagen AG. Their presence was no coincidence – these companies have been at the forefront of the development of autonomous technologies and had a direct stake in the ethical, legal, and technical standards governing their deployment. By participating in the commission, they helped ensure that the resulting guidelines were not only philosophically sound but also practically applicable to the automotive industry, and that these companies would have a role in shaping the federal governance of autonomous vehicles both at the federal and EU levels, which the European Commission also referenced in its programs.

In June 2017, the German Commission for the Ethics of Autonomous and Connected Driving issued a landmark report setting out 20 ethical guidelines for managing the development and use of autonomous vehicles, stressing that human dignity, individual safety, and data autonomy should be given priority. The report called for a demonstrable reduction in accidents, strict accountability, and protection against discriminatory decision-making in critical scenarios, especially those involving unavoidable harm. The commission also emphasized transparent human-machine interactions and the limited use of self-learning systems in safety-sensitive areas. With its interdisciplinary approach and legal-technical rigour, the report offers valuable insights for broader AI governance frameworks, particularly

in establishing ethical foundations, strengthening human oversight, and protecting users' rights in data-driven systems (Di Fabio et al., 2017: 10). Between 2016 and 2017, the Ethics Commission brought together a diverse group of 14 experts to formulate the basic principles for managing AI in autonomous vehicles. Three members were professors of law, three were professors of ethics, and two were professors of technical disciplines. Other members included two representatives of automotive companies, the president of the Association of Consumer Protection Groups, and the president of the German Automobile Club (ADAC), a Catholic bishop, and a former attorney general. The chairman of the committee was Udo Di Fabio, a former judge of the German Federal Constitutional Court. In addition, hearings were held with other experts from technical, legal, and ethical disciplines, and driving tests were conducted with several (semi-)autonomous vehicles to inform the guidelines (Luetge, 2017: 547–553).

Daimler and Volkswagen provided industry insights into how autonomous systems interact with real-world driving conditions, data management and human-machine interfaces. Their engineers and policy experts discussed critical issues such as unavoidable injury scenarios, algorithmic decision-making and the limits of machine learning in safety-sensitive areas. The collaboration allowed the Commission to base its 20 ethical principles on the realities of vehicle design and deployment, making the framework stronger and more credible. The companies' participation also demonstrated the broader commitment of the German automotive industry to align technological innovation with social values and legal norms. The presence of these manufacturers in the Commission reinforced Germany's model of coordinated governance, where industry players are not only monitored but also actively participate in shaping the rules. This approach, of course, is itself embedded in an empirical governance model, where peer review and reporting are the way to find the best solutions in governance. This approach positioned Germany as a leader in the ethical integration of AI for transport and provided a model that could be adopted by other EU member states. The Commission's work, supported by Daimler and Volkswagen, paved the way for transparent, responsive and human-centric automated driving systems – an achievement that continues to influence European and global debates on the ethics of AI in transport. The important thing about the resulting directive is that it agrees with balancing risks against each other, not with eliminating any calculation, and the code of ethics here agrees with a view of ethics as reducing harm and achieving net benefit over relevant alternatives. The committee agreed that autonomous and intelligent vehicles bring ethical benefits, which was an important argument for their introduction and use, and of course the social benefits also included the possibility of significantly improving mobility for people with disabilities (Luetge, 2017: 547–555).

More importantly, the committee's guidelines demonstrated a high degree of alignment with the strategic and operational plans of German automakers. The guidelines reflect a pragmatic ethical stance consistent with the public positions of Daimler and Volkswagen. By endorsing a harm-reduction framework—rather than forbidding trade-off calculations outright—the commission legitimized the types of decision-making algorithms that these companies were considering for autonomous vehicles. German manufacturers have long

emphasized safety optimization, and this ethical endorsement provided a normative basis for designing systems that minimize overall harm in unavoidable crash scenarios (Di Fabio et al., 2017: 5; Luetge, 2017: 551). The commission also recognized autonomous vehicles as ethically beneficial, particularly in increasing mobility for people with disabilities, echoing narratives of inclusive innovation promoted by these automakers. Volkswagen launched its Inclusive Mobility Initiative in 2017, explicitly aimed at enhancing transportation access for people with disabilities. The initiative involved designers, researchers, engineers, and computer scientists working to ensure that autonomous vehicles could serve individuals with mobility, vision, hearing, and cognitive limitations (Volkswagen Group of America, 2023: 1–3). Christian Lorenz, Senior Director of Intelligent Cockpit and Body at Volkswagen Group of America, emphasized, "Our mission is to help improve transportation and the quality of life for everyone, especially people with disabilities… ensure that Volkswagen's future vehicles and services can be used by as many people as possible" (Volkswagen Group of America, 2023: 2). This alignment between ethical governance and industrial strategy allowed German automakers to position themselves not only as technology providers but also as responsible actors contributing to public welfare. By framing autonomous driving as a net moral benefit rather than a moral hazard, the commission helped legitimize the industry's role in shaping the future of transportation, while ensuring that human dignity and safety remain central. Volkswagen's broader corporate strategy reinforces this convergence: the company pursues an integrated value proposition that combines personalized services, connectivity, and platform-based solutions into a cohesive digital mobility ecosystem (Pérez-Moure et al., 2023: 5–6). This strategy reflects the EU's broader approach to AI and transport governance, emphasizing system integration, user experience, and service diversity rather than focusing solely on individual technological innovations. Volkswagen's emphasis on connectivity and driver-assistance services exemplifies its alignment with ethical and user-centric principles, integrating human dignity, transparency, and accessibility into its operational model (Pérez-Moure et al., 2023: 6–7). By coordinating with service and technology providers to deliver integrated transportation solutions, Volkswagen illustrates the participatory, multi-actor, ethics-based governance philosophy that Germany and the EU promote in the digital mobility sector. In this way, industrial strength and social responsibility are mutually reinforced, demonstrating the interplay between corporate strategy and experiential governance in shaping the European AI and digital transport landscape.

Cédric O, the French Minister for Digital Affairs in 2019, is a prominent policy elite in AI and later co-founded the French AI company Mistral in 2023 with technical experts such as Arthur Mensch. His vision emphasizes a regionalized corporate governance model that equips European companies to compete with global tech giants. In his speech at the French Senate on 2 October 2019, Cédric O highlighted that the EU's General Data Protection Regulation is inspired by French law and the work of the National Commission for Information Technology and Civil Liberties (French Ministry for Digital Affairs, 2019, para. 2). He stressed that "the transparency of algorithms is a key issue" and underscored the need for vigilance in EU trade policy regarding AI technologies such as facial recognition, where China is ahead. He

declared, "We must not accept the distortion of competition based on practices that are contrary to our own ethics," advocating for a defensive yet assertive approach in the digital realm. He cited examples such as the under-taxation of big tech companies and violations of privacy, emphasizing that "the issue of transparency is the mother of all battles" (French Ministry for Digital Affairs, 2019, para. 3).

Cédric O also highlighted the ongoing Franco-German ambition to establish European sovereignty in strategically vital domains such as AI, autonomous cloud infrastructures, and quantum computing. French and German ministers, Bruno Le Maire and Peter Altmaier, have proposed initiatives like "Airbus AI" to foster European champions in these fields (French Ministry for Digital Affairs, 2019, para. 5). He emphasized that the European Commission prioritizes this agenda and supports the integration of start-ups to help European companies compete globally. Achieving this goal requires adapting competition rules and investing in labor transfers, particularly as automation transforms traditional sectors. Transparency in technology platforms' information practices, regulatory oversight, and public debate were highlighted as essential for protecting democratic values in the digital age (French Ministry for Digital Affairs, 2019, para. 4). Additionally, Cédric O outlined four objectives in France's national AI research plan: creating an attractive research ecosystem, developing academic tools, incentivizing public-private partnerships, and increasing doctoral positions (French Ministry for Digital Affairs, 2019, para. 6). He is also a member of the French government's interdepartmental committee on productive AI, established in September 2023, alongside Arthur Mensch and representatives from Google and Meta (French Ministry for Digital Affairs, 2019, para. 7). Through these activities, Cédric O embodies a governance model rooted in national and European sovereignty, combined with proactive support for French and European AI companies. His leadership and involvement make him a central figure in Mistral, one of the few European firms achieving notable success in the AI sector (French Ministry for Digital Affairs, 2019, para. 1).

5.2. Regulating the Stack: EU AI ACT and the Challenge to Vertical Integration

The final stages of the EU AI Act negotiations illustrate how European startups, such as Mistral (France) and Aleph Alpha (Germany), leveraged their embeddedness within multi-level governance structures to protect their interests and influence regulatory outcomes. Initially, the European Parliament proposed robust safeguards for general-purpose AI, including mandatory fundamental rights impact assessments (Council of the European Union, 2023, para. 4). However, the presence of these companies within EU AI governance allowed them to safeguard their interests while collaborating with other civil and labor sectors. In particular, Mistral and Aleph Alpha exerted significant influence during the negotiations. As a result, general-purpose AI, initially slated for stringent regulation by Parliament, became subject to national peer review. For instance, the trilateral statement of France, Germany, and Italy, alongside the Council of Ministers, largely exempted foundational AI systems from the AI law's strictest provisions, leaving only transparency requirements intact (Thoms, 2023, para. 3). Safeguards initially proposed by Parliament, such as mandatory fundamental rights impact assessments for all AI companies, were removed; the finalized AI Act now requires

only high-risk AI systems to undergo such assessments prior to deployment (Council of the European Union, 2023, para. 5).

In the law's final stages, both tech giants and startups gained privileged access to EU decision-making through participation in existing committees within the Commission and Parliament. Some observers have criticized this as disproportionate access to high-level European policymakers. Indeed, in 2023, a majority (78%) of senior Commission officials met with industry stakeholders on AI issues (Corporate Europe Observatory, 2024, para. 2). Similarly, the German startup Aleph Alpha participated in 12 high-level meetings with representatives of the German federal government between June and November 2023, including Chancellor Olaf Scholz and Ministers Robert Habeck (Economics) and Volker Wissing (Digital Affairs) (Corporate Europe Observatory, 2024, para. 3). Critics argue that experiential governance in the EU has historically favored industrial and commercial actors over civil society groups. Activists from the Observatory of Multinational Enterprises, European Corporate Watch, and Lobbying Control have warned that debates on AI regulation in France and Germany are heavily shaped by industry interests, particularly large tech companies and startups like Aleph Alpha. They contend that corporate lobbying weakened key protections in the AI Act and compromised the safeguarding of fundamental rights. Activists urge the EU to enforce transparency, maintain balanced stakeholder representation, and prioritize public interest over corporate profit (Corporate Europe Observatory, 2024, para. 5).

The cooperation of large German and French AI companies within EU AI governance can be interpreted as a positive indicator of the role of stakeholders in shaping regulatory frameworks. Unlike many large American companies, these European actors actively engage in governance and regulation, framing their involvement as constructive and aligned with the EU's experimentalist ethos of peer review, transparency, and iterative norm-setting. Timothy Lacroix, co-founder and CTO of Mistral, stated in an interview with *Sifted* (2023, para. 4) that the startup "likes the risk-based approach because that's where the risks are understood. Regulating the base technology makes less sense to us… when it comes to foundational models, there is as little as 1% or 2% of cases that are high risk, and as little as 0.1% that are very high risk… These models should not be regulated directly." Lacroix emphasized that the presence of companies in negotiations allows them to influence the status quo and "have a chance to discuss [this] before things go into the law" (Sifted, 2023, para. 4). French Digital, the leading French startup lobby, similarly argues that regulating fundamental models could undermine Europe's ability to develop AI champions at a moment when the continent has a real opportunity to compete with the United States. Marianne Tordo Bittker, the group's public affairs director, noted: "Europe can still play its cards right. It shouldn't shoot itself in the foot with regulation that is poorly put together" (Sifted, 2023, para. 7). In Germany, startup advocacy groups also emphasize the importance of risk-based regulation to preserve innovation. Christoph Stresing, CEO of the Startup Association, the German startup association, highlighted that "we must not stifle our innovation. Particularly with regard to foundation models, it is important to maintain the ability to innovate" (Sifted, 2023, para. 8). Conversely, the European Parliament—given its central role in representing grassroots and

social organizations—has stressed the necessity of public regulation, which could be perceived by some startups as placing constraints on business activity if EU AI governance were not multi-level. Dragos Todoras, a Romanian MEP and chair of the European Parliament's AI Special Committee, described the EU AI law as a "business-friendly regulation," acknowledging that while some startups view it as restrictive, it balances innovation with public accountability (Sifted, 2023, para. 10).

The European Parliament, with its strong ties to civil society and grassroots organizations, has consistently advocated for horizontal regulation within the EU's AI governance framework. Its early proposals emphasized public accountability and ethical safeguards, such as mandatory fundamental rights impact assessments for all foundational models. This approach reflects the Parliament's normative ambition to anchor AI development in human rights and democratic oversight. However, such broad regulatory scope could place significant pressure on European companies—particularly startups—if it is not balanced by the flexibility provided through multi-level governance (France Digitale, 2024: 4). Multi-level governance serves as the mechanism through which this tension is negotiated. It enables EU institutions to maintain normative coherence while adapting to stakeholder concerns via iterative dialogue, peer review, and experimentation. European companies, especially startups such as Mistral and Aleph Alpha, have leveraged this architecture to engage constructively—seeking regulation that safeguards innovation while influencing the competitive landscape in their favor. Their preference for risk-based governance, rather than rigid regulatory prescriptions, reflects a strategic understanding of soft power: by participating in norm-setting, these actors gain reputational capital and influence over the rules that will govern their sector (France Digitale, 2024: 5). In this way, the European Parliament's horizontal vision is not undermined but recalibrated through multi-level interaction, where ethical ambition and industrial competitiveness are co-produced within the EU's evolving AI governance ecosystem. France Digitale, representing the perspectives of French AI companies, highlights the importance of differentiated regulation rather than a "one-size-fits-all" app roach. In its April 2024 report, the organization notes that vertically integrated companies—such as Amazon, Google, Microsoft, and to some extent Nvidia—are best positioned to capture value across the AI value chain. Established players are entering new markets to ensure their presence at each stage, either directly or indirectly through strategic partnerships and investments, and to maintain positions in both consumer and enterprise markets (France Digitale, 2024: 6–7). This situation has two key consequences: first, partnerships become a central mode of operation in the generative AI market, occurring both between small and large companies and among large companies themselves, often creating a cooperative-competitive dynamic; second, vertically integrated companies act not only as competitors to startups but also as essential infrastructure providers and gateways to customer access (France Digitale, 2024: 7). France Digitale further warns that assessing anti-competitive behavior in the generative AI value chain requires careful attention to the details. Practices that may appear legitimate in isolation can, when systematically employed by dominant firms or those leveraging the economic dependence of partners, become anti-competitive. While no overtly

abusive practices have yet been documented, the presence of dominant, vertically integrated companies carries inherent risks (France Digitale, 2024: 8–9). Figure 1 illustrates how companies and their representative associations play an active role in shaping AI governance.

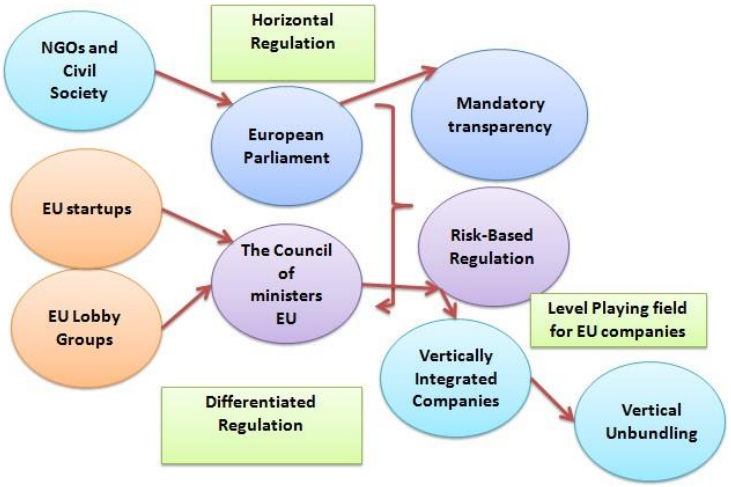

Figure 1. Firms and vertical separation in EU AI governance
Source: Authors' understanding of the process review (France Digitale, 2024).

The outcome of the EU AI governance law represents a hybrid regulatory model that balances transparency with strategic flexibility. On the one hand, the European Parliament and civil society organizations successfully advocated for mandatory transparency requirements—such as model documentation and disclosure obligations—that apply universally to all AI providers. These measures ensure a foundation for public accountability and the protection of fundamental rights, regardless of company size or origin. Transparency has become a non-negotiable norm, reinforcing the EU's commitment to ethical AI and democratic oversight.

On the other hand, under pressure from European AI startups such as Mistral and Aleph Alpha, the Council of Ministers supported a risk-based regulatory framework. This approach avoids blanket restrictions on foundational models and instead tailors obligations according to the level of risk associated with specific applications. Importantly, this model fosters healthy competition in the EU by creating space for smaller, non-vertically integrated companies to grow. It also implicitly challenges the dominance of vertically organized international giants—such as Amazon, Google, and Microsoft—by encouraging regulatory mechanisms that separate infrastructure control from market access, thereby reducing monopolistic tendencies. This divergence in regulatory philosophy explains why European companies supported the risk-based model, seeing it as a means to level the playing field and stimulate innovation. In contrast, American tech giants lobbied for self-regulation and minimal oversight, aiming to preserve their integrated business models. The EU's combined outcome therefore represents a strategic compromise: global transparency to protect rights, alongside differentiated regulation to promote fair competition and reduce structural dependence on dominant global players. In the AI sector, vertically organized companies control multiple layers of the value chain—from cloud infrastructure and model development to deployment

platforms and consumer applications. Amazon, Google, Microsoft, and Nvidia exemplify this model: they own servers and computing resources, develop proprietary core models, and integrate them into enterprise and consumer products. This vertical integration confers substantial market power, allowing these firms to dominate standards, restrict access, and shape competitive dynamics. Smaller companies often rely on these giants for infrastructure and distribution, creating structural dependencies that constrain innovation and market entry (France Digitale, 2024: 4–5).

This dynamic closely mirrors the pre-liberal electricity market, where large utility companies controlled generation, transmission, distribution, and retail. Regulators responded by separating these layers to foster competition, transparency, and consumer choice. Similarly, the EU's AI governance—particularly its risk-based regulatory model—seeks to decouple vertically integrated firms from the broader market. By enforcing transparency and risk-based obligations, the EU aims to create opportunities for startups and non-integrated European companies to compete fairly, while curbing the monopoly power of global tech giants. However, it should be noted that, for example, when the European Commission conducts public opinion surveys on AI, business and industry groups tend to participate more actively. As a result, these actors gain a disproportionate influence within governance processes. Social groups, in contrast, are often less organized and less active, reducing their weight in shaping the final outcomes of EU AI governance.

6. Conclusion

The EU's evolving AI governance framework exemplifies a strategic fusion of ethical ambition, institutional adaptability, and competitive recalibration. Through experimentalist governance, the European Union has built a multi-level architecture that enables iterative norm-setting, stakeholder engagement, and adaptive regulation. This approach allows institutions such as the European Parliament and the Commission to uphold horizontal transparency and rights-based safeguards while remaining responsive to industrial and innovation concerns. The AI Act, as the EU's flagship legislation, embodies this balance—combining universal transparency obligations with differentiated, risk-based regulation that accommodates both civil society demands and the practical realities of European innovation. European startups, including Mistral and Aleph Alpha, have emerged as proactive norm entrepreneurs within this framework. Their engagement is not merely reactive but strategic: by participating in trilogue negotiations, ethics commissions, and public consultations, they influence governance in ways that protect their innovative capacity while enhancing their reputational capital. These companies recognize that soft power within the EU is co-produced—earned through ethical alignment, institutional proximity, and constructive norm-shaping. Their preference for risk-based governance reflects a tactical effort to avoid blanket restrictions while supporting regulatory mechanisms that mitigate the dominance of vertically integrated global tech giants.

Indeed, the EU's AI governance model implicitly addresses the structural power of firms such as Amazon, Google, Microsoft, and Nvidia—companies that control multiple layers of the AI value chain, from infrastructure and model development to deployment and user-facing

applications. This vertical integration creates systemic dependencies that can restrict market entry and stifle innovation. Drawing lessons from energy market liberalization, the EU's regulatory strategy seeks to unbundle this dominance by separating infrastructure control from market access. Through transparency requirements, model documentation, and risk-differentiated obligations, the AI Act fosters a more open and competitive digital ecosystem—one where European firms can thrive without being locked into the platforms of global monopolies. Yet, this governance model is not without tensions. While business and industry groups actively shape regulation, civil society organizations often lack institutionalized access, raising questions about democratic legitimacy and representational balance. Experimentalist governance provides flexibility, but it also risks privileging organized corporate actors over diffuse public interests. To maintain its soft power and normative credibility, the EU must ensure that its governance processes remain inclusive, transparent, and accountable. By doing so, it can continue to project a model of AI regulation that is ethically grounded, structurally transformative, and globally influential—one that challenges monopolistic architectures and empowers diverse actors in a pluralistic digit

References

Amaro, S. (2020, February 19). *EU launches plan to regulate A.I. aimed at Silicon Valley giants*. CNBC. Available at: https://www.cnbc.com/2020/02/19/eu-launches-plan-to-regulate-ai-aimed-at-silicon-valley-giants.html

Arens, M., Neef, C., Beckert, B., & Hirzel, S. (2018). Perspectives for digitising energy-intensive industries—Findings from the European iron and steel industry. *Proceedings of Eceee Industrial Summer Study; ECEEE: Stockholm, Sweden*, 259–268.

Bertuzzi, L. (2023). EU's AI Act negotiations hit the brakes over foundation models. *EURAVTIV. Elérhet\Ho: Https://Www. Euractiv. Com/Section/Artificial-Intelligence/News/Eus-Aiact-Negotiations-Hit-the-Brakes-over-Foundation-Models/(2024. 01. 24.)*.

Berz, M. (2016). *Digital Transformation Monitor—National initiatives on digitisation of industry (Working Group Digital Innovation Hubs, p. 12). DG Grow-KETS, Digital Manufacturing & Interoperability Unit*.

Cobbe, J., & Singh, J. (2021). Artificial intelligence as a service: Legal responsibilities, liabilities, and policy challenges. *Computer Law & Security Review*, *42*, 105573.

Commission of Experts for Research and Innovation. (2019, February). *Artificial intelligence – The Federal Government's AI strategy* (EFI Report 2019 A2). Available at: https://www.e-fi.de/fileadmin/Assets/Themenverzeichnis/Inhaltskapitel_EN_2019/EFI_Report_2019_A2.pdf

Corporate Europe Observatory. (2024, March). *Don't let corporate lobbying further water down AI Act, lobby watchdogs warn MEPs*. Available at:https://corporateeurope.org/en/2024/03/dont-let-corporate-lobbying-further-water-down-ai-act-lobby-watchdogs-warn-meps

Council of the European Union. (2023, December). *Artificial intelligence act: Council and Parliament strike a deal on the first rules for AI in the world*. Council of the EU. https://www.consilium.europa.eu/en/press/press-releases/2023/12/09/artificial-intelligence-act-council-and-parliament-strike-a-deal-on-the-first-worldwide-rules-for-ai/

European Commission. (2016). *Digitising European industry: Reaping the full benefits of a Digital Single Market (COM(2016) 180 final)*. EUR-Lex. Available at:https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52016DC0180. (Accessed on: 2016, April 19)

European Commission. (2019). *Shaping competition policy in the era of digitisation: Digital Europe Conference 2019 – Summaries*. Directorate-General for Competition. Available at:https://competition-policy.ec.europa.eu/about/europes-digital-future/shaping-competition-policy-era-digitisation/digitalconf2019summaries_en

European Commission. (2020). *Public consultation on the AI White Paper: Final report*. Digital Single Market. Available at:https://standict.eu/sites/default/files/2021-02/PublicConsultationAIWhitePaper_Finalreportpdf.pdf .(Accessed on:2020, November)

European Parliament. (2023). *Amendments adopted by the European Parliament on the proposal for a regulation of the European Parliament and of the Council on laying down harmonised rules on artificial intelligence (Artificial Intelligence Act) and amending certain Union legislative acts (COM(2021)0206 – C9-0146/2021 – 2021/0106(COD))*. Available at:https://www.europarl.europa.eu/doceo/document/TA-9-2023-0236_EN.html.(Accessed on: 2023, June 14)

Digitising European Industry initiative in a nutshell. (2018). *Shaping Europe's digital future*. European Commission. Available at:https://digital-strategy.ec.europa.eu/en/library/digitising-european-industry-initiative-nutshell. (Accessed on: 2018, March 16)

Di Fabio, et al. (2017). Ethics commission automated and connected driving. *Federal Ministry of Transport and Digital Infrastructure of the Federal Republic of Germany*, *1*.

Franke, U. (2021). Artificial Intelligence diplomacy: Artificial Intelligence governance as a new European Union external policy tool. *Luxembourg: European Parliament*.

French Ministry for Digital Affairs. (2019). *Speech by Cédric O on artificial intelligence at the French Senate*. Vie publique.Available at: https://www.vie-publique.fr/discours/270969-cedric-o-02102019-intelligence-artificielle. (Accessed on: 2019, October 2)

Jochheim, U. (2021). *China's ambitions in artificial intelligence* (PE 696.206). European Parliamentary Research Service. Available at:https://www.europarl.europa.eu/RegData/etudes/ATAG/2021/696206/EPRS_ATA(2021)696206_EN.pdf. (Accessed on: 2021, September 29).

Klitou, D., Conrads, J., Rasmussen, M., Probst, L., & Pedersen, B. (2017). Digital transformation monitor germany: Industrie 4.0. *European Union*.

Luetge, C. (2017). The German Ethics Code for Automated and Connected Driving. *Philosophy & Technology*, *30*(4), 547–558. https://doi.org/10.1007/s13347-017-0284-0

Nazari,A. A. (2025). Artificial intelligence and fundamental changes of the political: Analytical understanding of new political perspectives for Iran. *Research Letter of Political Science*, 20(3), 199-246. doi: 10.22034/ipsa.2025.546

Nye, J. S. (2019). Soft power and public diplomacy revisited. *The Hague Journal of Diplomacy*, *14*(1–2), 7–20.

Outeda, C. C. (2024). The EU's AI act: A framework for collaborative governance. *Internet of Things*, 101291.

Pérez-Moure, H., Lampón, J. F., Velando-Rodriguez, M.-E., & Rodríguez-Comesaña, L. (2023). Revolutionizing the road: How sustainable, autonomous, and connected vehicles are changing digital mobility business models. *European Research on Management and Business Economics*, *29*(3), 100230.

Sabel, C. F., & Zeitlin, J. (2010). *Experimentalist governance in the European Union: Towards a new architecture*. OUP Oxford. Available at:https://books.google.com/books?hl=en&lr=&id=2-NeNbnMTWYC&oi=fnd&pg=PR5&dq=experimental+governance+in+the+european+union+zeitlin&ots=sE4mnt_7u5&sig=mpghxm8YN3yFDloN8qUXQiYqoRE

Sifted. (2023). *EU AI regulation could be derailed over France, Germany objections*. Available at:https://sifted.eu/articles/eu-ai-regulation-france-germany-objections. (Accessed on: 2023, November 29).

Thoms, A. (2023). *New AI regulation agreement by Germany, France and Italy*. Baker McKenzie. Available at:https://www.bakermckenzie.com/en/insight/publications/2023/11/ai-regulation-agreement-germany-france-italy. (Accessed on: 2023, November 22).

Villani, C., Bonnet, Y., Berthet, C., Levin, F., Schoenauer, M., Cornut, A. C., & Rondepierre, B. (2018). *Donner un sens à l'intelligence artificielle: Pour une stratégie nationale et européenne*. Conseil national du numérique. Available at:https://books.google.com/books?hl=en&lr=&id=Q7lUDwAAQBAJ&oi=fnd&pg=PP1&dq=intelligence+artificielle,+gouvernance,+union+europ%C3%A9enne,+france&ots=0IFoY9WCRU&sig=sFNMAewOTqQbLzv__AQawQGym0U

Volkswagen Group of America. (2023, July). *Volkswagen showcases inclusive mobility and accessibility innovations*. VW Media. Available at:https://media.vw.com/releases/1606