

## **DCGG Position Paper on European Technological Sovereignty and Digital Infrastructures**

The Digital Currencies Governance Group (DCGG) is a trade association that represents digital assets issuers and service providers and artificial intelligence firms in the European Union, United Kingdom, Latin America and United Arab Emirates. Our mission is to facilitate an open dialogue and encourage communication between policymakers and industry experts to support the design of a sound and proportionate regulatory framework that ensures safety for all market participants.

We fully support Europe's ambition for technological sovereignty in an increasingly digital world. As emerging technologies reshape industries and global competition intensifies, the EU must adopt policies that foster innovation, investment, and competitiveness. We welcome the opportunity to share our perspectives on the European Technological Sovereignty and Digital Infrastructures (2025/2007(INI)) report, offering key recommendations on reducing regulatory barriers, promoting strategic innovation, and ensuring international alignment.

### **Issue 1: European policymakers have underestimated the potential of Blockchain technology to strengthen the EU market - leading to excessive regulation and unnecessary compliance barriers that hinder industry growth.**

- EU policymakers must also prioritise the growth of the European Blockchain sector alongside cloud, cybersecurity, AI, and semiconductors to drive investment in emerging sectors.
- European Blockchain firms, including entities like cryptoasset service providers and issuers, need improved conditions for market entry and better access to investment to prevent innovation from being stifled by excessive regulatory burdens.
- The Markets in Crypto-Assets (MiCA) Regulation exemplifies this issue; what began as a 166-page Level I regulation has expanded into over 2000 pages of Level II technical measures, far exceeding the Regulation's original intent, and creating disproportionate compliance burdens and costs, especially compared to more light-touch international regimes.
- The Draghi report underscores the impact of such regulation, citing GDPR compliance costs of up to €500,000 for SMEs and €10 million for large firms, leading to reduced data storage and processing in the EU compared to the US.

- Just as MiCA's started being enforced at EU-level, we expect that its complex legal requirements as they currently stand will inevitably hinder competition, particularly for start-ups and smaller firms struggling with heavy compliance demands. These regulations create market entry barriers that favour larger companies with greater resources, making the industry less dynamic and more concentrated.

**Recommendation:** *The EU must simplify its regulatory frameworks to attract investment and promote innovation in the Blockchain sector. While the Omnibus package has made strides in reducing red tape, further measures are needed to streamline the regulatory environment, especially for start-ups. By easing administrative burdens and clarifying complex legal requirements, the EU can foster a more competitive landscape, encouraging the growth of European blockchain firms. This should include revising overcomplicated regulations, such as those seen in the MiCA framework.*

## **Issue 2: The EU must strive for international competitiveness as a key priority.**

- The Draghi Report underscores the importance of leveraging Europe's strengths to drive global competitiveness. Similarly, the European Commission's Competitiveness Compass emphasises the need for strategic autonomy in the EU through regulatory simplification and innovation-friendly policies. DCGG fully supports these principles and believes they should be key drivers for policymaking in the Union.
- Emerging technologies increasingly operate across borders, making international alignment and regulatory equivalence crucial for a healthy and well-functioning domestic marketplace.
- To illustrate, the United Kingdom is shifting its regulatory focus toward competitiveness, growth, and simplification, reducing administrative burdens and streamlining oversight. A key example is the recent abolition of the Payment Services Regulator (PSR) and its merger into the Financial Conduct Authority (FCA). This reflects a broader global trend, also seen in the United States, toward simplifying regulatory frameworks and reassessing the need for existing supervisory authorities in order to foster innovation and economic growth.
- The EU should follow suit by adopting a light-touch regulatory approach, particularly for cryptoassets and Blockchain, to maintain international competitiveness and ensure regulatory equivalence. This would attract investment, enable companies to serve European clients securely and compliantly, and accelerate technological advancement.
- Rather than misclassifying crypto as inherently high-risk (a stance reflected in the EBA and ESMA's Level II measures under MiCA) policymakers should recognise the benefits of trustworthy crypto products like stablecoins, designed to prevent market volatility, and Blockchain technology more broadly, which has

transformative potential beyond finance, improving supply chains, public services, and digital identity by enhancing privacy, security, and user control through decentralisation.

- Encouraging innovation in these areas would help close the EU's innovation gap, attract investment, and cement Europe's position as a global tech leader.

**Recommendation:** *The EU should align its regulatory approach with global trends by prioritising simplification, innovation, and international equivalence. A pro-innovation framework for emerging technologies would significantly enhance international competitiveness.*

### **Issue 3: Further consideration is needed for the potential of Decentralised AI for Europe.**

- Europe must balance global competitiveness with protecting the core values of the Union. Decentralised AI offers a way to achieve both objectives.
- Traditional AI, dominated by Big Tech, relies on centralised data collection, often without users' full awareness or control. In contrast, decentralised AI enables entities to share model updates rather than raw data, keeping sensitive information stored locally, aligning with the high-level principles of privacy protection - a fundamental right of EU citizens.
- This alternative approach to AI builds more secure AI systems (less susceptible to single-point-of-failure disruptions and slowdowns that plague systems like ChatGPT) and more privacy-preserving systems, by minimising the need to transfer and store sensitive data centrally. Additionally, decentralised AI architectures can simplify compliance by ensuring transparent record-keeping of model training, aligning with the AI Act's agenda on accountability and oversight.
- Promoting the use of decentralised AI would be a win in the global AI race, creating a unique competitive edge for Europe; this sentiment also echoes in the draft report, which recognises that the EU can regain its technological sovereignty by focusing on research and development.

**Recommendation:** *The final report should emphasise the potential of decentralised AI and advocate for its broader adoption across the EU, ensuring better data and privacy protection of EU consumers and citizens.*

### **Issue 4: As part of the European Technological Sovereignty and Digital Infrastructures strategy, more innovative technologies should be leveraged to facilitate compliance procedures.**

- For Europe to achieve technological sovereignty and strengthen digital infrastructures, regulators must embrace innovation to streamline compliance. Fitness checks, which are essential for maintaining a competitive regulatory environment, should not only uphold existing standards but also explore how emerging technologies can enhance compliance as part of a broader EU RegTech toolkit.
- We urge EU policymakers to leverage each fitness check opportunity, beginning with the upcoming AI Act review, to assess the impact of emerging technologies such as decentralised AI and Blockchain. A deeper understanding of their compliance implications will help regulators create clearer guidelines and communicate learnings effectively.
- Decentralised AI presents a compelling case for regulatory innovation. Its architecture inherently supports compliance-friendly mechanisms, such as automated technical documentation and immutable records of model training. These features enhance transparency and accountability in AI development, making audits more reliable and reducing the burden of compliance.

**Recommendation:** *By integrating decentralised AI models and Blockchain technology into the discussions on regulatory compliance, accountability and oversight, Europe can both simplify compliance procedures and promote responsible crypto and AI practices - while also remaining internationally competitive and innovative.*

## Conclusion

The European Union has a unique opportunity to lead in Blockchain, Web3 and AI by shifting towards a regulatory approach that fosters innovation rather than stifling it. Learning from past challenges, the EU must adopt flexible, forward-thinking policies that empower European companies to develop cutting-edge technologies and remain globally competitive.

By reducing excessive regulatory barriers and implementing clear, innovation-friendly frameworks, the EU can attract and retain top talent, preventing brain drain to more permissive jurisdictions. This would not only strengthen Europe's digital economy but also reinforce strategic autonomy, ensuring the EU shapes the future of decentralised technologies rather than merely adapting to external developments *post-factum*. A thriving European blockchain and AI ecosystem would drive investment, job creation, and technological sovereignty, strengthening Europe's role in the global digital economy and enhancing its competitiveness in emerging innovations.