PUBLIC POLICY SOLUTIONS

Europe's Attack on American Industry:

Bad Allies Undermining U.S. Digital Services Leadership

JUNE 2025

Executive Summary

The European Union (EU) has advanced a range of protectionist policies designed to disadvantage U.S. companies in their digital markets. They have undertaken these measures because of a failure, on their part, to create an environment conducive to innovation domestically, including by investing in their own digital infrastructure.

By taxing U.S. companies and imposing disproportionate regulatory burdens, European countries are extracting resources to mitigate these failures while deliberately undermining U.S. leadership in the digital services sector. These measures prevent their citizens from accessing the quality services offered by American companies, which have succeeded in a competitive industry because of their high standards and excellence.

European leaders have repeatedly made their intentions clear in their own words and statements on the issue. The goal is an amorphous European "digital sovereignty," achieved on the backs of U.S. companies and at the expense of their own people.

European actions targeting American technology and telecommunications companies in support of this goal primarily fall in three primary areas: promoting purchases with European digital companies instead of facilitating a free market; extracting revenue from U.S. digital companies through significant fees and taxes; and imposing burdensome regulations and restrictions designed to have greatest impact on American digital companies.

These policies include but are not limited to enacting massive public subsidies to fortify European projects like Gaia-X and EuroStack against American competition, using the Digital Services Tax (DST) to collect funds from U.S. companies while leaving European companies largely unaffected, and coopting the Digital Services Act (DSA) and Digital Markets Act (DMA) to disproportionately impose restrictions and even investigations on U.S. companies.

Together, these protectionist measures have resulted in an unacceptable lack of fairness and reciprocity in the U.S.-EU relationship. While EU companies enjoy open market access in the United States, Europe is doing everything it can to disadvantage U.S. companies in their markets. To make matters worse, these misguided policies have left an opening for Chinese 5G and telecommunications influence in Europe, posing national security risks and creating interoperability challenges for allies.

In summary, in examining the U.S.-EU economic relationship, policymakers must pay increased attention to ensuring fairness and reciprocity in the digital market, particularly as it related to non-tariff barriers. Europe has constructed a digital policy architecture that disadvantages U.S. firms through selective taxation, protectionist regulation, and uneven enforcement of laws and restrictions. These barriers are less visible than traditional tariffs but have become central to Europe's strategy for weakening U.S. technology leadership. Truly rebalancing the economic relationship will require lifting these burdens and returning to the tested principles of free market competition, innovation, and above all, fair play.

"The goal is an amorphous European 'digital sovereignty,' achieved on the backs of U.S. companies and at the expense of their own people."

The European Protection Racket

digital service economy is one of the biggest sectors in which the U.S. runs a trade surplus with the European Union. American companies have thrived in this space for many reasons, not least of which is that the United States has created a regulatory environment in which these critical innovators can thrive.

Rather than reexamining their misguided approach to regulating technology and telecommunications firms, the European Union and constituent countries have spent years creating a tax and regulatory system designed specifically to artificially tip the scales back in favor of European businesses and end U.S. leadership of the digital economy.

These targeted, non-tariff policies are curtailing U.S. growth in Europe, while our open door policy allows them to flourish. Despite the fact that American companies are by far the biggest players in this sector globally, EU digital services exports to the U.S. rose by more than $8 billion from 2013-2023, while U.S. digital services exports to the EU rose by only $5 billion in the same time period.

Given the relative U.S. dominance in the digital services sector, the only explanation for such an imbalance in digital services exports over the course of a decade is that the EU's policies are a protectionist scheme to stop the dominance of the U.S. digital sector. This isn't just a guess. EU and European leaders have made clear the goals of their crushing regulations and fees: European "digital sovereignty."

DIGITAL SERVICE EXPORTS
(2013 - 2023)

$5 BILLION
U.S. ➡ EU

$8+ BILLION
EU ➡ U.S.

"Digital Sovereignty" as a EU-phemism for Targeting U.S. Businesses

Examining the actions and statements of EU and European leaders over the better part of a decade exposes the true motives of the campaign for "digital sovereignty."

For years, leaders from the EU, UK, France, Germany, and more have made statements admitting a coordinated attempt to target U.S. companies with regulations and fees in order to prop up European tech and telecom companies. In the case of Germany, their attempts to levy fees is particularly egregious given its partial state ownership of Deutsche Telekom, which operates T-Mobile USA. Germany's targeting of American companies while benefiting from the open American market takes advantage of U.S. customers and undermines our economic interests to Germany's benefit.

In a 2019 speech to the European Parliament, European Commission President Ursula von der Leyen declared "it is not too late to achieve technological sovereignty in some critical technology areas."

French lawmakers explicitly listed American companies as the target of its digital service tax, colloquially referring to it as the "GAFA tax"—Google, Apple, Facebook, and Amazon. And in a 2018 debate over passing the levy, the country's then-Finance Minister Bruno Le Maire grew increasingly impatient saying, "It is time for Europe to decide whether it wants to become a submissive continent...or a sovereign continent."

In 2021, the leaders of Germany, Denmark, Estonia, and Finland published a joint letter arguing "now is the time for Europe to be digitally sovereign." The list goes on.

When our European partners say "digital sovereignty" what they mean is manipulating the digital market to hamstring U.S. companies to give themselves a competitive advantage. Many of the same leaders who are now crying victim amid trade negotiations with the U.S. are the very same leaders who bragged about instituting thinly veiled protectionist policies for years. As Civitas research fellow Michael Toth writes, "While U.S. regulators are satisfied with regulating domestic companies, Europeans are not shy about their extraterritorial shakedowns."

> **"When our European partners say 'digital sovereignty' what they mean is manipulating the digital market to hamstring U.S. companies to give themselves a competitive advantage."**

The EU Playbook

The EU has imposed a full suite of crushing rules and regulations targeted at U.S. companies operating in the digital economy – including draconian restrictions on data privacy, digital marketplaces, online content, and more. These rules and regulations, by design and in effect, lead to higher costs for companies and hamstring innovation.

The Europeans have three primary methods for discriminating against U.S. tech and telecom companies:

1) Promoting purchases with European digital companies instead of relying on the free market;
2) Extracting revenue from U.S. digital companies with outlandish fees and taxes; and
3) Imposing draconian regulations that are specifically tailored to have the most impact on U.S. digital companies.

The rules and regulations governing each European country's approach to U.S. companies providing digital services vary, however, understanding the three most important EU regulations elucidates the protectionist attitude that plagues many of our European allies.

General Data Protection Regulation (GDPR)

The General Data Protection Regulation (GDPR) is a 2018 EU law that makes companies and governments follow strict rules on personal "data protection," which in practice amounts to a wholesale handover of data by private entities to EU authorities. While the rules apply to anyone or any company operating in the EU regardless of whether they are based within the EU or not, the EU seems far more concerned with the U.S. government and U.S. businesses than with countries that don't share our western, democratic values, like China.

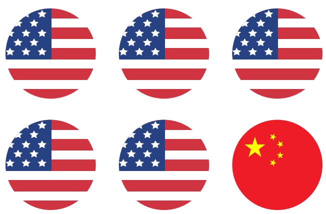
Eight of the 10 largest data protection fines imposed by EU countries have targeted U.S. companies or those with U.S.-based parent companies. As of March of this year, U.S. companies accounted for 83% of all EU data privacy fines, totaling roughly $5.3 billion since 2018.

8 of 10 largest data protection fines imposed by EU countries have targeted U.S. companies

Digital Markets Act (DMA)

In September of 2022, the EU enacted its Digital Markets Act (DMA) in a clear effort to combat the dominance of major U.S. tech companies and force them to adopt policies that are favorable to smaller, mostly European, competitors. In addition to the EU law, many EU member states have enacted a number of DMA-type laws with varying degrees of restriction.

Though the EU claims the DMA was created to foster a "fair market" and restrict what it calls "gatekeepers," since its implementation the EU has only investigated U.S. companies for violations of the DMA. The strict rules for large digital service companies designated in the DMA as "gatekeepers" do not have to be followed by smaller rivals. Six of the seven designated "gatekeepers" are American and one is Chinese—none are European.



6 of 7 designated gatekeepers are American and one is Chinese—none are European

Digital Services Act (DSA)

Shortly after adopting the DMA, the EU's Digital Services Act (DSA) began to take effect. At its core, the DSA imposes anti-free speech restrictions on content that especially target America's large tech companies.

The law was passed under the guise of preventing "illegal and harmful activities online" and to combat "the spread of disinformation." Supported by some misguided American liberal activists, the DSA is often cited as a model for policing speech on popular social media platforms such as X or Facebook.

In reality, the DSA targets American companies by enacting stricter rules on larger companies that meet a certain size threshold, with 15 of those 19 qualifying platforms being based in the U.S. DSA restrictions apply to individual users, businesses, and online platforms such as social media, search engines, cloud and web hosting services, and internet access providers.

> **"The DSA targets American companies by enacting stricter rules on larger companies that meet a certain size threshold."**

Digital Network Act (DNA)

The European Commission, supported by big European telecoms, such as Deutsche Telekom, are seeking to expand the Digital Network Act, which regulates telecoms, to include cloud services and its infrastructure. As part of this regulatory expansion, indirect fees on cloud networks could be included.

The new regulation comes after the Commission failed to introduce legislation in 2023 that would have imposed fees on "large traffic generators," targeting large American companies. This is a second attempt to increase costs on U.S. digital service providers to protect Europe's largest telecom companies, despite opposition from European Union members states and smaller European digital companies.

Italy, for example, is seeking to expand regulations on content delivery networks that could lead to higher fees—essentially creating a backdoor to include these CDNs the larger EU-wide regulatory framework of the DNA. By expanding regulations on telecoms to include CDNs, Italy would be allowed to push for higher fees on those networks through the European Communications Code Directive. It would also set a bad precedent for the European Commission as they look at revising the DNA.

European Countries Impose Crushing Digital Service Taxes

In addition to costly regulations and fees imposed by the EU, several of its own member states have implemented country specific digital service taxes. These taxes are levied on services like digital advertisement, digital intermediary services, or data transfer.

Specifically, six EU countries have enacted digital service taxes: Austria, France, Italy, Spain, Denmark, and Portugal. Belgium, the Czech Republic, Portugal, and Poland all have pending proposals to implement or expand digital service taxes.

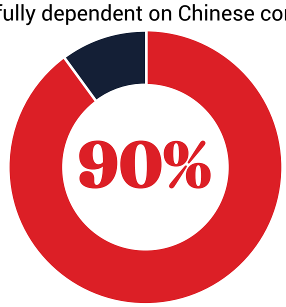
These taxes are a substantial revenue stream for some countries, only further incentivizing lawmakers to maintain the protection racket. For example, France raised $640 million in 2022 from its 3% digital service tax on intermediary and advertising services. Italy's 3% digital service tax on digital intermediary services, digital advertising, and data transmission that raised $307 million in 2022 alone. And Spain pocketed $294 million in 2023 from its 3% digital service tax on digital intermediary services, digital advertising, and data transmission.

As the number one provider of these services in the EU, U.S. companies are being shaken down to subsidize a flagging European digital economy. Rather than creating a truly competitive environment that strengthens the transatlantic alliance, our European partners have thrown their lot in with our adversary, China.

The China Problem

Europe's attacks on U.S. companies have opened the door for dangerous Chinese Communist Party influence in European telecommunications and 5G infrastructure. These ties pose a significant national security risk to European nations and the NATO alliance.

Germany's domestic 5G infrastructure operates on technology made by Huawei and ZTE, companies with Chinese Communist Party ties, and Switzerland has a goal of supplying 90% of its 5G components from Huawei and China-based manufacturer Oppo. Many other European countries, including Austria, Bulgaria, Cyprus, and Hungary, are already fully dependent on Chinese components for their national 5G systems.



Switzerland has a goal of supplying 90% of its 5G components from Huawei and China-based manufacturer Oppo

In addition, prominent EU companies like the state-controlled company Swisscom, the Dutch firm KPN, and British Telecommunications have all transitioned facets of their business to China. They have accomplished this by opening research hubs in Shanghai, partnering with China Unicom to access the Chinese internet-of-things market, and seeking domestic telecoms licenses to operate in China.

Since 2018, Spain's Telefonica has collaborated with China to provide mutual network access for internet-of-things services. Despite selling its shares in 2024, the company has been part of a "strategic alliance" for "digital transformation" with China Unicom since 2009 and still retains ties to several Chinese suppliers for critical network infrastructure supplies. Similarly, France's Orange Group and satellite provider Eutelsat have formed agreements with China Telecom to provide machine-to-machine services across their networks and services under China's Belt and Road Initiative. Both the French and UK governments own stakes in Eutelsat and its subsidiary, OneWeb, as does the China Investment Corporation.

Overall, comments by European companies paint a bleak picture. Swisscom called China the "perfect ground for observation and trying our new ideas" and said that there is much to learn from the country. Similarly, Swedish telecoms company Ericsson has affirmed its commitment to Chinese investments. Ericsson's CFO Lars Sandström implied that the company's presence in both the U.S. and China could be helpful in skirting the negative effects of tariffs, and China's commerce ministry recently announced that it had agreed to partnering with Britain to "strengthen cooperation in trade, investment and supply chains" in response to U.S. tariffs.

European nations should not cozy up to a hostile adversary, the worst offender in terms of predatory economic policy, at the expense of our shared principles, economic independence, and collective security. It is foolhardy to claim that Chinese companies are better partners than American companies in any respect. Europe has a choice to make on China: join the United States in supporting fairness, reciprocity, and freedom or continue down a misguided path that risks the security and independence of its people.

"It is foolhardy to claim that Chinese companies are better partners than American companies in any respect."

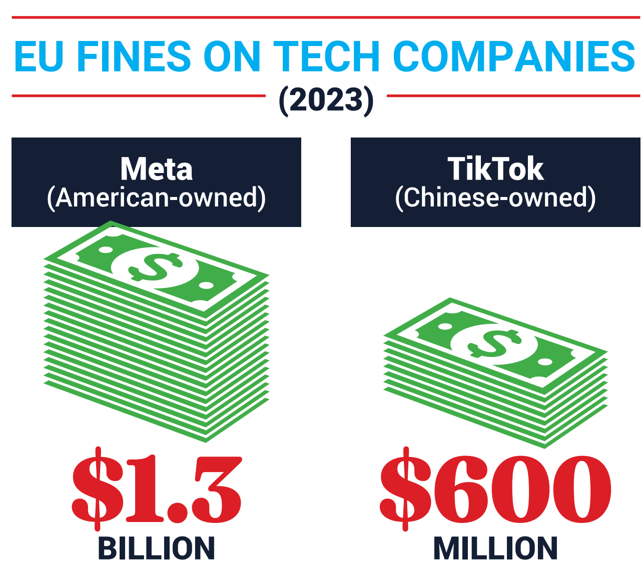
Keep Your Friends Close, and Adversaries Closer

The EU has a long history of targeting American companies with exorbitant fines and penalties far exceeding those levied on European companies. The four largest fines ever imposed for violations of EU laws were on American companies: Alphabet, Apple, and Meta.

Last March, the European Commission fined Apple €1.8 billion over App store rules for music streamers. Later that year, the EU's Court of Justice ordered the company to "repay" €13 billion to Ireland over supposed tax benefits.

Over the last decade, Google has been hit with €8.25 billion in penalties over allegations that it violated the EU's antitrust rules.

Meta was fined nearly €800 million last year by the EU for the way it operates its Facebook Marketplace service. Meta CEO Mark Zuckerberg called out these EU rules for acting "like a tariff" on American tech companies.



But while the EU puts U.S. companies in its crosshairs, the bloc has opted for a different approach with China. In 2023, the EU hit Meta with a $1.3 billion fine for sending data to the U.S. But when Chinese-owned TikTok sent personal data to China—a surveillance state—the EU handed out a $600 million fine, less than half of what it fined the American company. European regulators are in the process of preparing major penalties against Elon Musk's X.

Meanwhile the UK's Vodafone, one of Europe's largest telecommunications companies, was approved to merge with a telecom company owned by an individual accused of collaborating with the Chinese Communist Party. In Germany, the 25% state-owned Deutsche Telekom is tangled in a web of Chinese connections, through partnerships with China Unicom and China Mobile. French satellite provider, Eutelsat, also has an agreement with China Unicom since 2018 to provide services under China's belt and road initiative.

The contrast in treatment between friend and foe is not only stark, but contrary to the EU's long-term economic and security interests. Aside the insults of the EU's relatively generous treatment of China, the United States must absorb the costs the EU imposes through penalties and compliance with its draconian regulations. These added costs degrade the competitiveness of U.S. companies in global markets. The Computer & Communications Industry Association estimates that by 2030, the total loss of revenue attributable to EU digital regulations could amount to $2.2 trillion across the five largest U.S. tech companies.

The American Way

Much as our European partners would cast blame on U.S. companies for their own tech and telecoms' failure to compete, they have created an environment that stifles growth and innovation among their own companies.

America is home to the world's largest tech companies due to its "fostering an environment where innovation, consumer protection and economic growth can coexist and thrive." Out of the 50 largest tech companies across the world, 36 are American and only 3 are European, and out of 51 global unicorn startups that are valued at $10 billion or more, 30 are American and only 1 is EU based.

At an AI summit in France earlier this year, Vice President J.D. Vance warned European leaders against heavy regulation of U.S. tech companies and asserted that efforts to regulate AI could "kill a transformative industry." The Vice President also stated that the Trump Administration "cannot and will not accept" excessive regulation on "US tech companies with international footprints." He rightly called out the EU's DMA and DSA laws, underscoring President Trump's suggestion that tariffs on the EU and various member states could be viewed as an offset for digital service taxes imposed on American companies.

"America is home to the world's largest tech companies due to 'fostering an environment where innovation, consumer protection and economic growth can coexist and thrive.'"

President Trump has made clear that both tariff and non-tariff barriers must be addressed in the ongoing trade talks with the EU and European countries. It seems as though at least some of our allies are getting the message. After initially excluding digital services from the U.S.-UK trade deal framework, British Prime Minister Keir Starmer conceded that the topic was still on the table as the contours of a deal continue to take shape.

In a time of white-hot political debates in our nation's capital, the need to course correct the digital services tax regime is a "rare point of D.C. bipartisan consensus"—attracting the attention of not only the administration, but also members of Congress from both parties. It seems clear a recalibration is on the horizon, and our friends on the other side of the Atlantic would be wise to come to the table with serious proposals sooner rather than later.

"The Vice President also stated that the Trump Administration 'cannot and will not accept' excessive regulation on 'US tech companies with international footprints.'"

Conclusion

The United States has an opportunity to rebalance the U.S.-EU economic relationship in upcoming trade negotiations. As this report elucidates, ensuring true fairness and reciprocity in the partnership requires addressing non-tariff barriers in the digital sector.

Secretary Bessent has recognized the importance of fair competition in this industry, noting: "Some of the European countries have put on an unfair digital service tax on our big internet providers — France and Italy — other countries, Germany and Poland, don't have that. So, we want to see that unfair tax of one of America's great industries removed. It's going to be a give and take. They have some internal matters to decide before they can engage in an external negotiation."

Still, the United States cannot be too patient with our European friends. American companies are facing the harsh reality of burdensome taxes and regulations in the European markets every day, and European companies remain exposed to threats from Chinese companies operating in Europe.

Any deals reached with the EU and its constituent countries must include three main pillars:

1) **Stop Discrimination Against U.S. Companies:** The EU and member states must commit to immediately eliminating discriminatory laws, punitive taxes, excessive and unfair compliance fines, and politically driven investigations targeting U.S companies.
2) **Ensure Fairness in Digital Regulation:** The EU and member states should scrap unfair regulation like the Digital Markets Act and Digital Services Act and at minimum ensure unbiased, transparent implementation. Stop unfair gatekeeper and Very Large Online Platforms and Search Engines (VLOPs) designations, suspend enforcement pending proven neutrality, and protect U.S. companies from prejudiced regulatory treatment.
3) **Pause all New Discriminatory and Anti-Innovation Initiatives, such as Network Fees and Regulatory Overreach:** The EU and member states must explicitly suspend and reconsider the Digital Network Act, which seeks to transfer wealth from leading American technology companies to European companies that have failed to innovate. They must also commit to balanced implementation of the AI Act, neutral cybersecurity standards, and procurement rules that prevent unfairly targeting of U.S. firms and avoid exporting anti-U.S. regulatory models internationally.

The end goal should be a mutually beneficial economic relationship that encourages and embraces the proven principles of fair competition, open markets, innovation, and freedom. Only when this economic environment flourishes, in the United States and in the nations of Europe alike, will the citizens of these countries be able to truly thrive and prosper in this new digital age. The time for change is now. The United States and Europe must work together to make our partnership a true model for the world.

"Some of the European countries have put on an unfair digital service tax on our big internet providers. So, we want to see that unfair tax of one of America's great industries removed. It's going to be a give and take. They have some internal matters to decide before they can engage in an external negotiation."

- Treasury Secretary Scott Bessent