

## A proposal for an innovative 28th regime

Albert Bravo-Biosca

Innovation Growth Lab – Nesta & Barcelona School of Economics

*This proposal advocates for a "twin-track" 28th regime that moves beyond mere harmonisation to fundamentally reimagine the business regulation stack for the age of AI. Rather than settling for a "lowest common denominator" consensus among all 27 Member States, this approach would empower an agile group of forward-looking countries to prototype a "clean-slate", digital-first business regulation stack. This parallel track would remain compatible with, but go significantly further than, the proposed EU-wide harmonised 28th regime.*

For more than a decade, many of us have been advocating for the creation of a 28th regime for startups: a new business regime sitting alongside the 27 national regimes without replacing them. This regime would give new firms the option, but not the obligation, to operate under the same set of simplified rules and procedures across the EU, while still preserving the rights of member states over specific issues, such as tax rates or employment rights.

The current momentum behind this proposal is welcome. The concept now enjoys high-level political backing, with the European Commission, the European Council, and the European Parliament—alongside the entire European startup ecosystem—all actively pushing for it.

The devil, however, lies in the details. Much of the debate to date has focused on how to achieve harmonisation, and the pitfalls of using a European directive. Yet, a more fundamental problem persists.

Harmonisation alone is not sufficient; the 28th regime also needs innovation. Otherwise, we risk squandering a unique opportunity to fundamentally reimagine the business regulatory framework for the 21st century, leaving us stuck in a system inherited from the 19th.

### **Why we need to think about innovation**

Changing entrenched institutions, norms, regulations, and cultures is notoriously difficult. While reforming existing organisations remains necessary, often the most effective strategy is simply to create something entirely new alongside the existing structure.

Companies often create separate units to develop radical innovations, as a way to overcome the inertia that emanates from existing structures and legacy systems within their organisations.

As incumbent banks discovered when modernising their IT infrastructure, challenger banks held a critical advantage: they could start fresh with agile, digital systems, unburdened by legacy mainframe systems.

This "clean slate" approach could also be applied to regulatory reform. The 28th regime should be viewed through the same lens: a once-in-a-lifetime opportunity to fundamentally innovate how business activity is regulated, implemented, and enforced, thereby creating a newly designed business regulation stack from scratch that is fit for the digital age.

The business regulation stack is a system of multiple, overlapping, and interdependent rules and processes. A piecemeal approach to reform, which addresses each regulatory domain separately, severely limits any radical rethink. It also leaves the process more vulnerable to capture by incumbent regulators who, like all monopolies without competition, are fundamentally ill-suited to drive radical innovation.

Moreover, focusing on new firms avoids disruption for existing firms, thereby allowing more radical changes to occur. We all have ideas about what we would change if we could create a parallel system from scratch, such as: eliminating the equity-debt distortion in our tax systems; exploiting the digital and AI revolution to redesign processes; or rethinking contract enforcement to make it more effective, just to name a few.

Here is a thought experiment. Imagine you were given a blank piece of paper to design a new business regulatory stack. Would you end up with something similar to what we have today, or would you aim to do something radically better?

In recent years we have seen businesses creating new digital marketplaces and platforms. If you were to ask product designers at Stripe, Amazon, Wise, or SAP to design a new business regulation stack fit for the age of AI, what do you think they would come up with?

Or, alternatively, consider launching a Europe-wide "crowdlaw" challenge, inviting law students, ecosystem stakeholders, and digital startup founders to prototype this reimagined legal structure.

The outcome from any of these exercises would be markedly different, and superior, to both the business regulation stack we have today and the one that would emerge if we focused solely on the harmonisation of existing rules and processes.

### **A potential structure for the 28th regime**

A new, full-fledged 28th regime would operate on three tiers. The first tier would include domains, such as bankruptcy law, that would be fully harmonised. In the second tier,

definitions and processes would be unified, but countries would remain free to set specific parameters (e.g., a harmonised tax base but freedom to determine the tax rate). Finally, for the third tier, countries would retain absolute freedom to impose additional regulation in any other domain, but under one crucial condition: that entrepreneurs could access it and comply with it through a common EU-wide online platform.

The principle would be simple: no entrepreneur operating within this 28th regime could be forced to comply with any regulation if they could not do it through this online platform.

Fitting all existing rules and regulations for businesses in an EU-wide online one-stop shop sounds like an absolute nightmare. Yet, if business regulation has become so complex that even full-time bureaucrats cannot rewrite it to make it simpler and easier to access, then this is clear proof that it has also become far too complex for entrepreneurs to be able to comply with it, and consequently that radical simplification is urgently needed.

Freeing entrepreneurs from having to comply with regulations not accessible and actionable through this new platform effectively creates a de facto sunset clause on all existing rules and regulations. Crucially, this approach immediately flips the default, forcing governments to revise and update current rules, but only where they are still needed. Fortunately, the advent of AI has made the immense task of reviewing and codifying thousands of pages of existing rules significantly less burdensome.

On a more practical level, this online one-stop platform would also compel governments to upgrade their internal IT systems to ensure interoperability (through APIs or similar means). This transition would inherently drive internal systems change across different levels of government, resulting in IT platforms that meet citizens' service expectations, thereby eliminating the often suboptimal and clunky user experience still prevalent in many government online services when contrasted with private sector commercial platforms.

Requiring governments to modernise their IT systems and introduce APIs may seem radical to some, but it simply extends the Interoperable Europe Act and mirrors the EU Open Banking and Open Finance legislation, which required financial providers to set up APIs enabling citizens to manage their finances through third-party providers.

Crucially, the one-stop platform would be flexible by design, ensuring it can accommodate governments with different levels of IT maturity. This would range from those capable of providing a transparent and reliable AI-chatbot for a rapid, comprehensive assessment of legal obligations and regulatory requirements for a specific business or new product offering (or even an AI agent to help comply with these), down to those governments offering only a shared drive with PDFs of the different norms and regulations alongside an email consultation service.

There would be additional benefits too. This EU-wide online platform would encourage not only simplification but also transparency. It would provide real-time data for all jurisdictions on all the rules and procedures that are in place, alongside the time it takes to

comply with them. This would provide a much more fine-grained and up-to-date version of the World Bank's "Doing Business" ranking, which by raising awareness and creating some competition has been very effective at encouraging behaviour change among governments.

### **How (not) to get there**

Unfortunately, innovation and consensus are rarely compatible. This ambitious vision will not be feasible if 27 member states need to agree on it. It would also remain extremely difficult even if the expectation were that "only" a very large majority needed to agree to it.

Instead of aiming for the lowest common denominator that all (or most) member states can agree on, we should consider allowing a small, agile, and committed group of member states to take the lead. This group would work with designers and technologists—not just lawyers—to create a novel system from the ground up that others could choose to join later. This effort could either replace the existing approach the EU is following (i.e., seeking either unanimity or an enhanced cooperation with most countries participating) or, alternatively, be pursued in parallel with these other EU-led efforts. This parallel track would involve a small number of innovative, forward-looking countries designing a compatible regime that goes further ahead, and is flexible enough to accommodate other countries in the future.

A "twin-track" 28th regime would therefore allow the EU to advance towards a basic harmonised regime for all Member States, while simultaneously enabling the launch of a more innovative, ambitious and effective business regulation stack for those countries willing to move faster—showcasing the long-term vision and demonstrating its value and impact for others to eventually follow.

This more innovative 28th regime is an ambitious undertaking, akin to the launch of the Euro, and will inevitably take time. It will also demand immense political will to overcome vested interests and accommodate diverse views across Europe.

If necessary, some of the platform's more radical features could be temporarily relaxed during the transition period to allow member states sufficient time to adapt their internal systems. For instance, participating countries could temporarily opt out from the requirement that only regulatory obligations included within the one-stop platform are enforceable. Should they do so, businesses would still remain subject to other rules outside the platform during the transition phase (even though this exemption would make the opt-out countries a less attractive destination for innovative startups).

In the interim, European governments could take other steps to make it easier for European startups to scale across borders. For instance, member states could unilaterally create an FDI sandbox (or startup visa) for startups from other EU countries. This system would grant startups from other member states the right to operate locally under their country-of-origin rules for a set period (such as three years). By reducing market entry

frictions, this mechanism would enable startups to test their market fit and scale faster, while creating new jobs in the host country.

### **Why it is worth it**

Creating a 28th regime is not a small undertaking, but the rewards are clear.

First and foremost, the 28th regime would reduce the fragmentation of Europe's internal market, which currently hampers long-term economic growth. Not only is it still very difficult for European entrepreneurs to take full advantage of a potential market of 450 million customers, but it is also challenging for companies from different countries to work together, since both regulation and enforcement are fragmented along national lines. For instance, enforcing a contract if a cross-border collaboration fails may require using another country's courts (with all the complexities this entails in practice). A 28th regime that incorporated both regulation and enforcement would make it easier for firms to work with international partners, enabling them, for instance, to undertake the key relationship-specific investments that underpin innovation and complex products.

A 28th regime would also create a much less fragmented market for business services providers—from IT to accountants to lawyers—leading to greater services innovation and better solutions. A 28th regime would also facilitate the development of Europe-wide financial intermediaries and significantly increase cross-border investment, since currently business angels, venture capital funds, or specialised mezzanine finance providers interested in cross-border investment need to dedicate substantial effort to understand the local regulatory environment and its impact on their returns (from taxation to bankruptcy procedures among several others). In summary, a 28th regime would make scaling new businesses and new ideas across Europe's member states easier by providing greater access to markets, increasing access to finance, and enabling better business services.

A 28th regime could also contribute to addressing competitiveness differentials across the EU, many of which stem from a business environment burdened by substantial regulatory barriers to growth (as evidenced by the significant disparity in the average size of businesses across European countries). While the conditionality embedded in the Recovery and Resilience Facility (RRF), and its intended continuation in the new Multiannual Financial Framework (MFF), can incentivise growth-enhancing reforms, institutional inertia will continue to hamper progress in many areas. Crucially, there is a practical limit to what external pressure can achieve, and it is simply not possible to "outsource" business regulation and enforcement to countries with better institutional frameworks.

This is precisely why starting from scratch with a parallel regime provides an alternative to attempting to fix entrenched national regulatory systems. By offering entrepreneurs an opt-out option, the 28th regime would free businesses in some countries from the burden

of their inefficient domestic regulatory frameworks, allowing them to thrive. Furthermore, this choice introduces regulatory competition, placing additional pressure on national governments to reform (while avoiding a race to the bottom). The result would be a sustained improvement in European economic competitiveness, which is essential for preventing future divergence and guaranteeing the long-term sustainability of the Euro.

The 28th regime outlined here represents a more ambitious vision than the models currently being discussed, yet the core spirit remains the same: to make it easier for startups to thrive, reduce competitiveness differentials, and increase long-term growth in Europe, to the benefit of all European citizens. Building a more competitive Europe where startups flourish is entirely possible, but only if governments choose innovation over inertia.

Note: This note builds on a [proposal for a 29th regime originally written in 2014](#). While the context has changed, the rationale for pursuing an initiative such as this one continues to be valid.