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by bitkom

Sovereignty Through Effective Startup and Scaleup Policy

Visions for the EU Mandate 2024 - 2029

At a glance

Towards a Scaling Union

Initial position

On July 18th, Ursula von der Leyen was elected the President of the European Commission. In her political guidelines, the foundation of her second legislative term, von der Leyen emphasizes her commitment to strengthening the European innovation ecosystem and announces the beginning of an "Investment Commission". She recognizes the structural needs for better integrating Europe’s financial markets and de-risking private investments. This clear positioning can be seen as part of a broader, lively, and extremely important debate on the future competitiveness of the European Union. Enrico Letta and Mario Draghi have provided further important impulses with two detailed reports. In this paper, we would like to set out our views in the form of a strategic roadmap for the next legislative period.

Bitkom rating

While we very much welcome Ursula von der Leyen's emphasis on shaping future legislation with startups and scaleups in mind, we have seen similar promises before. To truly deliver on her commitment, von der Leyen needs to develop a detailed and strategic approach to startup and scaleup policy. So far, there are too few answers to many open questions. This paper highlights our key recommendations for her term.

Most important takeaways

- **Harmonizing Europe**

  Harmonization is key to removing barriers and allowing companies to tap into a market of 450 million potential customers across the Union without maintaining artificial barriers. This harmonization should be comprehensive, from a uniform definition of startups to a fully integrated Capital Markets Union.

- **Crafting a convincing strategy**

  A comprehensive and coherent strategy for startups and scaleups is needed to fully unlock Europe's potential. Such strategy should include measures to expand research transfer, streamline funding and IPO processes, introduce an EU-wide legal form for startups, attract top talent and overhaul public procurement. This way, we can build a thriving ecosystem.

- **Closing the funding gap and fostering innovation**

  Europe faces major challenges in bridging its funding gap. While we currently invest significantly less in scaling our startups compared to China and the US, the EU carries immense potential to change this. By providing more support for university spin-offs, increasing funding for high-growth companies and encouraging more expertise in funding disruptive technologies, Europe can lead the way in building a more competitive startup ecosystem.

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1 Introduction

Challenges in the EU's startup and scaleup policy

Startups are at the vanguard of technological progress, job creation and economic growth - in Europe and beyond. They are indispensable in tackling our most pressing challenges, from healthcare to climate change to the fight against disinformation. However, the path to scaling such ventures in Europe is paved with obstacles. Startups still face the disadvantage of a highly fragmented internal market compared to competitors from China or the USA. The EU wastes too many opportunities through unnecessary bureaucracy and narrow-mindedness.

As of today, only 12 of the world's 100 most valuable tech companies were founded in the EU.[1] Of the 50 largest technology companies in the world, only four are European.[2] Europe has not produced a single technology company with a turnover of 100 billion USD, in the last 30 years.[3] This comes with dependencies and a very real loss in economic influence. Since 1992, the EU's share of global GDP has declined from 29% to 17%.[4] To reverse this trend, we urgently need more successful startups and scaleups. This, however, will only work with a modernized regulatory framework.

A majority of founders like to see uniform funding programs, better access to venture capital - and a genuine single market.[5] Especially the huge investment gap frequently pressures European companies into turning to other markets for funding opportunities, diverting the benefits of innovation away from Europe. Furthermore, Europe is experiencing a severe shortage of tech talent in future relevant industries, limiting its innovation and competitiveness. Further aspects concern, e.g., Europe's low patent activity and public procurement.

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[1] https://www.forbes.com/lists/global2000/#header:marketValue_sortreverse:true
[2] https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en
[3]https://www.realclearworld.com/articles/2024/04/26/rather_than_innovating_on_its_own_europe_is_kneecapping_american_tech_1027651.html#:~:text=Europe%20hasn't%20produced%20a,U.S.'%20largest%20four%20tech%20companies.
[4] https://www.reuters.com/breakingviews/what-do-about-eus-relative-decline-2024-04-22/
[5] https://www.bitkom.org/Presse/Presseinformation/Was-deutsche-Startups-von-EU-erwarten

2 Adaptation of a Uniform Startup Definition

Why it matters what we are talking about

Every policy starts with a uniform and consistent definition, ensuring coherent and precise data and a clear understanding of concepts. It prevents vagueness and ambiguity, misunderstandings, and misinterpretation. Clear definitions provide a framework that contributes to effective research, communication, and legislation.

Therefore, a harmonized and standardized definition of startups throughout the EU would be of great benefit, as it brings clarity to policymakers and researchers. It would further streamline regulatory and financial support systems, create a more innovation-friendly environment, and allow for accurate measurement and comparison of startup ecosystems across the EU.

Currently, startups are mostly treated as SMEs due to their early stage, size of employees, and revenue. However, not every SME is a startup. Unlike typical SMEs, startups are characterized by a high degree of risk and the aim to develop and introduce innovative products, services, or business models to the market and/or be highly scalable.

We suggest the following key criteria for a uniform EU startup definition:

1. **Independence**: The company is not a spin-off from an existing company or organization. It must operate as an independent entrepreneurial initiative with its own visions and goals. The original founders or the founding team maintain significant control over the company.
2. **Age:** The company is typically less than 12 years old, based on industry consensus and the average time to IPO.
3. **Aim to scale:** The company must aim to scale. That involves growth by adding revenue, expanding the customer base and increasing employee headcount at a rapid rate.
4. **Innovative spirit:** The company aims to create entirely new categories of goods and services or disrupt existing ways of thinking and/or doing business.

3 EU-Wide Legal Form

Scaling business, bridging borders

In their proposals, Ursula von der Leyen, Mario Draghi and Enrico Letta emphasize the goal of giving companies the opportunity to grow beyond national borders by harmonizing legislation. Ursula von der Leyen advocates the introduction of a new EU-wide legal framework, the “28th regime”. This regime would exist alongside national laws and offer companies the opportunity to adopt a single set of rules simplifying contracts and legal relationships throughout all EU member states.

Mario Draghi goes one step further by explicitly advocating the creation of a new European company type, the “Innovative European Company” (IEC). This legal form would provide startups with a single, EU-wide recognized digital identity. The IEC would streamline business operations by providing access to harmonized regulations in key areas such as corporate governance, insolvency, and potentially employment law and taxation.

We fully support these initiatives, and particularly the IEC concept. Below we have outlined the key features that we believe are essential for this new corporate structure to realize its full potential.

Creation of an EU-wide legal form of business for startups:

1. **Allow easy transition into an Innovative European Company:** The EU must offer a straightforward, centralized, and digital registration procedure providing companies with low-barrier access to this legal entity valid in all EU member states.
2. **Supercharge flexibility:** The IEC should offer maximum flexibility in structuring business activities so that companies can adapt their business models to local markets without having to set up new legal entities in each country.
3. **Develop a common corporate tax base and simplify transferability of shares:** So far, Draghi has not been particularly specific on taxation. Although this remains a sensitive area, we believe that the IEC should provide startups with a simplified tax system or guidelines to harmonize certain aspects of taxation across member states. This would reduce the burden of tax compliance and incentivize cross-border expansion. Furthermore, IEC should profit of a simplified transferability of shares.
4. **Streamlined digital reporting and compliance:** To reduce the administrative burden for startups, the IEC should introduce uniform, digital reporting standards for EU compliance. This could include a central platform for financial reporting, tax returns and regulatory filings, allowing companies to meet their obligations in multiple member states through a single, harmonized digital system, minimize unnecessary paperwork and help startups focus on their growth.

4 Capital Markets Union

The long-held dream of a European Capital Markets Union

The free movement of capital has been one of the four fundamental freedoms of the EU since 1994. However, more than 20 years after the introduction of the euro, the European capital markets remain highly fragmented. According to the European Central Bank, the financial integration has seen “no sizeable increase since the inception of Economic and Monetary Union”.[6] Despite repeated claims by leading European politicians, a genuine single market for capital has yet to be established, even though, it holds immense potential for startups, scaleups, and the broader EU economy. A genuine Capital Markets Union could help strengthening the financial system and make it more resilient. It further carries the potential to unlock vast pools of private savings and to channel them into productive investments. Currently, 11 trillion EUR of European household wealth is held in low-yield instruments such as bank deposits and cash.[7] By creating a more integrated and liquid capital market, these funds could be mobilized into higher-yield investment vehicles such as venture capital. This helps European firms compete more effectively globally. The first attempt to launch the Capital Markets Union began in 2015 with the European Commission's first action plan. Although many of the Commission's initiatives have been implemented since, the financing structure in the EU has not fundamentally changed and fragmentation of the capital markets remain. Therefore, we call for targeted measures to turn these ambitions into tangible results.

To achieve a genuine CMU, the EU needs to undertake the following steps:

1. **Overcoming the fragmentation**: Number one priority must be to eliminate the fragmentation caused by national insolvency and tax laws. The transition to a single set of rules for companies in all Member States is key. Harmonization in these areas will create deeper, more integrated capital markets that enable smoother cross-border trade and improve access to finance for companies.

2. **Take down barriers:** Pension funds and insurers are important players in completing the CMU. Europe must enable them to transition money into financing our digital and climate transition.

3. **Turn momentum into effective CMU agenda:** The EU must take advantage of the current political momentum and set measurable targets and a concrete timetable for implementation. This requires coordinated efforts between the Member States, the EU institutions and the private sector to drive forward long-delayed reforms.

[6] https://www.ecb.europa.eu/pub/pdf/fie/ecb.fie202406~c4ca413e65.en.pdf
[7] https://ec.europa.eu/economy_finance/forecasts/2024/winter/03%20-%20Household%20savings.pdf

5 Public Procurement

Buying from startups

Public procurement is not just about how you buy, but increasingly about what you buy and from whom. It is an essential tool to pushing the green and digital transformation and to create a more resilient, independent, and future-proof Union. However, startups often face challenges in accessing fair opportunities in public procurement. The processes are oftentimes too complex and the tendering phase too resource-intensive for startups to go through. Hence, many promising companies struggle to secure their first big customers, especially in the public sector, which can be an important market. Despite obvious synergies, there is a lack of policies in the EU that encourage public institutions to involve startups.

As pioneers of innovation, startups often bring a more agile mindset to the market and offer a new perspective on how a public need or policy problem can be met. But it is not just the public that benefits from startup involvement. Innovative companies get the opportunity to test their new products under real-life conditions so that they can implement their solutions and increase their impact on a broader scale.

How to foster collaboration with startups:

1. **Encourage innovation and accessibility in tenders**: Public tenders should focus on defining the problem rather than dictating solutions, allowing innovative companies to propose unique approaches. To further increase accessibility for smaller businesses, tenders should be divided into lots, with limitations on the number of lots awarded to a single bidder, ensuring that startups and SMEs can participate more effectively.

2. **Streamline procurement processes and reduce administrative burdens:** Simplify procurement by allowing startups to reuse previously submitted data through a one-time European Single Procurement Document. Additionally, reporting requirements should be minimized to essential elements, with fewer meetings and simplified payment plans, helping reduce the administrative load on startups and smaller companies.

3. **Facilitate startup participation through tailored contracts and IP protection:** Public procurement contracts should be structured to accommodate smaller companies by offering shorter and smaller contracts that suit their capacities. Furthermore, intellectual property rights should be clearly allocated upfront in the tender documents, ensuring that startups retain ownership of their innovations.

6 Expanding Research Transfer

The spin-off issue

The EU is home to numerous world-leading research institutions, as well as young, well-educated, highly talented students. The EU is also home to venture capitalists, ready to capitalize on these potentials. What seems like the perfect breeding ground for innovation and tech champions fails to meet the expectations. Instead of benefiting from institutional support, researchers trying to start a business find themselves lost in bureaucracy. Intellectual property rights negotiations with university technology transfer offices can be one-sided and exhausting. Additionally, VCs often express concerns about the limited entrepreneurial skill within EU-trained academic teams due to the lack of entrepreneurial culture within the institutions they emerge from. This might also be the reason only 12% of European company founders hold a PhD, compared to 31% in the US. In 2021, Stanford University launched 25 new companies based on Stanford technologies, with options or licenses. In that year, Stanford held shares in 256 companies under license agreements and the liquidation of investments in 22 companies generated 51.9 million dollars for the university.

Turning to Europe, specifically Germany, there is broad consensus that universities hold untapped market potential. However, many prioritize teaching and research over creating academic spin-offs. This de-prioritization of knowledge transfer goes against the goals of European research programs such as Horizon Europe. Moreover, academic research funding is frequently disconnected from market applications, and regulations on equity stakes for academics in startups are restrictive. We therefore welcome Mario Draghi's proposal to expand Horizon Europe from €93.5 billion to €200 billion and refocus it on financing more disruptive innovation.

To expand research transfer, the EU needs to undertake the following steps:

1. **Standardize IP transfer processes:** The EU should create a structured, streamlined IP transfer protocol, standardized contract templates, and tools such as the "IP-Scorecard" for market valuation and the "IP-Wahl-O-Meter" to assess IP situations, ensuring transparency and consistency. It also might make sense to encourage universities to adopt IP-for-shares models, mitigating liquidity issues for startups while allowing universities to benefit from the economic success of spin-offs.

2. **Deal Database for IP:** Europa should create a platform allowing companies and research teams to list their IP assets, making it easier for investors to assess, value, and invest in innovative projects.

3. **Foster entrepreneurial culture and interdisciplinary:** Implement training programs and workshops to help students and academic researchers transition from individualistic work styles to collaborative, team-oriented approaches. Moreover, establish modules strengthening skills essential for successful spin-offs and entrepreneurial ventures, particularly within STEM disciplines.

7 Streamlining Funding

More money, more unicorns

Europe faces significant challenges in bridging its funding gap. Compared to China and the US, the EU spends strikingly less money on the growth of its startups. Over the last ten years, venture capital investment in the EU has averaged just 0.3% of its GDP, less than a third of the average in the US. During this period, US venture capital funds raised 800 billion dollars more than their European counterparts.

The funding gap becomes even clearer when we take total private AI investment as an example: According to the Stanford AI Index, private AI investment in the US between 2013 and 2023 totals USD 335.2 billion, followed by USD 103.7 billion in China and USD 22.3 billion in the UK, while Germany, France and the rest of the EU together are investing less than the UK alone. In addition to the lack of support for university spin-offs mentioned in chapter 5, the low availability of sufficient funds to support high-growth companies during their scaling phases remains worrying. In particular, research-intensive deep tech startups working on disruptive technologies and new technical approaches need a lot of long-term capital to bring their products to market. Very few investors in the EU are prepared or able to take such risks, the weak attractiveness of European exit channels, such as IPOs or strategic acquisitions, further limits their access to significant funding.

How the EU can secure more money for its startups:

1. **Boost funding for tech startups and scaleups:** It will be crucial to mobilize European pension funds to increase their investments in the European tech ecosystem. European regulators need to create a framework that incentivizes fund managers to spend their money where it is needed and where it will be most profitable in the long term.
2. **Reduce regulatory and tax frictions**: The venture capital sector is characterized by high risk and uncertainty. Well-designed preferential tax treatment for equity investments in startups and venture capital funds specializing in key future technologies could help to manage the flow of money effectively.
3. **Activate institutional investor:** Compared to the US and China, significantly lower per capita investments are made in VC, although there is enough capital available to finance innovations comprehensively. A key factor here is the role of institutional investors, which play a important role in the development of the venture capital sector in other countries but are not yet as active in the EU.
4. **Attractive Exit-market:** Listing in the EU is not only expensive, but also characterized by bureaucratic disparities. The ongoing listing requirements costs pose significant challenges to startups. We must advocate more attractive IPOs, less bureaucracy and more volume and liquidity on the public capital market.

8 Talents

Europe's got talent?

Talented people are the central building block of every startup ecosystem. At the same time, many European countries face a severe labor shortage – especially in IT, turning recruitment into the number one challenge for EU startups. While the demand is steadily increasing, we lack skilled professionals. This is not only due to restrictive migration policies but also a severe brain drain. The European Commission estimates that approximately 15 percent of highly skilled European professionals have migrated to other regions of the world, mainly to the United States.

This enormous demand for IT specialists cannot be met by domestic talent alone. European companies are becoming increasingly depended on international talent. Hence, we must step up our efforts to create the best conditions for foreign IT professionals and international students in the EU. This includes reducing bureaucratic hurdles, simplifying processes and welcoming skilled workers and their families. The countries differ enormously. While some EU countries grant visas to skilled workers above a certain salary level, others allow hiring when a company proves that it is innovative, by e.g. its membership in a startup association. In addition, the timelines for effectively obtaining visas vary from country to country and within countries, making the process lengthy and uncertain. The EU needs an agenda that wins the international battle for top talent. By creating a more ambitious, compelling and supportive environment for skilled professionals, Europe can not only retain its most brilliant minds, but also become a destination of choice for global talent.

How Europe will win the battle for international top talent:

1. **Make Europe number one destination for IT professionals:** The EU should enact a unified tech talent visa for foreign workers, presenting itself as the most attractive global destination. Startups will particularly benefit from contracts and fast-track visa schemes that already exist in Europe, but which are not harmonized yet.

2. **Let them know how great it is:** We need effective location marketing for the EU abroad, highlighting political security, high wage levels, and efficient healthcare systems. A clear image of the EU as an immigration-friendly region and the strengthening of a welcoming culture would help EU startups stand out in the global war for talent.

3. **Promote remote work:** The EU should prioritize measures to promote cross-border remote work so that companies can hire top talent regardless of their location.

4. **Let them be part of the success:** Moreover, we urge the EU to focus on the harmonization of Employee Stock Option Plans (ESOP), which increasingly constitute a pivotal element in both attracting and retaining the industry's top talent.

9 Clear Responsibility Within the Commission

Who's in charge here?

As we have seen at this point, startups and scaleups in the EU face significant challenges from financial hurdles to a highly fragmented regulatory landscape. However, there has not been a dedicated EU office responsible for high-growth and high-potential companies yet. Policies directly affecting startups are crafted by various departments, leaving founders behind without a single point of contact, and thus without a single advocate for their concerns within the institutions.

Clearly defining responsibility for SMEs and startups within the European Commission would be a decisive step towards von der Leyen's commitment to building a genuine "Scaling Union". Not only does it have an important symbolic impact as it would signal acknowledgement of the importance of startups and scaleups at the highest political level. It also possesses the potential to significantly boost the performance and growth of these companies across Europe. Given the challenges discussed through this paper, there is no feasible alternative to establishing a single point of contact - an internal advocate representing the interests of SMEs and startups. This would ensure that their needs are prioritized in both policy development and implementation and help to create a supportive and dynamic environment for innovation and growth.

Such a person must be entrusted with the following tasks:

1. **Be the voice of startups and scaleups:** The Commissioner will be an internal advocate for startup and scaleup interests as well as their single point of contact and main addressee. Furthermore, they will provide technical advice to the European Commission and other EU institutions on issues related to the startup and scaleup ecosystem, helping shape policies that create a favorable environment for innovation and economic growth.
2. **Build strong European ecosystems:** By strengthening partnerships with national and regional bodies, they ensure coordinated efforts. Instead of creating new structures, the new commissioner should build on existing structures such as the ESNA and integrate resources and expertise more effectively.
3. **Design and implement a convincing strategy:** We have made the case for many concrete measures in this paper. It is now time to bring these together in an overarching strategy.

Bitkom represents more than 2,200 companies from the digital economy. They generate an annual turnover of 200 billion euros in Germany and employ more than 2 million people. Among the members are 1,000 small and medium-sized businesses, over 500 start-ups and almost all global players. These companies provide services in software, IT, telecommunications or the internet, produce hardware and consumer electronics, work in digital media, create content, operate platforms or are in other ways affiliated with the digital economy. 82 percent of the members' headquarters are in Germany, 8 percent in the rest of the EU and 7 percent in the US. 3 percent are from other regions of the world. Bitkom promotes and drives the digital transformation of the German economy and advocates for citizens to participate in and benefit from digitalisation. At the heart of Bitkom's concerns are ensuring a strong European digital policy and a fully integrated digital single market, as well as making Germany a key driver of digital change in Europe and the world.

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