

## **Making Europe a Continent of Opportunity for Innovative Startups and Tech Champions**

*Feedback from the German Startup Association on the EU Startup and Scaleup Strategy*

The Draghi report has already demonstrated that startups and scaleups are essential for the EU's capacity for innovation and future competitiveness. Furthermore, we agree with the hurdles identified in the Commission's call for evidence that small innovative companies in the EU face a number of barriers linked to a still fragmented single market, limited access to finance, talent and markets as well as excessive regulatory and administrative burdens and barriers in the research and technology infrastructure, particularly for DeepTech startups. In order to strengthen our European startup ecosystem, we need to place a focus not only on making it easier to start off a new business and gain access to the necessary capital and market but we need to place a particular focus on scaling companies and their needs in terms of talent acquisition, growth capital and fair competition. Only then can we utilise the immense potential of startups and scaleups to make Europe more competitive, prosperous and retain and obtain global leadership in critically important technologies. As a kick-off for the EU's new focus on startup and scaleup policies, we would welcome the organisation of an EU Startup Summit that gathers and connects the wider EU startup and scaleup ecosystem in an in-person event in Brussels.

To transform Europe into a continent of opportunity for innovation, we believe the following points should be integral to the new EU Startup and Scaleup Strategy:

### **Strengthening Financing Opportunities**

To drive innovation and secure the prosperity we have built, we need a strong startup and investment ecosystem. Growth capital for the early and late development phases of startups is a fundamental requirement. While there have already been many positive developments in early-stage financing, we continue to observe a significant funding gap in the later development phases. Our members cite the lack of access to finance as the biggest obstacle to their development. The EU Commission therefore needs to:

- Mobilise more private institutional capital for late-stage funding, e.g., by involving insurance companies and pension funds more actively. Inspiration could be taken from the "Wachstumsfonds Deutschland" ("Growth Fund

Germany”), one of the largest VC fund of funds ever to be set up in Europe (see [here](#) for details).

- Create incentives for investments of both retail and institutional investors in European companies by working towards a tax and regulatory environment that removes barriers to the existing investment flow.
- Ease the investment restrictions for institutional investors, among other things, through efforts to reduce the capital requirements for insurance companies (Solvency II) and banks (Basel IV).
- Increase transparency in the venture capital asset class and better communicate performance data to potential investors in order to incentivise investment and build confidence in the asset class. The European Investment Fund (EIF) data should be published to support this goal.
- Make EU funding programmes more easily accessible and cut red tape in the application processes so that startups with limited resources have a better chance at participating.
- Increase funding opportunities for innovative business models without a regulated market, for instance in ClimateTech, and establish equity-free early-stage programmes, such as startup grants.
- Improve financial literacy among EU citizens as today, 72% of European citizens are not investing in any financial products, and most choose to stay away from riskier investments.

### **Making Exit Channels in Europe More Attractive & Retaining Growth Companies**

It is essential to further deepen the European capital market and implement the Capital Markets Union. Currently, with 35 exchanges in Europe (compared to three in the USA), there is a high level of complexity and a lack of transparency for institutional investors. In particular, trading activities are spread across too many trading venues compared to the USA, with more than 200 in Europe (versus 50 in the USA). This leads to avoidable fragmentation of liquidity, which ultimately contributes to lower company valuations and impairs international competitiveness. The EU Commission therefore needs to:

- Address remaining inefficiencies in the EU’s capital markets by reducing the fragmentation of European stock exchanges and strengthening exit channels, for instance in the context of the planned EU strategy on the European Savings and Investments Union.
- Harmonise and simplify listing requirements and reporting standards across EU markets in order to create a more seamless and efficient investment environment.

- Eliminate cross border transaction costs for equity investment by lowering tax barriers to cross border transactions in financial equity with a view to decreasing transaction costs.
- Increase efforts towards creating a harmonised insolvency framework as the currently fragmented framework leads to complex insolvency procedures and prevents the liquidation of failed ventures.

### **Attracting the Brightest Talent to Europe**

The shortage of skilled workers plays a particularly crucial role in the startup sector. As innovative growth companies, startups are building something new and need the best minds to do so. On their path to becoming internationally operating scaleups, they compete globally with leading tech companies for talent. This leads to high costs and often results in important positions being unfilled or filled too slowly. The EU Commission therefore needs to:

- Harmonise employee stock option regulations across Europe and strengthen EU labour mobility, e.g., by improving cross-border coordination of social security systems.
- Take steps towards making labour (protection) law more flexible towards a self-determined and flexible maximum number of hours per day or week without strict break regulations.
- Harmonise rules for remote work across the EU by ensuring legal certainty for employers in terms of taxation, avoiding double taxation and reducing additional administrative burdens.
- Urge Member States to streamline and debureaucratise visa processes and to expedite the mutual recognition processes for qualifications acquired in other EU Member States or in third countries.
- Support an EU Tech Skills Acquisition Programme to attract global tech talent.

### **Improve Single Market Access for Startups and Scaleups**

For more than three decades now, the EU single market has been a driver of economic growth and has made the lives of EU citizens and businesses easier. However, in many aspects, the EU remains fragmented along national lines which creates barriers to economic integration and hinders the completion of a true “Single Market”. The EU Commission therefore needs to:

- Continue efforts towards harmonisation and uniform implementation of existing legislation, for instance in the single market in banking and

financial activities, by creating common standards with the goal of reduced compliance and regulatory burdens for businesses operating nationally or trans-nationally.

- Introduce an EU-wide legal status ("28th regime") for innovative companies and simplify and streamline the processes for setting up a company in the EU.
- Refrain from institutionalising overly restrictive definitions of startups and scaleups that run the risk of excluding large numbers of growth companies from funding programmes and regulatory exceptions.
- Promote European matchmaking programmes to enable startups to network with established businesses.
- Establish specialised landing pads for international startups and scaleups, with access to office space, networks and targeted advice on expanding into (other) EU countries.

### **Ensuring Fair Competition & Strong Oversight**

A functioning democracy and an innovative, growing economy require equal opportunities. Therefore, the EU must ensure suitable framework conditions for fair competition. For startups and scaleups, market access is crucial, as only fair competition allows them to compete against established companies and successfully position their innovations. A vigorous competition policy is therefore vital for preserving and expanding Europe's innovative capacities and should thus be considered an inherent component of the EU's economic policy strategy. The EU Commission therefore needs to:

- Effectively enforce the Digital Markets Act (DMA) and Digital Services Act (DSA) to establish a level playing field for innovative European startups and scaleups.
- Designate major cloud services and Large Language Models (LLMs) that reach the established threshold values as gatekeepers, ensuring smaller companies have access to aggregated customer behaviour data.
- Support Member States in the consistent implementation of the AI Act, adequately staff national regulatory authorities, and ensure their operational capacity.

### **Significantly Reducing Bureaucratic Burdens**

According to the German Startup Monitor, 72,1 percent of founders in Germany believe that the EU focuses too much on regulation in its innovation policy. Startups often struggle navigating the EU's complex regulatory landscape frequently

accompanied by overlapping policies and high compliance costs. In the digital space, the GDPR has led to a significant increase in bureaucracy that particularly burdens smaller companies and often results in reduced profits and uses up company resources. Furthermore, overlapping requirements between GDPR, DSA, DMA and the AI Act create confusion about compliance obligations, with the AI Act requirements being in potential conflict with existing GDPR principles for data processing. A significant reduction of bureaucratic obstacles and reporting requirements and a stronger focus on enabling innovation is therefore crucial. The EU Commission therefore needs to:

- Effectively implement the new simplification packages in order to achieve a tangible reduction in reporting requirements (25% for all companies and by 50% for smaller companies as per the recommendations from the Draghi report).
- Conduct a stress test on the existing EU Acquis to identify and eliminate excessive bureaucratic burdens, such as legal requirements for notarial involvement for early-stage companies.
- Revise the definition of undertaking in difficulties within state aid rules under the General Block Exemption Regulation (GBER) in order to facilitate access for promising startups to receive the necessary financial aid.

### **Avoiding Overregulation in the Digital Space**

Europe needs a stable and predictable framework to ensure innovation and competitiveness in the digital sector. That is why we will support the Commission's plans for a European Innovation Act that will pave the way for innovation and scaling "Made in Europe". In light of the regulatory density in the digital sphere due to numerous horizontal laws that were adopted in recent years, we believe that there is no need for further EU digital legal acts until existing regulations have been successfully implemented, anchored in the administrative structures of authorities and companies and evaluated after a couple of years of implementation. The EU Commission therefore needs to:

- Ensure consistent and uniform implementation of recently adopted EU digital laws and establish clear and innovation-friendly oversight structures
- Avoid introducing additional EU digital regulations until existing legislation has been implemented and evaluated.

## **Strengthen Innovative Companies through Easier Access to Public Contracts**

Public investment is essential when it comes to facing the challenges of the green and digital transitions and the creation of a more resilient economy in the EU. As standard bearers of innovation, startups can bring significant innovation into the public sector. In a time where the EU faces unprecedented global challenges posing serious questions about longstanding alliances and dependencies, Europe must have a strong and determined answer true to the motto “Europe United”. A strong and united Europe relies on its countless innovative startups and scaleups and the innovative solutions and specialised knowledge they can bring to both the private and public sector. A modern and inclusive procurement system that allows for fair access of (younger) innovative companies should thus be at the heart of European innovation policy. The EU Commission therefore needs to:

- Simplify and digitise public procurement regulations to allow for European startups and scaleups to have a fairer chance, for instance by taking into account the innovation performance of a tender instead of solely focusing on costs.
- Foster a pro-innovation mindset in public administrations and authorities in order to facilitate an easier access for fast growing and innovative European digital companies to public tenders.

## **Increasing Transparency and Participation in Legislation**

Startups and scaleups across the EU often have limited resources – in terms of finances, time and staff – which makes it more difficult for them to actively engage as stakeholders and contribute their expertise to EU decision-making processes. Currently, the EU Commission’s consultation processes often involve very extensive questionnaires, and their publications often do not reach the necessary audiences across Europe as they are published on a relatively unknown Commission website. Moreover, oral hearings and opportunities for a personal exchange are not the norm. The EU Commission therefore needs to:

- Involve startups and scaleups early on in the drafting of EU initiatives through transparent and less complex consultation processes and regular hearings.

## **Strengthening DeepTech and Retaining Future Technologies in Europe**

DeepTech startups are of particular importance to the European startup ecosystem as they can offer cutting-edge solutions based on protected or hard-to-reproduce breakthroughs in science or technology. They differ from „regular“

startups due to longer development times resulting from complex requirements and regulations, higher capital needs for investments in demonstration plants, and a more pronounced risk-and-opportunity profile due to technological uncertainties. They often benefit from strong bridges between science and entrepreneurship highlighting the importance of enhanced cooperation between startups, universities and research institutions. The EU Commission therefore needs to:

- Lower market entry barriers specific to DeepTech and reduce obstacles in technology transfer.
- Facilitate access to critical resources and infrastructure necessary for the development and scaling of DeepTech innovations, for instance within the planned TechEU investment programme that is meant to support projects in key technology sectors ensuring unbureaucratic application procedures and transparency in the selection process.
- Encourage universities and take active measures to remove barriers to technology transfer, for instance complex processes in the area of intellectual property rights for university spin-offs which are often overly time-consuming and dysfunctional.
- Create an EU funding competition for “startup factories” (private entities that cooperate with and interconnect universities, research institutions, startups and the established economy) in order to significantly increase the number and quality of university spin-offs and build up supra-regional and internationally visible startup hubs (see German [Lighthouse competition project](#) as an example).

## ***About the German Startup Association***

*Startup-Verband (German Startup Association) is the representative and voice of startups in Germany. Since it was founded in 2012, the association represents startup interests in politics, business, and the public. With around 1,200 members, including startups from various sectors and all stages, corporations, universities, investors and business angels, the German Startup Association enables synergies between the old and new economy, between universities and founders, as well as investors and startups. Its aim is to make Germany and Europe a startup-friendly location that rewards the willingness to take risks and offers the pioneers of our times the best conditions to be successful with innovative strength.*