

PRIORITIES FOR EUROPEAN STARTUPS AND SCALEUPS

KEY MESSAGES

- Startups and scaleups are indispensable drivers of Europe's economic future. However, despite the remarkable transformation of Europe's deep tech ecosystem over the past decade, **starting and scaling companies in Europe remains far harder than it should be.**
- Europe must create the conditions under which **private capital flows towards European startups and scaleups** at the volume and stage where it is most needed. A **stronger venture capital ecosystem** is one of the prerequisites for retaining and scaling Europe's most innovative firms. Creating conditions for a **better IPO system in Europe** is also fundamental.
- **EU instruments need to ensure openness, transparency and technological neutrality** while facilitating coordination between EU and national instruments, as well as international cooperation to ensure strong support for startups and scaleups.
- While **public procurement should be used strategically** as one of the instruments to grow innovative European startups and scaleups, the EU framework should focus on streamlining and ensuring their access, not adding new criteria.
- Identifying, filtering and supporting innovations that are entirely new to the market requires a more agile and open approach than the current European ecosystem provides for. A **European agency responsible for supporting disruptive innovation and coordinating actions across Member States** could be considered.
- Regulatory fragmentation and remaining barriers to cross-border business operations in the Single Market must be decisively addressed. **The swift adoption of an effective EU Inc. Regulation** is critical to reduce some of the challenges relating to company law.
- The **establishment of large-scale European centres of excellence**, that are strategically built around Europe's existing technological and academic strengths, will help startups and scaleups to **access infrastructures, networks and services** they need to grow.
- Introducing **entrepreneurial education** and engagement with enterprises at an early stage is key to developing an entrepreneurial mindset among young people. Beyond education, Europe needs to **attract and retain world-class talent.**
- Reliable and structured **access to intellectual property rights is a prerequisite** to allowing startups and scaleups to grow, as for many it is their most valuable asset and therefore a strong precondition for securing financing.

CHALLENGES AND NEEDS OF STARTUPS AND SCALEUPS

Startups and scaleups are indispensable drivers of Europe's economic future. As engines of disruptive innovation, technological leadership and job creation, and important partners of our leading companies for the development of key future technologies, they are central to the continent's competitiveness, strategic autonomy, and long-term prosperity. A thriving startup and scaleup ecosystem is not only a complement to Europe's industrial strength, but today's startups may be tomorrow's industrial champions. Without a thriving startup and scaleup ecosystem, Europe cannot sustain its industrial base or secure its place at the frontier of global competitiveness. Europe's tech ecosystem has undergone a remarkable transformation over the past decade, growing from a valuation of under \$1 trillion to approximately \$4 trillion today¹, and entrepreneurial momentum is clearly building, with 60% more people starting companies in Europe in 2025 than in 2023.²

Yet this progress masks a deeper and more troubling reality: Europe is systematically failing to turn innovative ambition into global market leadership. Starting and scaling companies here remains far harder than it should be. European startups frequently encounter two distinct "valleys of death". The first strikes when promising innovations fail to become viable, marketable products. The second, and arguably more consequential, comes into play at the scaleup stage, when growing companies lack the capital, market access, and ecosystem support needed to expand across Europe and compete globally. The result is stark: between 2008 and 2021, nearly 30% of European unicorns relocated outside the EU, and today only 8% of global scaleups are based in Europe.³

High-potential companies, critical technologies, and world-class talent are being lost to better-resourced ecosystems, above all in the United States. EU scaleups raise, on average, 50% less capital than their U.S. counterparts ten years after founding.⁴ The capital graduation ratio, the share of early-stage companies that successfully raise follow-on (scaleup) rounds, underlines this second valley of death. This financing gap is not merely a market imperfection; it reflects compounding structural failures across regulation and fragmentation of the Single Market, capital markets, talent frameworks, and knowledge transfer.

While many of the following challenges also affect established businesses, they are particularly acute for the startup and scaleup ecosystem and prevent Europe from realising its full innovation potential:

Regulatory fragmentation and regulatory burden remain perhaps the most persistent systemic barriers. Rather than operating in a genuine single market, startups and scaleups must navigate 27 divergent national frameworks covering company law, taxation, consumer law, securities regulation, product and service safety, intellectual property legislation, labor laws, and supervisory expectations, creating an uneven level playing field. Burdensome licensing requirements, slow approval processes, and legal uncertainty around data and AI frameworks further erode competitiveness. Europe's comparatively high cost of failure also chills the entrepreneurial risk-taking that a thriving innovation economy demands.⁵ Regulatory burden, such as compliance costs, reporting obligations and regulatory complexity disproportionately affect smaller firms.

¹ Atomico, State of European Tech 2025.

² Atomico, State of European Tech 2025.

³ European Commission, Startup and Scaleup Strategy 2025; European Investment Bank, The Scale-Up Gap, 2024; Draghi, The Future of European Competitiveness, 2024.

⁴ European Investment Bank, The Scale-Up Gap, 2024.

⁵ European Commission, Startup and Scaleup Strategy 2025.

Access to finance is chronically insufficient, particularly at growth stages. Europe's bank-centered financial system, limited venture capital market, and largely passive institutional investor base leave innovative companies without the funding they need. This is especially acute for those in capital-intensive sectors above the €100 million threshold. Constrained exit markets and limited cross-border investment further narrow the options available to European founders, pushing late-stage companies towards US and Asian capital.⁶

Slow market uptake and expansion mean that Europe's considerable research strengths rarely translate into commercial success at scale. Only one third of university-filed patents are commercially exploited.⁷ Public procurement, a powerful lever for driving early demand, remains overwhelmingly risk-averse, with only 9% targeting innovation since 2021, well below the EU's own 20% target.⁸ Outside a handful of high-performing clusters, the links between academia, research institutions, and the startup ecosystem remain too thin.

Weak support for best talent undermines Europe's ability to build world-class teams. Complex cross-border tax and social security rules, less competitive employee stock option schemes, limited recognition of qualifications across Member States, and insufficient pathways for attracting highly skilled non-EU founders and engineers all weaken Europe's position relative to its global competitors.⁹

Fragmented access to infrastructure, networks, and services creates disproportionate friction, particularly for younger companies. Complex procedures for accessing research facilities, opaque intellectual property frameworks, and the absence of a single digital entry point connecting innovators, investors, and service providers all impose unnecessary costs and slow growth.

Additionally, these barriers are not only structural but also territorial and thus unevenly distributed throughout Europe.

Taken together, these challenges carry both economic and strategic weight. If Europe cannot retain and scale its most innovative companies, it will remain dependent on technologies and platforms developed elsewhere. This comes with profound consequences for its industrial capacity, digital sovereignty, and ability to shape the global economy. Addressing these barriers is therefore not optional, but rather a prerequisite for European competitiveness in the decades ahead.

⁶ EPRS, Private Financing of Innovation in the EU, 2025; European Investment Bank, The Scale-Up Gap, 2024.

⁷ European Commission, Startup and Scaleup Strategy 2025; EPRS, Private Financing of Innovation in the EU, 2025.

⁸ Atomico, State of European Tech 2025; European Commission, Startup and Scaleup Strategy 2025.

⁹ Atomico, State of European Tech 2025.

PRIORITIES FOR EUROPEAN STARTUPS AND SCALEUPS

CHANNELING PRIVATE CAPITAL TOWARDS STARTUPS AND SCALEUPS

Europe's scaleup financing gap cannot be addressed by public instruments alone, nor should it be. The essential function of financial markets is to assess and price risk, helping direct capital to firms that can create value and scale. That function cannot easily be replicated by public funding. The European venture capital market remains structurally weaker, more fragmented, and shallower than its U.S. counterpart, particularly at the late stage. The priority must therefore be to build the conditions under which private capital flows towards European startups and scaleups at the volume and stage where it is most needed.

To unlock private capital, the introduction of the Savings and Investment Union through full implementation of measures that improve access to capital markets and facilitate the free flow of capital across the EU is fundamental. National reforms in the Member States will also be needed to strengthen the capital markets in the EU and put more capital to work (including pension capital and savings). Institutional investors must be actively encouraged to allocate towards long-term risk capital, as the core challenge is not a shortage of fund structures, but a demand problem rooted in limited institutional appetite. A stronger venture capital ecosystem should be recognised as a central pillar of the Savings and Investment Union and a prerequisite for retaining and scaling Europe's most innovative companies, while acknowledging that it is only one channel among many in a well-functioning financing ecosystem. Prudential rule reforms that remove barriers to equity investment are thus needed and the upcoming negotiations and reviews¹⁰ need to actively encourage long-term investment in productive assets, including venture capital. Risk-sharing models, bringing together promotional banks, private banks, and the private equity and venture capital industry, are particularly well suited for financing innovative startups, scaleups, and transition projects. The forthcoming review of the European Venture Capital Fund Regulation (EuVECA) regulation should strengthen and simplify the European venture capital framework, reducing fragmentation, lowering administrative burdens, and improving fund scalability across the Single Market. While venture capital plays an important role, it should also be recognised that many SMEs rely on bank lending, retained earnings and owner capital to finance growth. A well-functioning and competitive banking sector able to finance those companies is therefore also important.

Deepening private capital markets also requires improving exit options. Without liquid and accessible exit routes, including through well-functioning Initial Public Offering (IPO) markets, Mergers & Acquisitions, and secondary transactions, earlier-stage investors cannot recycle capital into the next generation of startups and scaleups.

To improve the chances that growing companies will retain their European location after their exit, it is necessary to have large, internationally efficient capital markets with sufficient capital market depth in the EU. Given the currently low number and volume of IPOs in Europe, policymakers should strengthen national capital markets for them to be attractive to deep tech companies, allowing for valuation and IPO competence, a good legal framework and sufficient investor interest for long-term liquidity in trading.

It is also important to address the underlying barriers that still fragment capital flows across the EU, including regulatory differences, market frictions and obstacles to cross-border investment and listings. To become competitive, creating conditions for a better IPO system in Europe is fundamental. The priority should therefore be to remove barriers and facilitate the flow of capital

¹⁰ Such as the Securitisation regulation, Solvency II, the IORP framework, and the Pan-European Personal Pension Product.

across Europe. If that is done, stronger capital markets and ecosystems can emerge on their own merits through competition, scale and investor choice.

ENSURING THE OPENNESS AND INTEGRITY OF EU INSTRUMENTS

EU instruments need to ensure openness, transparency and technological neutrality. Good coordination between EU and national instruments as well as international cooperation are also needed to ensure strong support for startups and scaleups. Reports by Enrico Letta and Mario Draghi paved the way for new proposals from the latter. The EU Startup and Scaleup Strategy includes new instruments such as the Scaleup Europe Fund and the European Investment Initiative, which aim to finance young deep tech companies. It also offers extensions to existing measures, for example those of the European Innovation Council (EIC). The European Investment Bank (EIB) is introducing and currently running several initiatives, specifically the European Innovation Investment Pact for institutional investors in EU funds. Through its TechEU strategy, the EIB has already committed to investing up to 70 billion euros in technology and startups. The proposed European Competitiveness Fund, a key part of the next EU budget, also includes several initiatives that aim to support startups and scaleups, including the “EU Tech Frontrunners” – a market-driven, business-led instrument for consortia, bringing together European lead companies (frontrunners) and European SMEs and startups as co-innovators. The EIB intends to mobilise more of its own resources and, together with EU funds, increase the use of guarantees and equity capital instruments, for example. Improving efficiency involves the systematic integration of the Member States’ instruments with European instruments, particularly the EIC, the European Investment Fund, and the EIB itself, as announced in the Commission’s Startup and Scaleup Strategy. We see great potential in better interlinking these instruments.

Europe’s strong industrial base is a global competitive advantage that remains underused in this context. To maximise the impact of these instruments, the Commission should embed structured industry-startup collaboration frameworks within R&I funding instruments, including by broadening EIC Pillar 3 to facilitate partnerships with established industry actors and to scale proven partnership models.

EU instruments should also encourage Corporate Venture Capital and open innovation initiatives that foster strategic partnerships between startups and established companies, helping innovative solutions reach the market more rapidly and at greater scale.

SIMPLIFYING PUBLIC PROCUREMENT

Public procurement should be used strategically as one of the instruments to support the growth of European innovative startups and scaleups, particularly in technological fields where market opportunities have yet to materialise and use cases are still emerging. However, the upcoming review of the public procurement framework should focus on streamlining and ensuring SME access, not additional criteria. It must be reiterated that introducing new conditionalities, weakening the link to subject matter, or limiting subcontracting will go directly against the shared goals of reducing burdens and facilitating participation of startups, scaleups and SMEs in general. To keep projects moving and smaller companies having better access, procurement should not become a compliance mechanism complicating processes to both businesses and contracting authorities from central to local levels. Furthermore, the public sector should not aim at ownership when it comes to intellectual property in public procurement.

CONSIDERING A EUROPEAN DISRUPTIVE INNOVATION AGENCY

Identifying, filtering and supporting innovations that are entirely new to the market, requires a more agile and open approach to funding than the current ecosystem provides for. Successful national agency formats (such as SPRIND’s challenges in Germany) and EIC challenges, which focus on finding the best solution to a given problem through competition, are initial steps forward in this regard. However, to better coordinate actions across Member States and address this systematically,

a European agency responsible for supporting disruptive innovation could be considered. Such an agency should consist of specialists in the relevant technological fields and aim to evaluate and filter disruptive projects quickly and efficiently. These fields can be identified based on technical analysis and will change over time, ensuring flexibility in this new approach to funding technologies, which other organisations would not yet support. The agency should therefore focus on a limited number of disruptive projects and where organisational flexibility and specialisation is necessary distinguish itself from the broader funding initiatives of the EIC or EIB. The agency should complement its direct project funding with a targeted fund-of-funds function that supports selected national breakthrough innovation agencies.

REDUCING FRAGMENTATION AND HURDLES FOR STARTING AND SCALING COMPANIES

Regulatory fragmentation affects companies of all sizes, but startups in particular face significant barriers in setting up, scaling up and operating companies across the Single Market, caused by the fragmentation of 27 different national legal frameworks. It is therefore essential to address the remaining barriers to cross-border business operations in the Single Market, through an effective and ambitious set of measures, starting with the “terrible ten” barriers and avoiding the creation of new ones.¹¹ Building on this, European companies need to be able to scale across borders more rapidly than ever before.

The EU Inc. proposal introduces measures to reduce some of the challenges relating to company law by mainly focusing on an inclusive, digital-by-design and easy to set up company law form, as well as offering more possibilities for employee stock option plans (ESOPs). To realise the full potential of the instrument, the legislative process should move forward swiftly, maintaining a Regulation form to achieve the highest level of harmonisation possible, without limiting its availability to certain types of companies or sectors and without widening the material scope of the proposal. The latter means avoiding the addition of specific rules on workers participation and other labour matters beyond what is foreseen in the proposal, and without adding disproportionate requirements (bureaucracy) which is even stricter than what is applicable to other national company forms, otherwise the EU Inc will not be attractive for entrepreneurs and investors. Several elements are essential to ensure its attractiveness, including Regulation as the chosen legal form, freedom to separate the registered office and main place of business/central administration, mutual recognition by Member States and digitalisation throughout the company lifecycle (including integration with EU business wallets). It is also crucial that it provides a real reduction in bureaucracy for businesses and is consistently geared towards investment and cross-border activities.

The EU Inc. will complement national legal forms as an optional regime. It is important to clarify when national law is applicable, both in areas covered by the regulation and in other areas, and reduce references to national laws to a minimum, in order for the EU Inc. to genuinely become a uniform and attractive company form across the EU.

In order for the EU Inc. to contribute to growth and competitiveness, it must be accompanied by a wider agenda to remove regulatory barriers to cross-border market access and investment. A complementary measure is the swift implementation of the II Digitalisation (Company Law) Directive, which expands digital tools and processes across the company lifecycle. It aims at cutting cross-border bureaucracy by introducing the “once-only” principle, abolishing paper documentation requirements. It also introduces an EU Company Certificate – a standardised, multilingual digital document that provides instant and universally recognised proof of a company’s legal existence, form, and representation powers across the bloc. A swift and effective transposition and implementation of this directive, aiming to reduce the administrative burden for companies, will bring some of the benefits recognised in the EU Inc. proposal to all companies in the EU, in particular startups and scaleups.

¹¹ [2025-09-25-BusinessEurope_position-paper_Single-Market-Strategy.pdf](#)

Beyond company registration, the fragmentation of compliance requirements and digital identity systems creates additional friction for startups and scaleups seeking to operate across borders. The European Commission's proposal for the establishment of EU Business Wallets (EBWs) directly addresses this challenge and is an opportunity to facilitate business operations, streamlining compliance and generally facilitating cross-border activities for businesses. To realise the full potential of the instrument, the legislative process should move forward swiftly and remain firmly in line with the Simplification Agenda.

The EU should also promote interoperable regulatory sandboxes across strategic sectors, enabling startups to test innovative solutions in a simplified and coordinated regulatory environment while facilitating cross-border market entry.

ESTABLISHING EUROPEAN CENTRES OF EXCELLENCE

Europe's startup environment continues to suffer from fragmented access to infrastructure, networks and services due to dispersed, unfocused support structures. Many institutions independently strive to cover every entrepreneurial and technological domain, weakening the effectiveness of the overall ecosystem. To address this, policymakers should create large-scale, centralised clusters that are strategically built around Europe's existing technological and academic strengths. The first steps in this direction have been taken in the recent call for European Startup and Scaleup Hubs, which was initiated in line with the EU Startup and Scaleup Strategy. It is important that these hubs are connected to facilitate collaboration, and that the present infrastructure is available to all ecosystem actors. To ensure continuous and cost-efficient progress, it is essential that the clusters are institutionally anchored within existing national and European ecosystems, that already effective models are sustained, that interaction with other stakeholders, such as industry, is supported and that duplication of efforts is prevented.

EU support should also help startups and scaleups access international markets through targeted internationalisation programmes, including export promotion, business matchmaking and investor outreach beyond the European Union.

SUPPORTING ACCESS TO INFRASTRUCTURE

Complementing these ecosystem structures, access to pan-European research, testing and experimentation infrastructure is a crucial enabler for startups and scaleups. The proposed revision of Article 38 GBER, which could simplify Member State funding for such facilities, is a welcome step. In supporting the access to developing and testing infrastructure, it is important that these facilities not only meet high cybersecurity standards but also ensure strong transparency and interoperability. This is essential to enable systems and services to work seamlessly across borders and sectors with full visibility. Importantly, these facilities should also – as far as possible – build on existing infrastructure and capabilities to avoid duplication, accelerate deployment, and ensure efficient use of resources. Particular attention should be given to ensuring startups have access to both specialised industrial testing, prototyping and certification facilities, as well as affordable computing capacity, cloud services, and high-quality data, which are essential for scaling and accelerating the market deployment of manufacturing and deep-tech innovations.

STRENGTHENING, ATTRACTING AND RETAINING TALENT

It is important to foster European talent, especially in the technological sectors, where the applications are yet to come, such as quantum technology. Initiatives, such as the European Advanced Digital Skills Competitions should also be supported and promoted by national governments. Building on initiatives developed as part of the EU Digital Skills and Jobs Coalition, it is important that national actions continue to enhance digital skills attainment from both an initial and lifelong learning perspective.

Introducing entrepreneurial education and engagement with enterprises at an early age and nurturing it throughout all levels of education helps develop an entrepreneurial mindset among young people, enabling them to better adapt to the rapidly changing world of work. Efforts to promote STEM skills should continue, alongside measures aimed at addressing persistent gender stereotypes and broadening participation in entrepreneurship and technology-related careers and fostering a stronger entrepreneurial mindset across society.

Innovation should be integrated as a core mission of universities to enable the creation of more spinouts and foster the emergence of more knowledge-based entrepreneurs, startups and SMEs. There is a particular need to establish significantly simpler and more attractive frameworks on campus, where entrepreneurs, companies and investors can access knowledge, facilities, and innovation environments. Increased cooperation between universities and established companies can help to develop training and provide access to additional education opportunities, ensuring stakeholder collaboration and knowledge sharing. Entrepreneurship should also be considered a career path.

Beyond education, Europe needs to attract and retain world-class talent, which requires further complementary measures. Europe's startup and scaleup ecosystem requires convergence towards best-practice employee stock ownership (ESOP) regimes across Member States, with taxation deferred until liquidity or exit, lighter administration, broad eligibility, and clear treatment of both employees and key contributors, independent of and complementary to the EU Inc. process. Well-designed ESOP frameworks also serve a wider ecosystem function: successful exits create founders, employees, and early investors who go on to become angel investors, operators, and repeat entrepreneurs, recycling both capital and talent into the next generation of companies. To attract global talent, Europe needs faster pathways for highly skilled non-EU founders and engineers through a strengthened, startup-friendly EU Blue Card, alongside simpler relocation, onboarding, and professional recognition procedures across Member States.

DEVELOPING A SINGLE MARKET FOR INTELLECTUAL PROPERTY ASSETS¹²

Reliable and structured access to intellectual property (IP) rights is a prerequisite to allow startups and scaleups to grow, as for many it is their most valuable asset and therefore a strong precondition for securing financing. From the outset, education at all levels should incorporate IP literacy. Many startups already struggle during the generation of IP and therefore need support to secure their IP. In addition, startups and scaleups struggle to use IP as collateral or security to access finance. One of the reasons for this is that there are currently no uniform or trustworthy procedures for evaluating IP in the EU. The framework for IP valuation in cooperation with the European Union Intellectual Property Office announced by the Commission in its Startup and Scaleup Strategy is therefore an important measure. A standardised, trusted EU IP-valuation framework would help ensure that intangible assets can actually be used as collateral to access finance. Additionally, raising awareness, addressing barriers to IP and reducing fragmentation in certain areas of IP – e.g. copyright – would support IP-backed financing.

¹² During the adoption process of the present paper, the European Innovation Act was published. It contains a number of provisions on IP valuation and IP-backed finance. BusinessEurope can generally support the proposed Act but reserves detailed comments on the specific measures until a later stage.

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United Kingdom



Avenue de Cortenbergh 168
B - 1000 Brussels, Belgium
Tel: +32(0)22376511 / Fax: +32(0)22311445
E-mail: main@business europe.eu

WWW.BUSINESSEUROPE.EU

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