



# Informal meeting of the EU ministers responsible for research

Warsaw, 10-11 March 2025

## **Towards the European Strategy for Startups and Scaleups**

Introduction to the policy debate



## **From research excellence to business success – towards the European Strategy for Startups and Scaleups**

Research and innovation (R&I) is crucial to boost Europe's competitiveness and is a main driver of productivity, prosperity and growth. It is also essential catalyst for technological and industrial development, strengthening the EU's sovereignty and strategic autonomy. However, technological breakthroughs and innovative ideas can only contribute to Europe's competitiveness, when turned into market solutions, services and products. In order to achieve it, the European startups and scaleups need an environment where they can access necessary funds, grow and reach their own competitive market strengths and build their long-term resilience.

As noted in the Draghi report 'Competitiveness and beyond', 'without high-growth projects to invest in and capital markets to finance them, Europeans lose opportunities to become wealthier. The number of startups created in the European Union is comparable to that in the United States, but the European innovations and innovative companies often face two valleys of death. First, new ideas with market potential often fail in transition from university to business life, and second, new companies often fail to successfully pass from the seed to the growth stage.

Although early-stage investment in innovative companies brings returns comparable with those in the US, the EU attracts fewer private investors and the private financing gap for startups and scaleups is widening continuously.

As noticed in the Enrico Letta's report 'Much more than a market', the fifth freedom needs to be developed in Europe to enhance research, innovation and education in the Single Market and to overcome fragmented public support for R&I.

Currently, the EU private investments tend to remain within national borders, while innovative companies face bureaucratic and regulatory barriers in access to finance, markets, skills and other resources necessary to thrive and grow.



## Removing obstacles faced by startups and scaleups in the EU

The Commissioner for startups, research and innovation has been tasked to develop a strategy in order to improve the framework conditions for startups and scaleups. This assignment follows the priorities stated in President Ursula von der Leyen's 2024-2029 Commission Political Guidelines on simplifying the regulatory framework and removing administrative burdens for innovative companies and ensuring that European startups can access the capital they need for their scaling up in Europe.

The recently announced Competitiveness Compass confirmed that a dedicated EU Startup and Scaleup Strategy will address the obstacles that are preventing new companies from emerging and scaling up, and will incentivise them not to relocate out of the Union. The Strategy is expected to be based on the existing extensive evidence, considering recommendations made by the Draghi and Letta reports. In addition, the strategy will also be based on a broad consultation with stakeholders. The informal Competitiveness Council is a part of this process.

In order to contribute to the upcoming strategy, Polish Presidency would like to invite Member States to reflect on how to address a set of four key obstacles that startups and scaleups encounter in Europe: access to finance, markets, talents and targeted innovation support.

### Access to finance

The EU's risk capital market continue to be fragmented and significantly underdeveloped when compared to the EU's economic weight. Venture and growth capital funds are particularly underdeveloped and provide four up to six times less capital to EU startups and scaleups compared to the US, thus underlining the need for a more enabling environment for fundraising and investing.

The share of the EU in the global share of venture capital raised is only 5%, compared to 52% in the United States, or 40% in China. The EU has fewer large-scale venture capital



funds, with only 11 funds larger than 1 billion EUR, compared to 137 such funds existing in the United States.

Furthermore, the differences in the national regulatory regimes impact investors that are less likely to invest into companies based in other Member States. Consequently, startups and scaleups face significant difficulties in raising private risk capital in Europe. As a result, they often seek investments and support from outside of the EU.

### **Access to markets**

European startups and scaleups face the fragmentation of the regulatory landscape in the EU with 27 national regimes of company law, insolvency law and taxation, public procurement and employment conditions. Having to navigate the different regulatory regimes when scaling up across the Single Market comes at a significant price, in time and money, which in turn increases the risks associated with companies' growth. Startups have a low participation rate in public procurements in the EU and disappointing participation in international trade exchanges. This is due to excessively prescriptive tenders, requirements on legal presence of the company in the Member State where the bidding takes place, restrictions on joint bidding, documentation of trade agreements and others. Small companies, and in particular startups and scaleups, are particularly affected by the administrative burden created by the regulatory framework.

### **Access to talent**

Innovative companies' growth depends on their ability to attract and to retain talents. They are currently hampered by shortage in high-skilled workers, including managerial level, limited supply of STEM students, as well as costly and complex requirements that hinder the free flow of talents. Moreover, the EU's talent pool is depleted by brain drain overseas owing to more and better employment opportunities elsewhere.

Finally, hiring highly skilled workers from outside of the European Union remains too costly and burdensome for startups and scaleups, and the procedures for obtaining the necessary visas and work permits for third country workers are still often too lengthy for fast growing companies.



### Access to targeted innovation support (infrastructure, knowledge, services)

Startups and scaleups need access to research and technology infrastructures that provide them with facilities and services enabling technology development, testing and validation, as well as technology expertise. They also need better access to knowledge: only about one-third of the patented inventions registered by European universities or research institutions are commercially exploited. Startups and scaleups also need access to business acceleration services, coaching and networking support. Such support, where available, is often provided through a plethora of fragmented platforms, which creates additional complexities for startups and scaleups.

In light of the above, Ministers are invited to give their views on the following questions:

1. How can the EU and its Member States better harness the potential of European startups and scaleups to achieve economic impact, increase the economic return on public funds invested in R&I, and to enhance EU competitiveness in general?
2. In light of the identified obstacles in access to finance, in particular for deep-tech startups emerging from universities and other research organisations, how to ensure more synergies between existing support schemes? What financial instruments are missing or should be strengthened?
3. Enrico Letta proposed a fifth freedom to complete a single market and encompass research, innovation, data and knowledge as indispensable drivers of innovation in modern economies. How could the European startups and scaleups could benefit from the fifth freedom?