EU 2024-2029: FOR A COMPETITIVE, INNOVATIVE AND SUSTAINABLE EUROPE

France Digitale's Manifesto for the 2024 European Elections

December 2023
Our manifesto

Europe has faced a transformative last five years. With the Green Deal and its ambitious digital policies, the EU has become a regulatory power that inspires and leads the world in its transitions. The European Union has also faced multiple crises: from a Member State exiting the Single Market, to a global pandemic and two wars at our frontiers, the construction of a solidified and united Union has never been so important to weigh on international affairs.

Europe is built upon crises, to quote Jean Monnet, one of the EU founding fathers: despite all the external challenges, the EU has managed to consistently pursue its priorities. As Europeans are faced with diminishing purchasing power, rising inequalities and climate change, the EU is doing everything in its power to ensure its citizens are the first beneficiaries of a green and digital transformation. New regulations covering everything from the digital single market, artificial intelligence, sustainable reporting and technologies have created a framework for innovative companies to develop responsibly.

“It is now time for Europe to not only be a regulator but also a leading producer of innovation to preserve its competitiveness and achieve a sustainable economic transition”

Startups and their investors play an increasingly significant role in the transformation of the European society and economy. Despite this, they don't get the same recognition and support of their counterparts in America and Asia, which makes their development more complex and hampers their competitiveness. This is why we call, with this Manifesto, to grow a competitive, innovative and sustainable Europe in the next five years through an adequate consideration of its most disruptive innovators: startups and their investors.

This is a call for action. No doubt that Europe will face, in the next five years, new disruptions. Let’s not be passive observers of the return of protectionism and pessimism. Europe is a continent of innovators: let’s prove it to the world!

Maya NOËL
Managing Director
France Digitale
France Digitale’s diagnosis

In Europe, we’ve got strong assets

🧠 450 million inhabitants in Europe vs 330 million inhabitants in the US

💼 Startups and scaleups employ more than 10 million people across Europe

💶 A startup raising 1 million euros creates 10 jobs on average

And obstacles to the development of our European champions

🌟 Fragmented market with 27 different legislations

👀 Recruitment is the number one challenge according to 60% of startups

The result?

We are lagging behind in terms of competitiveness.

🕺 25 IPOs at over 1 billion USD in the EU in 2021 vs 61 in the US

🌐 A cumulative 28 billion euros managed by the top 9 European VCs vs 177 billion USD by the top 9 firms in the US

🧶 European startups’ employees only possessed less than 10% of their companies in 2023 far from the 20% found in the USA

The good news?

We already have lots of European champions! The LETS index has identified 135 companies that are ambassadors of European tech internationally.

The challenge of the next five years is to allow European tech champions to become global leaders. Let’s take it up together!
Our action plan for the next five years

5 years to (finally) complete the Single Market

1. Enforce a ‘One market-one regulation’ principle
2. Create the legal environment to grow European champions
3. Streamline EU market-access through a “prove it once” principle

5 years to boost talents in tech

4. Harmonise stock options schemes across Europe
5. Grant fast track visas for third country talents
6. Prepare for disruptions and avoid skills gaps

5 years to mainstream investments in innovation

7. Ensure capital is available at all stages of the financing chain
8. De-risk innovation investments for traditional investors
9. Improve exit opportunities for startups in Europe

5 years to develop strategic, innovative value chains

10. Nominate a Vice-President for an Innovative Single Market
11. Create a favourable regulatory framework for innovative startups
12. Reform Europe’s innovation funding policy
13. Develop a European index of the Leading European Tech Scale-ups (LETS)
14. Adapt fiscal rules to stimulate investments in the twin transition

5 years to make innovation the driver of the green transition

15. Place data at the heart of the EU’s environmental planning strategy
16. Enforce a Buy (sustainable) European Tech Act
17. Support European startups to report on their transition
18. Re-consider the R-rule (Reduce, Reuse, Refurbish, Repair and Recycle)
(Finally) Complete the Single Market

Who would have thought, five years ago, that Europe would enact extraterritorial rules to regulate competition on the digital markets and protect online contents?

Over the last five years, Europe has proven that it is fit for the digital age. **The challenge of the next five years is to allow European tech champions to become global leaders**, and through them, offer the world a European vision for innovation.

**How come US companies are still growing faster than European ones, despite a smaller market size?**

One major difficulty for European startups stems from the **lack of a truly integrated single market** and the lack of harmonisation between 27 legislations. It is crucial that the EU allows startups to have a European mindset from the start.

To set up **high ambitions** we call on Europe to:

- Build a ‘one market-one regulation’ principle that will reduce over-transposition and allow companies to benefit from a truly integrated Single Market.
- Create the right legal environment for companies to grow and become European Champions thanks to harmonisation.
- Provide a ‘prove it once’ protocol for companies to comply and certify its certifications only once in their home market.
As a preliminary remark, let’s focus on one key principle that should guide all regulations at EU and national levels: as many startups are looking to scale outside of their national markets, it is essential that the application of all regulations are harmonised throughout Europe, as wished by the European Commission (1). Avoiding over-transposition is essential in that regard. Young companies that wish to comply throughout Europe should not face a heavy administrative burden, caused by different interpretations of the same law in different Member States. The European Commission needs to better anticipate, when drafting legislation, the interpretation that might be given to its European legislations and later on, needs to control that the spirit of the law is well understood.

To do so, it is key that Member States and the European Parliament, as co-legislators, design legislations that cannot be interpreted in a broad way by national legislators. The ‘one market-one regulation’ principle will help national companies to become European ones, by complying with common laws across the Single Market and by avoiding regulatory inflation.

#1 Enforce a ‘One market-one regulation’ principle

What startups have to say

“European public deciders need to build an ecosystem where innovative companies can develop their capabilities and explore new opportunities.

In today’s world disruptive technologies are emerging and European regulation must not hamper innovation. In the last mandate, with the AI Act, the DSA, the DMA and the Data Act, the tech ecosystem has been extensively regulated.

At Mirakl we consider that every new digital legislation is costing us a million euro, obliging us to do a trade-off between compliance and innovation. The next Commission must give companies time to comply with the previous regulations before introducing new constraints that will not ensure a level playing field with the American and Asian tech players”

- Mirakl
As such, when young innovative companies are facing obstacles in their paneuropean growth because of diverging legislations that should be, on paper, harmonised, Europe needs to provide them with support. The recent SME Relief Package has already reduced red tape for SMEs, but the administrative burden faced by startups should not be ignored.

To do so, we ask the European Commission to facilitate dialogue with startups and collect feedback on its legislation through a direct point of contact.

This point of contact will be useful to raise awareness at the European Union on over-transposition, but also to raise startups’ voice when confronted with anti-competitive behaviours that breaches European legislations.

For instance, with the recent Digital Services Act and Digital Markets Act, the European Union must ensure that Member States are listening to their innovative ecosystem which should benefit from these new rules, especially when they are in conflicts with larger groups such as gatekeepers.

(1) Viniacourt, E. Majorité numérique et loi influenceurs : l’UE menace d’annuler les lois françaises sur le numérique. Libération (2023)
#2 Create the legal environment to grow European champions

Creating startups is only one side of the development of European champions capable of rivalising with worldwide competitors. While other companies, notably in the US or China, have access to a massive local market to grow in, European ones experience difficulties to scale within the so-called Single Market.

For this reason, we call on the European Union to harmonise labour and business laws within the European Union to facilitate the expansion, within the Single Market, without the administrative and legislative burdens that exist today.

For instance, it takes between 3 months and 3 years to open another market within the EU, depending on your field of activity. Multiply it by 27, and it becomes clear that it could take decades for a startup to operate in all Member States, compared to a few months to launch in the US. Moving forward, startups should be European from day one, both in terms of company culture and administrative status, and be able to operate in the Single Market as their domestic market. This will enable them to scale faster and at lower cost, which in turn will make more resources available to recruit talents and finance R&D and will increase their global competitiveness.

One of the key measures for this harmonisation is the establishment of a Simplified, European Company status. Today, only some 9,100 companies are registered as a Societas Europaea (SE), out of the 30 millions of European enterprises (2), and the majority of them are listed multinationals based in Germany. The SE status was created to help companies to grow in the Single Market by benefiting from the same administrative conditions across Member States, yet its uptake remains limited and concentrated in one Member State. The European Commission should assess the reasons behind this limited success (limited knowledge of the SE status, lack of relevance of the associated advantages…) and simplify the eligibility requirements accordingly to enable more companies, notably startups, to benefit from it.

“For every office you open in an EU Member State, you need to launch studies on the national legal framework on how to set up an entity, on data access …

Just looking at the legal framework and the creation of the company is already worth thousands of euros. We need better harmonisation between Member States to grow on a continental scale.”

- Doctrine

(2) https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20221220-4
#3 Streamline EU market-access through a “prove it once” principle

An additional obstacle for the European startups to scale within the European Union is due to the fragmentation of the certification schemes.

**A company should have to only prove its compliance once in the Single Market.** Today, a startup can be compliant with the most restrictive needs for a certification in one Member State, but will be blocked in its will to expand to another market, due to different national certification. It will need additional paperwork, and thus administrative costs, to comply with another national certification that might end up being less or equally demanding!

**We therefore call the European Union to create a passport of certifications for European companies.** When possible, this passport will show the European standards that are needed for the company's sector (which could be health, cybersecurity, machinery, legal tech and other sectors). When no certifications exist at the EU level, a scheme of equivalences in the EU should be set up, so that scaleups can be present in several European markets if their national certification is deemed to be high level.

“The certification landscape makes it nearly impossible to scale in Europe. Navigating the different frameworks, for a startup, is a costly and absurd process.

France has some of the most demanding certification requirements in Europe, yet we need to go through all the processes again in each European country we enter, even if the standards there are less restrictive.

Europe must set up common certifications and equivalences between national certification schemes, to help startups scale across the continent.”

- Shark Robotics
Boost talents in tech

Leading innovation in Europe will be impossible without the right talents in hand. Today, the continent faces a lack of profiles in tech sectors, at all levels of education. The planification of talent creation must follow the planification of the green and digital transition. This creation of new generations of talents should moreover be more diverse and inclusive, to create innovations that avoids stereotypes, biases and does not misrepresent society.

Where do we stand in Europe with regards to talents in the tech sector?

Europe is facing skills shortages, a lack of attractiveness, a diversity challenge and a brain-drain phenomenon (3). Yet....

Europe also needs 20 million additional Information and Communication Technologies specialists by 2030. (6)

To increase the attractiveness of its innovative companies, become a land for foreign talents and fill its gap for skills and talents, we call on Europe to:

- Incentivize talents to work in startups through attractive conditions such as an harmonised stock options regime;
- Ease the arrival of foreign innovators in Europe through facilitated visa measures;
- Focus on training and retraining of talents on tech, at all levels of education.

(3) Anderson, J. Europe needs high-tech talent. FEPS (2022)
(5) Etude emploi 2023. France Digitale (2023)
(6) Digital Skills and Jobs platform. European Commission (2023)
#4 Harmonise stock options schemes across Europe

Surveys from across Europe consistently indicate that hiring the right talents is one of the top bottle necks for the growth of European startups (7).

Europe’s excellent educational institutions produce a large proportion of the world’s most promising software engineers, data scientists and designers. These individuals are in high demand from the largest and most deep-pocketed corporations, including those of Silicon Valley and Wall Street.

Startups are unable to compete for this talent with salary and benefits alone. But they can offer employees a meaningful ownership stake, in the form of stock options – rewarding the risk employees take with a young unproven business with a promise of a payout should the startup succeed.

While employee ownership is routinely used in Silicon Valley to attract and retain talent needed by startups with limited cash, but near limitless potential, in Europe it is offered inconsistently and at far lower levels. On average, employees of US startups own twice as much of the companies they work for compared to their European counterparts.

Furthermore, European policies all too often penalise businesses and employees for such incentives, with wide variation between national policies and tax frameworks creating a highly fragmented picture across Europe, as very-well showcased by the Not optional campaign, which provides solutions for harmonisation of stock options frameworks throughout Europe. (9)

We believe that closing this disparity, and creating a level-playing field across Europe, will boost the growth prospects of startups and help entrepreneurs secure the best talent. While entrepreneurs and investors need to do their part to increase the stake given to employees, policy changes are critical to making such incentives feasible and attractive.

(7) 2023 Startup Barometer: social and economic performance of French startups, EY & France Digitale (2023) and State of European Tech 2022, Atomico, Lazard, Orrick, SVB UK, Slush (2022)
(8) Europe must attract more talent to startups. Not optional campaign (2022)
(9) ibid.
The treatment of stock options varies widely across Europe. Some countries have regulatory and tax regimes which are at least as favourable as those in the US, but the majority lag behind.

Current policies discourage stock options on two levels. First, for companies, it can be complicated and expensive for employers to grant stock options to their employees, with different schemes required for each European country. For employees, on the other hand, tax policies can make it cost-prohibitive for employees to acquire their equity.

**We call for European policymakers to encourage employee ownership in startups through 7 policy recommendations built on the *Not optional campaign*:**

1. Create a **stock option scheme** that is open to as many startups and employees as possible, offering favourable treatment in terms of regulation and taxation. Design a scheme based on existing models in the **UK, Estonia or France** to avoid further fragmentation and complexity.
2. Allow startups to **issue stock options with non-voting rights**, to avoid the burden of having to consult large numbers of minority shareholders.
3. **Defer employee taxation** to the point of sale of shares, when employees receive cash benefit for the first time.
4. Allow startups to issue stock options based on an **accepted ‘fair market valuation’**, which removes tax uncertainty.
5. Apply **capital gains (or better) tax rates** to employee share sales.
6. **Reduce or remove corporate taxes** associated with the use of stock options.
7. Make **share option scheme more widely** available to all employees.

“Stock options are a game-changer for our attractiveness, as we can not always offer salaries matching those of large corporations. However, as a pan-European company, we are hurt by the lack of harmonisation, and we can not offer the same benefits to our employees in France and in Spain!

Having the same conditions to attribute stock options to employees everywhere in Europe would be very useful in the structuration of our activities abroad”

- Back Market
#5 Grant fast track visas for third country talents

The timeframe of recruitment for startups is not similar to any other company. Europe needs to be more competitive in attracting talents from outside of its frontiers, with smoother administrative procedures.

In that regard, legal migration is a key area of need for our ecosystem, to face the lack of skilled workers that can not, immediately, be covered by the current education system. The EU’s Bluecard was an important step in the right direction to create an equivalent to the American Green Card, giving extra-European employees the possibility to be deployed in different countries of the European Union, but more can be done to harmonise our Single Market. In France, the “passport talent” visa has created a fastrack procedure to obtain visas for foreign workers joining a “young innovative company”. Similar mechanisms exist throughout Europe, but with different timeframes and obligations (for instance in the minimum required salary for the foreign talent), which means that a startup with activities in more than one country needs to adapt to different policies.

Therefore, in line with the Startup Nation Standard, the European Commission should ensure that Member States implement a 1 month deadline to process visa applications by third-country professionals backed by startups. This could be implemented through the European Startup Nation Alliance (ESNA) or be part of the upcoming EU Talent Pool.

What startups have to say

“In the contemporary European business landscape, Malt, a company with a presence in nine European countries, encounters a distinctive challenge in the realm of mobility. The intricate and diverse nature of visa procedures poses a significant impediment, necessitating considerable time and effort from our HR and legal teams. This issue becomes particularly relevant when expeditious relocation of talent across different countries is imperative.”

- Malt
New technologies and climate change are disruptions with already direct consequences on jobs and skills. Although the European Union’s competences are limited in the field of employment, the EU should anticipate the needs for skilling and reskilling of the population, in order to avoid the development of a two-tier society: one who masters basic skills in tech and one who does not.

In this context, it is crucial to proactively encourage Member States to identify the skills that the tech sector is missing today, and produce guidelines to leverage on all talent pools.

Indeed, building a skilled and diverse workforce in Europe will be a massive challenge for the development of stable innovative sectors. Diversity is key when it comes to technologies. Indeed, no bias should be introduced by technologies developed by a non diverse crowd of developers: technologies such as artificial intelligence are crippled by technical challenges due to biases when developed by a non diverse crowd of developers, which can lead to important adverse consequences, such as misrepresenting minorities and spreading fake news (10). Inclusiveness is therefore a prerequisite for the development of fairer and more efficient technologies.

KEY FIGURES

There is still room for improvement with 1 job out of 3 held by women in startups. CEO positions are held by 1 in 8 women.

Where do we stand on diversity in the tech sector?

If we look closer at tech jobs, women represent:

- 47% of data analysts
- 20% of data scientists
- 12% of developers
- 6% of AI researchers
- 3% of devops and...
- 1% of AI architects.

(10) Biases in algorithm - Artificial intelligence and discrimination. European Union Agency for Fundamental Rights
Startups are not funded the same way as traditional businesses, as their innovative nature implies greater risk. Instead of relying on bank debt, startups often use a mix of grants, debt and equity. For a founder, giving equity means giving investors a percentage ownership of their startup. This, in turn, means that investors do not earn any interest rate on the money they provide to founders. Rather, they expect a capital gain when the startup will do a so-called “exit”. This compensates VCs for the significant risk taken in their investment.

There is no average duration for investments in innovation: the length of an investment depends on the sector and characteristics of the startups. For instance, deeptechs, biotechs, startups developing infrastructures or industries need long-term investors whereas software startups can require shorter-term investors.

Funding startups requires a liquid financial ecosystem, with investors fully dependent on one another to offer exit options to investors at each stage of investment. Business angels need early stage investors to buy their own shares, who need growth funds, who need to count on exit opportunities such as Mergers and Acquisitions (M&As), stock exchange listing via Initial Public Offerings (IPOs) or Private Equity (PE) buyouts. There cannot be any loophole in the value chain, or else there could be a major risk of lock.

**Profile of a start-up investor**
- Usually individuals known as “business angels”
- Professional investors known as Venture Capital (VC) funds
That being said, how is the European funding ecosystem doing?

Over the last 10 years, venture capital funds have significantly grown within the EU, at all stages of investments, from seed to growth.

Venture capital by destination and by stage
2020 - Q3 2023

Source: The State of Global VC, Dealroom (2023)

Yet, Europe’s share of venture capital allocated to startups is lower than those of the US and Asia at all stages of development from Series A onwards (tickets above 4 million USD).

To be competitive at the global level the EU has therefore still much to do to unlock the potential of funding for EU startups.

To mainstream investments in innovation, we call on the EU to:
- Ensure capital is available at all stages of the financing chain
- De-risk innovation investments for traditional investors
- Improve exit opportunities for startups in Europe
#7 Ensure capital is available at all stages of the financing chain

Over the past 20 years, Europe has experienced the emergence of a vibrant startup and VC ecosystem. As companies and their investors become more mature, the EU and its Member States started to shift their focus from early stage to growth. This trend has been particularly visible during the 2019-2024 European term, as the InvestEU plan did not outgrow the ambitions of the previous EFSI program in terms of funds resources for early stage VCs. A further marker of this trend has been the European Tech Champions Initiative, a fund of fund scheme only accessible to VCs with over 1 billion EUR under management (AuM). (11)

While providing funding for the growth stage is key to the emergence of leading European tech companies, it should not lead to the crowd out of resources for the early stage. This is particularly true at a time when the EU needs to finance cash-intensive innovations, such as biotech, deeptech or the sustainable reindustrialisation of its economy. Given their hardware, infrastructure and research-intensive components, innovative companies have significant capital needs since day one and need to find adequate resources in Europe since the early stages, lest leaving for the US.

To ensure funding for early stage VCs, especially those investing in deeptech and industrial technologies, remains consistent throughout time, the EU should increase (rather than cut!) the InvestEU budget and give a fresh fund-of-fund mandate to the EIF to back early stage, high risk VCs across the EU.

What VCs have to say

“European early stage VCs need more than ever the European Investment Fund as well as European corporates and institutions to strengthen the capacities of the funds. We are entering a time when we'll need to finance strategic, deeptech technologies across the industrial, space, artificial intelligence sectors. These technologies will massively impact traditional industries from mobility to health to telecom to food production. If we want European tech companies to be global leaders and win the best procurement contracts by 2030, we need to act now. We need to invest and to support the right companies with the best possible resources.”

- Karista VC

(11) ETCI: European Tech Champions Initiative. European Investment Fund (2023)
This does not mean that the growth stage should be neglected. Because...

To reduce this gap, we call for a rescaling of the European Tech Champions Initiative (ETCI) whose primary ambition was to create European growth venture funds, able to compete with US, UK and Asian counterparts.

With the outstanding financial contributions of various State Members, 3.75 billion euros were granted to the EIF to allocate VC funds with at least 1 billion EUR under management. Yet, this threshold has proven that it is still too high to meet the markets’ standards - with very few European funds able to prove this level of assets under management. As a consequence, non-European funds have started to receive allocations from the ETCI mandate, with the engagement to fund European startups.

Though financing European startups is key, what is at stake with the ETCI is to build investment autonomy for EU-based VC funds. Even if it means that, for a start, we need to lower expectations on the threshold of assets under management within the ETCI mandate.

(12) Huebl, S. et al. The 2022 European Capital Report. i5invest, i5growth, WU Vienna (2022)
#8 De-risk innovation investments for traditional investors

In 2021, only 0.012% of European pension funds went to European VCs (14). Together, pension and insurance funds accounted for less than 16% of funds raised by European VCs in the same year.

Between 2017 and 2021, pension funds invested only 4.7 billion EUR in VCs compared to 111 billion EUR in Private Equity, that is, 23 times less (15). The situation is severe, albeit slightly less dramatic, with insurance funds: in the same period, they invested 4.2 billion EUR in VCs, compared to 30 billion EUR in Private Equity, that is 7 times less. Similar considerations apply to savings funds, which share the same long term - low risk approach.

The conclusion is clear: institutional investors don’t invest enough in innovation. This is a huge missed opportunity for all the actors involved: it limits the diversification and return on investment for pension, insurance and employee savings funds, reduces capital available to VCs to finance the growth of their portfolio in Europe and hampers the ability of European startups to compete globally.

Some governmental initiatives at national level are starting to address the issue: cases in point are the Swedish pension funds reform (16), the French Tibi Initiative 1 and 2 and the German Wachstumsfond. As VCs increasingly raise funds and invest across borders, however, a more systemic and truly pan-European approach to de-risking innovation investments for institutional investors is needed.

The EU should create the financial and regulatory incentives for institutional investors to fund European VCs.

An important first step would be to enforce a minimum percentage of funds to be allocated to VCs. In Switzerland, this measure already exists: starting 2022, a new investment category was created to allow pension funds to invest up to 5% of their total assets into unlisted assets (17).

(15) ibid.
(16) Billing, M. Swedish pension funds are boosting VC investments. Sifted (2019)
(17) Kruecken, C. Three golden rules for Swiss pension funds investing in venture capital. Serpentine Ventures
A recent study shows that as little as a **1% commitment by savings funds would constitute a 10% AuM increase for VCs** (18): imagine the impact of such a reform on a European scale! To ensure the effectiveness of such a measure, the minimum commitment should be made mandatory: in Switzerland it is not the case, which means its application remains limited.

We also call the **European Investment Bank group to mobilise capital and act as a cornerstone investor** to crowd in capital from pension, insurance and savings funds, following the example of France and Germany.

**Guarantees can also be a key incentive** to trigger investment from traditional risk-averse investors.

What VCs have to say

“Today, there are not enough European growth funds capable of financing European deeptech companies, and not enough European LPs to invest in EU VCs.

The financing chain today is not made to keep the most valuable assets in Europe.”

- Omnes Capital

(18) 2022 Market Overview, Hamilton Lane
#9 Improve exit opportunities for startups in Europe

There are three main exit options for startups. The most common is M&A, both by corporations and among startups. The second option is Private Equity buyout i.e. the transfer of equity from VCs to more traditional funds. The most famous yet least popular exit is stock exchange listing (aka Initial Public Offering, IPO). These options accounted for 71%, 24% and 5% of exits respectively in the 2021-2023 period (19).

Achieving any of these exits in Europe, however, remains difficult.

Let’s start with M&A: European corporations are still too hesitant to acquire European startups compared to their US counterparts. A recent study shows that acquisitions of French startups by non-European corporations and funds have increased from 13% to 29% over the past five years and that starting 2021, acquisitions by scaleups have exceeded acquisitions by French corporations (20).

If anything, this shows that many European corporations are becoming more conservative and leaving room for their international competitors to rip the benefits of European innovation. The EU should require European corporations - especially those benefiting from public subsidies - to dedicate a sizable minimum part of their budget to innovation investments, including acquisitions.

When it comes to Private Equity buyout, challenges are multiple: First, PE funds are unevenly distributed in Europe, with the highest concentration in the UK (21). Second, PE and VCs funds don’t value companies the same way: the discrepancies in metrics and amounts makes concluding deals difficult for some VCs. Third, the performance expected by most PE funds doesn’t always match the European startup landscape: in the current economic context, startups are focused on profitability, rather than three digit growth. Companies that have achieved financial sustainability but don’t show spectacular results run the risk of not finding exit opportunities at all. To address these issues, the EU should encourage the emergence of a European Private Equity industry specialised in innovative companies to match the capital needs of its more mature startups.

The biggest hurdles, however, concern IPOs. Even before the IPO window closed in 2022 due to the compounded effects of war, health and energy crises, US stock exchanges, in particular NASDAQ, have proven more attractive than their European competitors for European tech companies. (22)

One of the reasons is valuations: the number of IPOs at over 1 billion USD in the US has more than doubled Europe’s over the past 5 years (61 in the US v. 25 in Europe in 2021 alone). (23) Another reason is liquidity: capital available is way more significant in the US than in Europe, as the market is deeper. This can be explained, among others, by the fragmentation of stock exchanges in Europe, the limited involvement of retail investors in tech and the absence of institutional investors acting as fund-of-fund for tech IPOs. To increase the attractiveness of IPOs in Europe, the EU should step up its efforts to complete the Capital Markets Union.

Important progress has already been made to facilitate company listing, simplifying insolvency rules and harmonising the taxation of financial instruments. Yet more structural reforms are needed to facilitate cross-border investments in the EU.

Doing so will increase the liquidity pool for business in Europe, by enabling them to raise capital beyond their national stock exchanges. This, in turn, will be key to provide enough capital for the development and industrialization of the strategic technologies that will drive the green transition. As indicated by the European Commission “The CMU is not a ‘nice to have’ but a ‘must have’ in order to complement public funding to finance the green transition”. (24)

“It is imperative that we promptly cultivate the exit market in Europe. With the closure of the tech IPO window and a nearly 50% decrease in the value of M&A activities compared to last year, the secondaries market needs to mature rapidly.

If we fail to discover alternatives to the current state of the European Tech exit market, we run the risk of locking in both startups and VCs and put a halt to innovation in Europe“.

- Ventech

(22) Martin, K. and Asgari, N. Why Europe’s stock market is failing to challenge the US. Financial Times (2023)
(23) Wauters, R. The (worrying) state of the European tech in 2022. Tech.eu (2022)
(24) Report on EU policy initiatives for the promotion of investments in clean technologies. Secretary General of the European Commission (2023)
Over the last 5 years, Europe set the stage to become Fit for the digital age and to achieve an ambitious European Green Deal. These two objectives must remain priorities for the EU in the upcoming five years.

The stakes have changed, however, from preparing for the “digital transition” to making Europe a producer of innovation.

The past few months have seen the rise of artificial intelligence, especially Generative AI, and its adoption by the general public bring important questions: how should we regulate AI? How dependent are we on foreign actors for critical infrastructures and cloud providers? What impact will it have on our economy and more broadly, on our society? While innovation is not solely about Generative AI, these questions and their solutions are central to Europe’s innovation strategy in the coming years, in each and every technological field.

Europe must give itself the means to achieve autonomy in strategic and innovative value chains, from the raw materials, to the necessary infrastructures, technologies and applications. Indeed, would Europe be credible in its regulation towards generative AI if it did not master any piece of its value chain? This question was brought up with biotechnologies yesterday, is central today with AI and could be tomorrow on quantum computing.

France Digitale does not want Europe to simply be a regulatory superpower, but an innovative powerhouse.

The regulatory framework should preserve European values such as privacy, fair competition and sustainable development while also enabling the construction of European champions in strategic areas.
Today, the European innovative ecosystem has many strengths:

- There are more than 500 AI startups in France alone (25), and some are as ambitious as to raise more than 100 millions euros to create contenders to US models (26).
- Europe is also one of the leading quantum computing hubs: it has already funded quantum research with over EUR 175 million since 2016 (27) and is home to some 150 promising startups. (28)
- The EU has shown leadership in other key sectors like clean technologies, with 10.6 billion EUR investments and has proven more resilient to the recent economic slowdown than Asia and the United States. (29)

Europe has what it takes to lead — it just needs support to compete with other global economic powers.

In that regard, the European innovation strategy needs to take into account the entire value chain of each strategic technology. In the world of digital innovations, for example in artificial intelligence, the use cases of the technology are as important for our strategic autonomy as is the energy infrastructures, the production of chips, the cloud to host these applications and the dependencies we face with foreign companies acting as gatekeepers.

To foster this innovative scene in the next five years, we call on Europe to:

- Align Single Market policies with EU efforts in research and innovation, by naming a Vice-President of the Commission in charge of an Innovative Single Market.
- Adapt the regulatory framework to enable innovative startups to thrive.
- Reduce dependencies in strategic sectors by funding innovations at all stages of the value chain.
- Adapt the fiscal governance rules to the needs of the twin transition.

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(26) Bergen M. Europe AI Startups look to capitalise on the continent’s FOMO. Bloomberg (2023)
(28) Bailey, S. Europe's quantum startups, mapped. Sifted (2023)
(29) EU Cleantech quarterly briefing. Cleantech for Europe (2023)
Between 2019 and 2024, the European Commission focused on making Europe “fit for the digital age” by re-establishing fair competition in the digital market and establishing rules for content online. Now that rules are in place, Europe must act to enable innovative companies to thrive in this new framework.

**We therefore call on the future Commission to broaden its scope and set as one of its top priorities “the development of an innovative internal market” to grow the competitiveness and the strategic autonomy of the Union.**

To ensure the coverage of entire value-chains, the Vice-President in charge of this portfolio should head a team of Commissioners in charge of the Directorate-Generals CNECT, GROW, ENER and RTID, responsible respectively for the digital, internal market, energy and research & innovation portfolios.

This concentration of competences will allow for streamlined procedures and priorities that are aligned for innovation in the Single Market at each step of the development of our ecosystem, from the research and development phase to the scaling up of our most promising companies.

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**What startups have to say**

“Our European scale-ups need regulation and policies based on European values and aligned with its economic timeframe and strategic roadmaps: encourage strategic autonomy vis-à-vis non-European dominant players and a favorable environment to protect, improve and finance our innovations and competitiveness.

Policies should be streamlined to truly support innovation”

-OVHcloud
The Vice-President for the innovative single market should promote a European startup definition. Often used in European legislations, the word “startup” in itself has never been the subject of a specific definition, which hinders the effect of targeted legislation. This problem is exacerbated by the fact that startup definitions exist in some Member States but not in others, leading to a variety of interpretations of what startups are and need.

This lack of clarity leads startups to be assimilated with Small and Medium Enterprises (European Commission’s proposals often refer to “SMEs, including startups”), despite many startups not fitting in the definition of an SME (i.e. less than 250 employees, annual turnover of up to 50 million euros). While SMEs and startups have some overlapping interests (early stage startups often are micro-enterprises in terms of size), they often differ in their capital structure (equity rather than debt), research and development component (innovation is at the core of a startup’s value proposition and R&D usually account for a sizable part of the budget), and growth trajectory (startups can double their workforce and turnover in a matter of months, not years). So called ‘hypergrowth’ can have important implications for regulatory compliance, as startups may be required to abide by the same high standards of large established companies while not having the maturity to do so.

A dedicated startup definition would therefore allow European policymakers to support the ecosystem through tailored-made measures (on compliance, visa procedures, funding opportunities, public procurement, etc) matching startups and scaleups specificities, such as their rapid growth or their share of spendings on research and development.

“Growing out of the SME status, for a company still seeking profitability, is a huge challenge. We are a scale-up, we still need to recruit and to grow our business, and we will be missing on the benefits that an SME could have.

We will be out of some European programs, such as the accelerator, which are exclusively for companies of less than 250 employees, although we are not totally different from innovative SMEs that are applying. For high-tech young companies like us, it shows that Europe does not have a long-term vision for homegrown European innovative companies”

- SiPearl
Additionally, with a startup definition, we call on the Commission to implement a startup test, to assess the impact of legislation on the innovative ecosystem.

In 2021, the European Commission presented the Better Regulation guidelines, a 600-pages document that aimed at increasing the efficiency of European legislations and avoiding additional administrative burdens for companies, especially SMEs, with an SME test to assess the impact of proposals on SMEs and mitigating measures for smaller companies.

Despite visible progress, the SME Test has not been carefully followed by the European Commission. More than a third of the Commission’s impact assessments do not provide enough details on the needs of SMEs and although policymakers often reach to SMEs’ stakeholders, these discussions are not always translated into efficient measures.

The SME Test should therefore be more efficiently implemented, the study recommends, and should account for the different subgroups that are part of the “SMEs” definition.

“Startups are not simply a sub-category of SMEs!”

Therefore, a dedicated Startup Test is also a relevant measure to take, specifically (but not solely) within impact assessments of legislation focusing on innovation, financing and competitiveness.

(30) SME Test Benchmark. Business Europe, Eurochambers & SME Connect (2022)
Grant application and allocation are so slow and burdensome, they do not match the timeline of tech development: drafting applications takes months and by the time beneficiaries actually receive grants (usually 8 to 18 months after project submission), the technology originally meant to be developed may no longer be relevant or innovative, yet beneficiaries are forced by the contractual terms signed with the Commission to continue with the original project.

Projects are not evaluated based on nor feature a go-to-market strategy: what happens when, by the end of the project a product, process or methodology is developed? Experience and data shows that patent applications are minimal and commercialization completely absent. Once funding ends, there are no incentives for beneficiaries to maintain and/or use the project output, partly because, as seen above, the result may not be in line with market needs.

Why is this massive funding program (Horizon Europe currently has a 95.5 billion EUR budget) not having enough impact on innovation production in Europe? While no official evaluation has been published by the European Commission since 2017, interviews with startups highlight several challenges:

- **Grant application and allocation are so slow and burdensome, they do not match the timeline of tech development:** drafting applications takes months and by the time beneficiaries actually receive grants (usually 8 to 18 months after project submission), the technology originally meant to be developed may no longer be relevant or innovative, yet beneficiaries are forced by the contractual terms signed with the Commission to continue with the original project.

- **Projects are not evaluated based on nor feature a go-to-market strategy:** what happens when, by the end of the project a product, process or methodology is developed? Experience and data shows that patent applications are minimal and commercialization completely absent. Once funding ends, there are no incentives for beneficiaries to maintain and/or use the project output, partly because, as seen above, the result may not be in line with market needs.

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(32) Global Innovation Index 2023, WIPO (2023)
(33) 2022 Patent Index, European Patent Office
(34) Horizon Europe- Performance, European Commission
Beneficiaries spend more time coordinating and reporting than innovating:
the biggest grants are provided to international consortia, rather than individual
companies, which means significant time is spent on aligning with partners, each
of which continues its normal business activity in parallel. On top of that, regular
reporting obligations to the Commission require the diversion of considerable (if
not a full-time) resources from R&D and execution to drafting reports.

As a result, it is established corporations, rather than startups, that secure the
most innovation grants in Europe (35). Only organisations that can afford in-house
experts or consultants really stand a chance to win grants and can wait for money to
be disbursed. This is particularly true for Important Project of Common European
Interest (IPCEIs), which remain difficult to access for startups. (36)

Therefore, European innovation funding policy needs a massive overhaul if it is
to finance Europe’s innovative companies - startups - and contribute to Europe’s tech
and strategic autonomy. We call to implement five key reforms in particular:

- **Simplify and speed up application and evaluation procedures.**
- **Make funding smarter and less fragmented**, benefiting smaller consortiums
  or, preferably, individual companies, but with stronger performance.
- **Introduce innovation, economic Key Performance Indicators in projects.**
- **Provide long-term, consistent funding to innovations along strategic value
  chains**, rather than to multiple, short-term projects that struggle to coordinate.
- **Increase transparency on fund allocation and performance.**

The launch of the European Innovation Council (EIC) is an important first step,
but feedback from startups and investors remains mixed. Grant applications remain
burdensome, while the performance of equity co-investments is yet to be measured.

(35) Success Rates Horizon Europe Rise Sharply. PNO Consultants Belgie (2023)
(36) Poitiers, N. & Weil, P. Opaque and ill-defined: the problems with Europe’s IPCEI subsidy framework. Bruegel
(2022)
Lastly, while helping our companies to get off the ground is essential, their growth should not be blocked by unfair foreign competition. Therefore, to face the US’ 370 billion of dollars Inflation Reduction Act, China’s 280 billion dollars’ investment program in the green transition and other national plans (37), Europe must support innovation to achieve the most ambitious transition plan of its history: becoming the first carbon neutral continent. In that regard, the launch of a fully-fledged European Sovereignty Fund is key to the development of the European Union’s innovative economy, as promised in the 2022 State of the Union speech by the President of the Commission. The EU's current plan, the Strategic Technologies for Europe Platform (STEP) is not up to the task with “only” 10 billion euros of investments - when key sectors such quantum computing, artificial intelligence or clean tech will be essential for tomorrow’s strategic autonomy - and its aim to allocate subsidies more than act as an investor or a customer. This, however, is not enough to ensure the long-term sustainability of strategic innovative companies.

While subsidies can be of great help to kick-off a project, what startups ultimately need is to leverage capital to attract further investors and secure contracts that will provide them with recurring revenue. This, in turn, will enable them to access more traditional funding sources like debt. To cover entire value chains, the funding objectives should on par with those of our main competitors (38). Similarly to STEP, the future Sovereignty Fund should therefore target young companies that are essential to our strategic autonomy and provide them with sufficient capital, including through investment and public procurement, to develop.

“There is a real lack of opportunities and real difficulties at the European level for companies like us who need significant funding, notably to set up the first factory. It creates a competitive gap with American counterparts that are heavily subsidised by the IRA. What we need is streamlined access to funding and public guarantees, either European or from the Member States, with an accelerated and simplified validation procedure”

- Verkor

(37) Japan rose $140Bn through ‘green transition’ bonds and Canada dedicated 80 billion dollars to clean energy tax credits and sustainable infrastructures investments, in 2023 solely. Report on EU policy initiatives for the promotion of investments in clean technologies, European Commission (2023)
(38) Humphreys, C. Cleantech divide looms in Europe. Euractiv (2023)
#13 Develop a European index of the Leading European Tech Scale-ups (LETS)

Startups and scaleups play a key role in advancing the digital and green transitions and employ more than 10 million people across Europe (39). Despite this, startups and scaleups are still relatively little known by policymakers, traditional investors and the general public.

To address this issue, France Digitale and 19 other startup associations from across Europe launched in September 2023 a new index, the **Leading European Tech Scale-Ups (LETS23)**, which provides a list of European scale-ups that are ambassadors of European innovation in the world.

LETS23 selected companies based on their **revenue-making capacity** and their **international presence**, rather than their mere valuation. The index is meant to be updated every year and eventually to **evolve into a label** reinforcing the brands of the selected companies with clients, talents and investors, much as it is the case with the NEXT40/FT120 program in France. The EU would be ideally positioned to **deliver this label** in the future. LETS could be used to showcase the success of European innovation with international trading partners and contribute to the uptake of European technology by public and private buyers, thus strengthening value and supply chains in the EU.

Based on three criterias, the 20 associations have identified **135 companies that are ambassadors of European tech internationally**.

Their results? In just 10 years – their average age – more than half of them (89 scaleups) have scaled their business beyond European borders and, combined, they have created an estimated 80,754 jobs.

#14 Adapt fiscal rules to stimulate investments in the twin transition

Until the recent global pandemic, there have been little efforts to update and harmonise governance fiscal rules across Europe, despite massive changes in the economic landscape.

As showcased by the recent appointment of former European Central Bank President Mario Draghi to write a report on the state of the EU's competitiveness and how to fix the European economy, **economic growth and the lack of competitiveness is one of the most pressing issues facing Europe.** To quote Draghi himself, Europe should do “whatever it takes to keep its competitive edge”(40).

In April 2023, the European Commission unveiled new propositions to reform its fiscal governance. In this reform, **it is essential that Member States are allowed to ensure a long-lasting economic support for the innovative ecosystem.** Member States should continue to strive to have healthy finances, yet this should not come at the cost of slowing down the green and digital transitions.

For this reason, **fiscal governance rules should be adapted to the growing need for investments in new technologies to boost the global competitiveness of the European Union.** Tight fiscal rules should no longer be invoked to prevent Member States from investing into strategic technologies, especially when these rules are not well respected anyway. As suggested by Spain and the Netherlands in 2022 (41), the trajectories of Member States should be economically sustainable, while integrating priorities in their investment needs, depending on the financial situation of the country and not on written mathematical fiscal calculations.

(40) Foy, H. & Johnston, I. The EU’s plan to regain its competitive edge. Financial Times (2023)
(41) Spain and Netherlands push for reform of European fiscal Policies. La Moncla (2022)
Make innovation the driver of the green transition

The European Union has made history by setting the most ambitious target for its climate transition in the world - becoming the world’s first “climate-neutral bloc” by 2050 - while forcing countries in Europe to cut emissions by at least 55% by 2030.

But more has to be done. The Paris Agreement aimed at limiting temperature’s rise by 1.5°C by 2050: on 2023, Nov. 17th, the +2°C of global warming was broken for the first time on a single day (42). This worrying trend is accelerating, and to limit global warming, greenhouse gases’ emissions must culminate before 2025 and lower by 43% before 2030.

To fight climate change, every part of our society needs to be mobilised, and innovative companies must play a key role in providing the technologies we need.

30% of the EU budget is today spent on climate change. Until 2027, that represents €87Bn. However, according to European auditors, it is less than 10% of the investment needed to reach the 2030 targets. The real needs are around €1 trillion per year (43). The annual market for key mass manufactured clean energy technologies could reach 650 billion dollars by 2030, and represent 14 million jobs.

It is therefore crucial to deploy the investments in technologies that will foster tomorrow’s transition, before others take the lead.

To develop innovations to help Europe accomplish the ambitious targets it has established, we call on Europe to:

• Create a detailed EU’s environmental planning strategy with thoughtful uses of digital solutions and data
• Reform its public procurement rules with a Buy European Tech Act to create a leading European ecosystem that offers solutions for the green transition
• Accompany startups in their transition by supporting their reporting efforts, to hold them accountable and better target investments.
• Consider the circular economy in its legislations as a differentiated set of products compared to newly-produced goods.

(42) Le Page, M. Earth passes 2°C warming on hottest day ever recorded. New Scientists (2022)
(43) Simon, F. Europe risks mission 2030 climate goal, EU auditors warn. Euractiv (2023)
#15 Place data at the heart of the EU’s environmental planning strategy

“Without digital technologies, there will be no mass deployment of renewable energies, no development of car-sharing, no traceability of waste management or detailed monitoring of plant protection products, no consideration of protected species in urban development decisions, and no measurement of the environmental footprint of businesses, no proactive targeting of aid to the most vulnerable citizens, no transparency on the impact of our consumption choices, no informed management of water resources in the event of drought, no anticipation of the retreat of the coastline or, quite simply, no IPCC report.

Faced with the major, systemic challenge represented by the ecological transition, and given the urgency with which we need to act, digital technology is an essential tool for targeting the most effective actions, managing complexity, reducing timeframes, modelling, anticipating crisis, networking and mobilising. In short, to implement an effective and fair ecological transition.

However, neither ambition nor urgency should lead us to overlook the risks associated with these technologies. Digital technology must help to change the current system, not optimise it even further. Digital technology for ecology must be developed within an ethical, humanist, civic and sovereign framework that fights against techno-solutionism, guarantees digital sobriety, protects privacy, leaves no one out, acts against false information, and ensures that systems are resilient and that models are democratic”.

- France Nation Verte (44)

We could not agree more with this quote, from France Nation Verte's action plan for which France Digitale was consulted.

The EU should adopt an ambitious comprehensive environmental planning with digital and data at its core and based on three leading principles:

1. Tech will not alone achieve the environmental transition but **the latter cannot be made without tech**.
2. The **ultimate goal is sobriety**, particularly of the tech sector.
3. The strategy must lead to a **fair, profound and non-violent green transition**.

While the European Union has already embraced climate actions on broad sectors of the economy, transversal issues should also be addressed, such as allowing a broader usage and interoperability of data through open data, data infrastructures and data spaces, or also broadening the use of digital tools everywhere and for all.

We are deeply convinced that startups and tech can play a major role to meet the Paris Agreement and are willing to act hand-in-hand with decision makers for it.

(44) France Nation Verte. La planification écologique. Gouvernement français (2023)
Innovations will have a key role in the European Union's green ambitions, and Europe needs a sovereign access to these technologies to plan its transition. The United States understood it with the Inflation Reduction Act (IRA), and most global economies followed with similar plan to boost public procurement in the field. (45)

To unlock new funding possibilities for innovation, Europe must reform its public procurement rules. Despite efforts to bring sovereignty criterias in the Net Zero Industry Act, public procurement remains a largely untapped funding source for startups (only 7% of French startups' revenues came from public buyers) (46). This is due to risk-averse public buyers, unadapted timeframes for startups' economic models and excessively complex procedures. This is a massive missed opportunity for startups but also for public buyers who don't benefit from the latest innovative products and services developed in Europe.

Moreover, Green Deal priorities are not well reflected in current public procurement rules. For this reason, and in line with the conclusions of the European Council in February 2023 (47), we call on the European Union to update the rules of public procurement to better take into account innovative companies and the twin transition goals.

It is high time: the latest revision of public procurement rules dates back to 2014.

"In Europe, public procurement does not promote local innovation, nor does it encourage sustainable policies because of outdated and rigid rules. Yet, our main competitors for public procurement, which are large incumbents, all have easier access to it. By being easily disqualified, startups and scales up lose market shares, credibility, competitiveness and Europe undermines its competitiveness.

Public actors should take more risk, be flexible and ready to use sustainable, innovative and sovereign solutions."

- We Maintain

(45) Pour des champions européens du numérique et de l'innovation. Choiseul & France Digitale
(47) Special meeting of the European Council (9 February 2023) – Conclusions. European Council
Public procurement rules should increasingly refer to the Green Deal’s objectives, with specific qualitative and quantitative criteria to be included at each relevant stage of the public procurement process.

European technologies should be better accounted for, to improve the security and autonomy of the supply chain. Circular economy objectives and external environmental costs should also be taken into account by public buyers in their assessment of the value for the services and products to be procured.

This is why in July 2022, 15 European startup associations co-signed a call to the European Union to establish a Buy European Tech Act, which would accelerate the takeup of European clean technologies by public buyers, support green companies and re-establish a level playing field with our international competitors (48).

What startups have to say

“ To foster deep tech startups in Europe, we shall develop public procurement approaches which put in competition startups and incumbents. A startup can leverage a public contract to raise money and/or debt, while this is more difficult with subsidies.

NASA has implemented this procurement approach since 2006, and it has unleashed the competitiveness of the American space industry. ESA and CNES are now changing their procurement methods in this direction.

We hope other institutions will follow.”

- The Exploration Company

(48) Buy European Tech Act, France Digitale (2022)
#17 Support European startups to report on their transition

According to a study by Bpifrance and France Digitale (49), 63% of impact startups allocate 75 to 100% of their annual turnover to social or environmental missions, and they represent 30,000 jobs in France. The innovative ecosystem is fully supportive of the green deal objectives, and their technologies are part of EU’s climate ambitions.

**Europe must support these companies in their transition.** The reporting obligations brought by the Corporate Sustainability Reporting Directive (CSRD) and the Sustainable Finance Disclosure Regulation (SFDR) are key to better target investments towards companies with high-levels of sustainable ambitions.

Despite the scope being limited to larger companies, **smaller firms and startups will be impacted by these legislations as they will trickle down** from their investors. Startups of all sizes need to transmit information on their own reporting, requiring financial and human resources to do so. Better efforts should therefore be put in place to help startups collect data and align the CSRD, SFDR and the upcoming Corporate Sustainability Due Diligence Directive (CSDDD), in order to integrate the entire value chain in the twin transition, from smaller startups to investors.

Lastly, these legislations are great incentives for larger groups that did not take sustainability into account at their beginnings. However, they are inadequate for **impact by design companies**. By growing, they allow more people to use their more sustainable products, but also grow their emissions and will be seen as degrading the environment. These positive externalities are not accounted for in their reporting. As a result, a growing startup offering sustainable solutions could have worse reporting than a polluting company which is starting its transition.

**Legislations should therefore take into account impact by design companies, to ensure that the positive effects of their solutions are taken into account.**

“The topic of financial reporting is more and more demanding. For a startup for which profitability is the first concern, even with the best intentions, it can become an additional administrative burden. Various Operational teams need resources to respond to questionnaires in various forms, and provide documentation. The issue being that none of the documents or documentation requests from investment funds in the EU seem to be harmonised. We need a better alignment of these reporting demands, throughout the entire value chain of the innovative ecosystem”

- Welcome to the Jungle

(49) Mapping des startups à Impact by France Digitale and Bpifrance (2022)
#18 Re-consider the R-rule (Reduce, Reuse, Refurbish, Repair and Recycle)

Today, the rules of the Single Market are only designed for one type of products: brand new ones. **How about the 5-Rs rule of circular economy: Reduce, Reuse, Refurbish, Repair and Recycle?**

Circular economy is totally absent from the European legislations, for producers, importers and sellers, making compliance with existing rules difficult, if not impossible, for refurbished, repackaged and recycled products. It is a huge loss for the European Union, and a revolution in its legislation is needed to better support this ecosystem.

Moving towards a more circular economy could therefore increase competitiveness, stimulate innovation, boost economic growth and create jobs (700,000 jobs in the EU alone by 2030) (51). Its promotion would also decrease the European trade deficit, diversify our supply chains and reduce our dependencies on some key actors and materials.

Rethinking the role of the circular economy should therefore not be put aside in the priorities of the next Commission. **We therefore call on the European Commission to adapt its products legislation to the repackaging, refurbishing and recycling industry and to promote the adoption of second-hand products, to create a competitive market against new products.**

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(50) Circular economy: definition, importance and benefits, European Parliament (2023)
(51) ibid.
As pushed by some Member States, this could go through the adoption of a lower VAT rate on recycled products, albeit extended to the entire circular economy. (52)

The European Union must also ensure that functioning devices are always being refurbished and reused, before they are recycled, introduce waste collection schemes to collect devices that are breaking down so they can be repaired and incentivise private and public procurement to consider the circular economy.

“The circular economy is provided by an alliance of actors, for which economic profitability is not straightforward and production costs are high. We need to incentivise these practices, for instance with a reduced VAT rate which will develop the repair, recycling, reuse and re-employment sectors, ultimately leading to economic gains for Member States.”

- Fairmat

Reduced VAT rates on repairs in Europe

Source: INEC

(52) Zacheva, A. Czechia to push for lower VAT on recycled products. Euractiv (2023)
European innovative businesses need...

A truly unified European Single Market: harmonising business and labour laws to enable companies to develop their business throughout Europe from day one.

A more diverse workforce: leveraging accelerated visa procedures for third country nationals and harmonised stock options schemes to attract and retain the best talents.

New sources of capital at all stages of development, from early stage to growth, all the way to exits to enable global tech leaders to develop and scale in Europe.

A more effective innovation policy, aligning regulation and knowledge creation with market opportunities, to transform research into economic growth opportunities.

A green agenda driven by innovation, to transform Europe with data-oriented innovation, green public procurement, improved reporting and circular economy.
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Are you interested in joining forces to promote startup and investors’ needs across Europe?

Join France Digitale and get onboard!
France Digital in figures:
- 50+ events: FD Tour to raise funds all over France, C-level days to bring together startup and scalup professionals and FDDay, a major annual meeting for the entire ecosystem.
- 1,000+ meetings between startups and investors and 450+ meetings with major groups and public decision-makers.
- 20+ ecosystem mappings and analysis of regulatory issues to always stay ahead of the game.

What is France Digitale’s objective for the coming years?
Support our ecosystem growth addressing environmental and societal stakes to make Europe the leader in responsible innovation.
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