

Meeting of the Chairpersons of COSAC 9–10 July 2017, Tallinn

Background Information

From Start-ups to Scale-ups – EU's unused potential

Start-ups, often tech-enabled, generally combine fast growth, high reliance on innovation of products, processes and financing, utmost attention to new technological developments and extensive use of innovative business models, and, often, collaborative platforms. It is important to make use of the potential in the field of start-ups in order to encourage economic growth, and to enhance the EU's global competitiveness.

There is no lack of innovative ideas and entrepreneurial spirit in Europe. However, many new companies either do not make it beyond the critical first years or prefer to operate in third countries, where they face less regulatory barriers. Therefore, start-ups are not delivering their full innovation and job creation potential in Europe.

According to *Startup Hubs Europe*, there are more than 800,000 start-up companies in the EU, generating more than €420 billion in revenue and providing 4.5 million jobs. The European cities with the highest numbers of start-ups are London, Berlin and Munich.¹

The Startup Genome in its “Global Startup Ecosystem Report 2017” has listed the world's leading start-up cities. Five European cities, notably London (#3), Berlin (#7), Paris (#11), Stockholm (#14), and Amsterdam (#19) have made it to the TOP 20. Nine of the world's top-ranking start-up ecosystems are located in North America, with Silicon Valley and New York City holding the first and the second place.² Silicon Valley has been long known as the start-up hub of the world, home to many of the most successful start-up companies such as Apple, Google, Facebook, and Twitter. The question is, how can the EU, with a larger market than the US, become more globally competitive in this field.

Several Member States have already put in place or are considering initiatives to create an environment conducive to innovation and entrepreneurship. As a result, there is no major difference between the EU and the US when it comes to creating new companies. However, rather than flourishing and expanding in Europe and beyond, too few European start-ups survive beyond the critical phase of 2-3 years, with even fewer growing into larger firms.

Whilst there are a number of reasons behind this situation, an estimated 1 million new jobs could be created and up to €2000 billion (i.e. roughly 20 times the annual GDP of Austria) added to the GDP of the EU over the next 20 years if the share of scale-ups would match that of the US.

In the Single Market Strategy launched in October 2015, the Commission announced that it will look at how to make the Single Market more efficient for start-ups and scale-ups. It also stated that improving the

¹ <http://www.startuphubs.eu>

² <https://startupgenome.com/thank-you-enjoy-reading>

ecosystem for start-ups and scale-ups in Europe will have a direct beneficial effect on jobs and growth in the EU.

Last year, the European Commission launched a 4-month (from 31 March to 31 July 2016) public consultation on how to improve the environment for start-ups in Europe. Three main concerns were outlined: (i) too many regulatory and administrative barriers, especially in a cross-border situation; (ii) too few opportunities to find and engage with potential partners in finance, business and local authorities; as well as (iii) access to finance is a barrier to scaling up.

Following the consultation, the Commission communication on the *Start-up and Scale-up Initiative* was released on 22 November 2016. The main proposals of this initiative were: (i) to remove barriers for start-ups to scale-up in the Single Market; (ii) to create better opportunities for partnership, commercial opportunities and skills; as well as (iii) to facilitate access to finance.

As Elżbieta Bieńkowska, Commissioner for Internal Market, Industry, Entrepreneurship and SMEs, has stated, *"Today start-ups do not fully take advantage of the opportunities of the Single Market. Starting and scaling up a company across Europe has to become simpler. Europe needs to become the first choice place for great business ideas to grow into successful companies. This is about new jobs, innovation and competitiveness for Europe."*³

There are also several initiatives taken at the Member State level to make their start-up ecosystems more competitive. For example, in many countries a start-up visa program has been launched to make it easier to attract highly-qualified workforce from third countries to work in the EU.

Another factor that could prove significant in the start-up field is investment in innovation. While the Europe2020 strategy aims to increase the combined public and private investment in R&D in the EU to 3% of GDP by 2020, in 2014 this number had only reached a rather modest 2.03%.

Some points for discussion:

- What concrete actions are being taken both at the EU as well as the national level that are encouraging the creation of start-up companies?
- What can policy makers and urban leaders do to better facilitate world class start-up ecosystems? Sharing best practices in the field of innovative entrepreneurship.
- How to ensure that the EU will become more competitive vis-à-vis the US and other global competitors in helping start-ups grow into scale-ups?

³ http://europa.eu/rapid/press-release_IP-16-3882_en.htm