Building the UNITED TECH of Europe

18th March 2019

Summary

Europe is in the midst of a critical phase of development. The next five years will determine its role in the global economy, and thus its capacity to prove attractive to its inhabitants, particularly in its potential to provide a dynamic environment for investment and an active job market.

At the same time, economic competition between the U.S. and China is fiercer than ever, the two states going head to head over innovation – a race to be first to the digital sphere.

And the international community cannot blame them. Digitization is not to be underestimated. We are at the cradle of a fourth revolution, caused in great part by breakthrough technologies like artificial intelligence, blockchain, and virtual reality.

But Europe remains steadfast alongside them and can pull ahead. **We have an opportunity to become world leaders in innovation,** provided we develop a clear vision for achievement and demonstrate persistence in all endeavors.

The European elections will prove decisive in whether or not the continent is able to rank as innovation leader in the next decade. This election period provides an opportunity to embrace change and move toward tech. To make bold, ambitious choices, the impacts of which will be large-scale and long-lasting.

As organizations representing startups and the digital sector across Europe, **we are launching a call to candidates for the European elections**: if you claim to make digitization, innovative ambitions, and European competitiveness priorities throughout your campaign and your term, "walk the walk." **Endorse the "15 commitments for a United Tech of Europe", follow through with tech-friendly legislation, and ensure that our political environment engenders innovation.**

Summary

For the first time in European history, 30 organizations from 27 countries across the EU have banned together to merge their aspirations and expectations, and to speak with a united voice.

Europe is faced with a narrow time frame during which it can propose an alternative and ambitious vision for the digital sphere. Propositions must therefore be clear, concise, and achievable, albeit bold and demanding.

Our proposal consists of 15 concrete measures structured around four pillars:

A European Limited Status

Closing the Financial Gap

A Data-Driven EU

Startup-Friendly Institutions

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When deciding when, where, and how to scale beyond their domestic markets, European entrepreneurs face a dilemma: to chase American or Asian business, or rather to tackle the European market. A growing number of entrepreneurs have their sights set on the latter, if for no other reason than the fact that it is, in terms of market metrics, the third largest in the world, ahead of the U.S.

Despite the Juncker Commission's plan for the Digital Single Market, the EU remains a fragmented market, digitally and otherwise. Scaling in Europe requires working within 27 different regulatory regimes, encountering conflicting legislative obstacles in each country and managing language barriers. All this while Chinese and American entrepreneurs confront a massive domestic market that is undoubtedly single. The playing field is unfair, and our entrepreneurs are getting the short end of the stick.

In 2001, policymakers attempted to improve the regulatory situation for companies by creating the Societas Europeae. The status proved ineffective, applying only to existing companies with a high threshold of social capital. The relative high costs and low benefits of the structure ensured it was unsuitable for the startup ecosystem, and thus had little to no effect on the capacity of young players to scale across the European Union: only 3090 businesses in Europe use the status.

For the next mandate, the Commission ought to enable startups to grow in Europe. Entrepreneurs want to address the European market, they need the tools to scale effectively across the continent, bringing in innovation, growth and jobs. We outline whata scaleup needs to accelerate its development from day 1.

1 - Fiscal Integration and Coordination

Tech companies are focused on growth. Every Euro raised is one that will be directly reinvested into jobs, research and development, and/or other growth-making operations. Scaleups operating internationally consider their financial situations as a whole when making decisions. And yet, the fragmented tax frameworks within the EU do not incentivize such unified vision and management.

To create a European playing field for entrepreneurs, the **consolidation of profit and losses** between all member States is a prerequisite. Taking into account the European activity of a startup, profits generated in a Member-State country can be exempted from taxes if they are balanced by losses in other Member States.

We advocate a **unique framework for scaleups** that does not hinder their growth: when the venture is not profitable in the Union, it should not be taxed in any of the EU countries.

By better reflecting the overall economic situation of the company, capital and revenue allocation can be optimally geared toward growth.

2. Adopting the Union to Social Innovation

We are strong advocates of human capital mobility across the Union, as it enables a stronger cultural and economic integration. Scaleup would benefit from this mobility of talent, creating international hubs able to compete with the Silicon Valley or Shenzhen.

During the upcoming mandate, the Commission shall create incentives for Europeans to move and work in other Member States. A first step would be to enable the **portability of social rights, particularly pensions**, of European workers. Such a measure would incentivize European workers to move while maintaining the full benefits of European countries' safety net when relocating.

Also, work as full-time and scarce employment is a thing of the past. Careers will be shattered and non-monolithic: a decade as full-time employee can be followed by independent work, as a freelancer, then followed by continuous education, leading to a new path in a career. The next Commission shall **take in account these novel forms of work and career in its social policy.**

The continuing growth of digital giants in the East and the West has led to **a global competition for the acquisition of talent**. In this competition, Europe has undeniable assets: **European institutions' excellence doesn't need to be proven.** They provide some of the world's most talented engineers, software developers, designers and managers.

Paradoxically, talent availability is one of the major bottlenecks in the development of European scaleups and unicorns. The supply for managers with experience in scaleups is scarce. Part of this scarcity can be explained by the global competition on salaries and benefits.

The tools used by early-stage ventures to reward the risk of first employees, such as share options, are rendered useless by the inability to deploy them on an EU wide basis. 27 share options schemes coexist, ranging from favorable and easy to implement, such as in France and Estonia, to punitive, such as in Spain and Germany.

We propose a unified Share Option Scheme.

This scheme will give startups and scaleups the opportunity to issue standardized share options across the 27 countries of the European Union.

In order to maintain agility and ease business administration, such shares should not necessarily have voting rights. Taxation will not occur on the exercise of the options but on the sale of the shares. They should be taxed as capital gains, at a flat and favorable rate (30%).

The proposed scheme will also enable platforms to issue share options to their supply-side, be them freelancers or contractors providers, thereby incentivizing all workers to ensure the platform's success. Shared vision empowers European platform startups to compete with large corporate players and strive for global reach. France is on its way to achieving the proposed share option scheme

A major institutional change regarding tax regulation ought to be done if the EU wants to remain competitive and act rapidly on this issues. **We support the move to ordinary legislative procedure at the Council on these matters.**

Even as European institutions churn out highly skilled talent, the European startup ecosystem – particularly its scaleups and unicorns – require pull from a larger pool. This means hiring trained individuals coming from outside the EU. Unfortunately, the current realities of recruitment are burdensome, including complex administrative processes, all of which are fractured on a country-by-country basis. Working permits are also limited per country, drastically decreasing human capital mobility within the European Union.

We therefore propose the creation of a European Startup Visa.

The Visa will provide **a simplified administrative procedure for recruitment to startups, scaleups, and unicorns across Europe.** This will allow said companies to rapidly secure working permits for employees and his/her immediate relatives. The recipient of these visa will be authorized to work in all 27 countries of the Union. The Visa will be delivered on a multiannual basis.

In order to tackle immigration costs as a whole, we propose **a moratorium on the taxation of shares acquired in ventures outside the EU and in the UK.** As recruited employees can be offered sharesfrom other companies (to which they are not hired), they are often subject to different – that is, generally higher – taxation in EU countries, thus representing increased costs for the new hire/immigrant. The proposed moratorium will reduce the cost and tax uncertainties for senior managers immigrating to the EU.

Venture capital investment has exploded in the last 5 years: in 2013, only 5,2 billion euros were invested in our tech ecosystem. In 2018, there were 23 billion euros, reaching new heights.

The VC industry in Europe has also diversified. Corporate Venture Capital plays a key role in tech funding: the 681 unique corporate investors accounted for 38,3 % of total investments (8.8 billion euros) in 2018.

Despite such records, European VC and capital markets lag behind. In the US, capital investments are in another dimension, with 130,9 billion dollars in deal value in 2018. China follows with 105+ billion dollars invested in the past year, with record mega-rounds like the 14-billion-dollar deal of Ant Financial.

European Institutions, namely the European Investment Fund, have launched and sustained decisive policies for the industry. For example, in its fund-of-fund activities, the EIF has 2,6 billion euros in European VC Funds. But its growth is limited, and new investment vehicles need to be set in order to unlock the necessary capital to empower European Scaleups to challenge Chinese and North-American decacorns.

The objective of the EU financial institutions for the next 5 year shall to focus on the emergence of pan-european funds based in the continent, fostering cross-border investments.

There needs to be a standardization of the tax framework for Venture Capital across the Union.

First, a standardization of the VC framework is needed to mobilize capital in the Union and from outside it. The fiscal transparency of the investment vehicles needs to be ensured to avoid double taxation, that depends on the destination of an investment. By removing this uncertainty, cross-border investment (in funds and in ventures) will be highly encouraged, bringing excess of financing in more Member States.

As we thrive to build pan-european funds, building synergies between organizations in various Member States, inter-operability of investment vehicles is key. Today, for example, a Danish pension fund does not recognize the French FPCI (Professional Fund of Investment Capital), hence will not invest in it. A pan-european VC ecosystem will thrive only if savings in Member States can be mobilized equally in each Member State.

The EIF will play a major role in the transformation of the EU VC Industry. Its primary objective should be the emergence of late stage funds, a missing link in the financing path of scaleups. In a post-Brexit context, it’s ability to encourage the creation of pan-european funds will be key. At the same time, more agility needs to be brough in when investing in first and smaller funds, accelerating their go-to market.

Additional measures can be implemented to foster Corporate Venture Capital, an increasingly important player of the VC industry and ecosystem. More incentives should push available cash from European companies to the startup ecosystem.

Finally, Member States shall have more room for manoeuvre in their policies supporting innovation. In order to not only fund nascent projects, but helping initiatives scale, the next Commission will have to recalibrate state aid provisions. We call for new block exceptions on innovation funding. These new exceptions should be thresholdless, incentivizing Member states to invest in technology and innovation.

Data is (and will increasingly be) the backbone of the 21st century economy. Data fuels machine learning algorithms, leading to more efficient products, higher networks effects, and degrees of analyses that were previously impossible. Ultimately, it allows companies to gain market control faster and more effectively than ever before.

Considering data (i.e. user input) functions as the cornerstone of tech companies, as opposed to the former organization output, it is crucial to adapt competitive foci – and policy – accordingly. To efficiently regulate data and empower companies, there needs to be a clear regulatory distinction between personal (belonging to citizens), commercial (belonging to companies) and high value (of general interest) data.

In order to do so, regulators must fi**rst acknowledge that competition in the digital age takes place at international scale.** Information technology has enabled competitors from outside the European Union to penetrate the market with ease, thus competing directly with European companies. It is necessary that competition cases (antitrust, mergers, state aid) be evaluated with this in mind. Also, the new shift in value creation calls for a shift in competition policy, and overall making sure that fair competition between incumbents and startups is assured. Therefore, the way we address competition ought to change, it needs to focus on data, the essential input.

Data access and flow must also be guaranteed in international trade agreements. The free flow of data must be included in trade agreements. The free flow of data must be included in future trade agreements, and counterparts must ensure agreement on and accordance with the same regulatory constraints regarding data access and flow. That is, all companies involved in international agreements should be subject to the same limitations and liabilities – a level playing field for all parties, regardless of in which country they conduct business. Addendum to current agreements should be made in that sense.

In the absence of an agreement between the European Union and the UK (no-deal Brexit), the UK will become a third country from 30 March 2019. The transfer of personal data to the UK will have to be based on one of the following instruments as of 30 March 2019: Standard or ad hoc Data Protection Clauses, Binding Corporate Rules, Codes of Conduct and Certification Mechanisms, Derogations. Data flows are essential for the digital sector, as well as all the economy. They should be secured with an adequacy decision, adopted by the European Commission on the basis of article 45 GDPR.

Open Data plays an important role in the digitization of the European Union. Besides fostering transparency for our citizens, it constitutes a formidable economic equalizer for entrepreneurs when the quality and type of data meet industry requirements. The fact that data is a non-rivalrous good enables public organizations to share their raw data without incurring a disadvantage, simultaneously enabling outsiders to build new applications and services and create additional value. The presiding Commission's initiatives are a step in the right direction, potentially unlocking billions in value and in new services for EU citizens.

To further this effort, the newly elected policy makers have to continue this dynamic of opening data across the Union. **Clear data & metadata standards have to be drafted for every sector of the economy.** This should be in a machine readable, documented and standardized format, qualifying data as personal, commercial or high value. With the development of self-driving cars and the opening of the rail sector to competition, for instance, European standards will define the development of European Tech Champions. Improving access to data will directly improve services delivered to users. They should be flexible enough and reviewed in order to keep up with new data collection/transmission techniques and hardware. We believe the European Union should support the establishment of an industry-led organization, somewhat similar to the W3C, that would work on such standards.

he Juncker Commission's "Digital Single Market" strategy presented in 2015 has guided European legislation through new practices and business models and supported a 'policy catch up' with the digital economy, with the ambition intention to foster innovation.

Nevertheless, most of the measures ended up being geared towards bigger and more established internet companies, often at the detriment of small and medium entreprises. The Digital Single Market ended up producing numerous files with various obligations for startups, many of which did not seem to benefit from a level of coherence to one another. For the next mandate, we push for the creation of a platform to connect policymakers, in Brussels and in their constituencies, to entrepreneurs. A closer dialogue between both worlds will create a policy environment that helps startups in Europe thrive, balancing consumer protection and economic growth.

Hence, we recommend the **creation of an Intergroup on Startups and Scale-ups in the European Parliament**. It will serve as a forum to discuss challenges regarding jobs and growth, the single market, access to finance, venture capital, skills, and education. While it is difficult to project what issues will be discussed in the next Parliament, having an institutionalized method of having a conversation about these issues, through the perspective of a startup, is crucial in the process.

2. Commissioner Plan on Digital

Tech companies today are spilling across sectors and over the boundaries of the internet. Entrepreneurs start ventures in sectors formerly reserved for incumbents, showcasing the possibilities in terms of innovation and economic growth.

In order to remain competitive in the digital decade to come, the European Commission must ensure that its commissioners embrace a coherent and specific digital strategy. This must be true of all administrations, rather than a mere two or three. In order to guarantee that this strategy is implemented, we propose that each commissioner candidate presents a set of digital objectives and the resources he/she is going to set up during their mandate.

We propose that **each candidate for Commissioner presents a set of digital objectives and the resources he/she is going to invest to their fulfillment during their mandate.** Following their appointment, a cabinet member on digital affairs will be nominated to serve them.

Technology is not to be solely seen as an objective to fulfill, but also as a tool to support public action. We therefore suggest that the Commission systematically assesses the benefits of digital tools in implementing its policies and programs and willingly engage in its use. By doing so, the European Union will greatly benefit itself of digitization and create the expected spillover effect of its digitization unto the European economy, and particularly its innovation ecosystem.

On Platforms

Europe needs a clear and simple regulatory framework for online liability. We call for a a European approach to platforms. Such an approach acknowledges the need to avoid fragmentation and multiple, complex legal regimes.

Entrepreneurs prioritize legal certainty and are not looking to avoid legislation at all costs. The protection of intellectual property rights, prevention of abuse by terrorist content online and fairness in platform to business relations are targets that all have their individual merits to entrepreneurs. They should, however, not lead to the creation of various liability regimes, thereby creating multiple legal regimes for platforms, especially those operating across multiple verticals.

Avoiding a patchwork of European rules means coming up with **one coordinated plan for platforms' liability.** This should consider the ease of business making (i.e. additional bureaucracy), technical feasibility and costs associated with compliance.

On AI

Artificial Intelligence is reshaping how companies create value and is at the heart of the 5th technological revolution. By leveraging data, entrepreneurs create new services, enhance business and industrial processes, boosting productivity and growth. The race to master and deploy the technology, to create leading players in the commercialization and application of AI is raging.

European legislators have the power to have a positive impact and to make sure that players that share European values, respect user privacy and use the technology for good have the means, are leading the way in the AI field.

We think that legislators should “test” the impact of every piece of legislation on AI companies and services, and take into account:
- the impact of the measure on the use and/or production of data
- the ease of automating the new regulating and compliance obligations.

On Blockchain

Distributed Ledger Technologies have enormous potential for the economy, society and innovation. Its decentralized nature makes it an enabler for startups and should be recognized as such by legislators. In particular, a debate on the advantages or disadvantages of the technology should not be conflated with individual applications of it, like Bitcoin or crypto-assets.

Development of blockchain technologies must be considered with a wide perspective, including an open conversation about computing power. In that light, if legislation were necessary it should be tested against the ability of a startup to compete with an incumbent.

Leaving no one behind

The future Commission needs to support initiatives such as Digital Skills and Jobs Coalition and inclusion of digital skills to national education curricula, and invest in education, including adult education, for the digital skills needed for new technologies (artificial intelligence, blockchain, etc.).

The investment in education should also aim at continuous education,supporting companies investing in human resources with digital skills training for their employees, especially startups or SMEs.

During the next mandate, programmes that inspire young people, and especially young girls, to study in science, technology, engineering and mathematics (STEM) should be encouraged.

The propositions of this manifesto have been written thanks to the contribution of 100 of European Startups and Scaleups.