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Subject: *Preparation of the Competitiveness Council on 20 February 2017*
Communication from the Commission on Europe's next leaders: The start-up and scale-up initiative

- Presentation by the Commission
- Exchange of views

Delegations will find attached to this Note a Presidency Note on "Europe's next leaders: The Start-up and Scale-up Initiative" for the Competitiveness Council on 20 February 2017.

Europe's next leaders: The Start-up and Scale-up Initiative

A Manifesto for Change and Empowerment in the Digital Age

In 2016, a "Manifesto for Change and Empowerment in the Digital Age"¹ stated the following:

“Europe has no shortage of successful entrepreneurs and innovative ideas. In fact, contrary to the clichés bandied about, Europe boasts more entrepreneurs per capita than the United States, a country generally taken as a benchmark for entrepreneurial excellence. The problem, however, is that European companies seldom grow to scale. Far too many remain two-person, three-person, or quite often just one-person companies. Their innovative ideas remain the exclusive domain of local economies, sometimes confined to a single European Union member state, sometimes even to a single region within them. They fail to take on the global heft and job-generating scale of well-known U.S. start-ups, such as Apple (founded in 1976), Amazon (1994), Google (1998), Tesla (2003), Facebook (2004) or more recently Uber (2009).”

According to the Commission's Annual macro-economic database, there is a considerable productivity gap between Europe and the US. In 2014, labour productivity in the EU stood at only 70 % of US figures. Moreover, productivity seems to have come to a halt in the EU, whereas both the US and Japan have seen an increase. The Commission's database also revealed that the following elements determine labour productivity in Europe: a) the ability to adopt new, advanced technologies, as well as digitalisation; b) research and development expenditure; c) infrastructure and networks; d) external competitiveness; and e) sluggish completion of the Single Market. The EU-US productivity gap can at least in part be explained by the shortage of scale-up companies in Europe.

The Start-Up and Scale-Up Initiative

In November 2016, the Commission released the Start-Up and Scale-Up Initiative, which aims at providing Europe's innovative entrepreneurs more opportunities to turn into world leading companies.

¹ http://scaleupeuropemanifesto.eu/pdf/Scale_Up_Europe_Brochure.pdf.

The means to achieve this are removing barriers for start-ups to scale-ups in the Single Market, creating better opportunities for partnership, commercial opportunities and skills, and facilitating access to finance.

Following a presentation by the Commission, Ministers welcomed and supported the Start-up and Scale-up Initiative at the Competitiveness Council in November 2016. The Maltese Presidency is determined to help start-ups deliver their full innovation and job creation potential. On 11 January 2017, Industry Working Party discussed the Start-Up and Scale-Up Initiative. The Commission's DG GROW, the European Investment Bank and the European Investment Fund gave presentations that provided useful insights into the Initiative.

Outcome of the COMPCRO Industry Working Party (Industry) of 11 January 2017

Member States welcomed the Start-up and Scale-up Initiative as an important step forward. They also called for involvement of the Enterprise Europe Network in providing information to SMEs about European, national and regional incentives, market-related issues, practical guidance and advisory assistance, as well as a number of advanced services to start-ups and scale-ups.

Start-ups and scale-ups need to be in a position to concentrate on the product or service, they want to sell. EU programmes need to be made more user-friendly for SMEs, and there must be less administrative burdens so as to reduce the amount of paper work. Particular attention needs to be given to the cash flow requirements of start-ups and scale-ups. It is also important that Member States' managing authorities, when implementing EU programmes, do not require an excessive amount of documentation. EU programmes should be reinforced and coordinated so as to better assist companies in developing prototypes and commercialising new products. Programmes need to be designed to assist cross-border cooperation and generate synergies, as well as to assist start-ups and scale-ups to internationalise their operations.

National and regional authorities would like to have practical information on how to tap into funding offered by EFSI, EIF and EIB. Fi-Compass services are a step in the right direction and should be expanded. It is also important to identify how EFSI II can improve access to finance for SMEs following the success of EFSI I.

Member States asked the Commission to create platforms where Member States can share best practices in the utilisation of Structural Funds and the establishment of national financial instruments. Special importance should be given to financial instruments, in particular equity-type instruments where the market gap is biggest.

Small Member States and regions in the EU do not have the same access to venture capital as larger Member States and regions and they should like to see an EU-wide venture capital fund.

Some Member States would like to use the expertise of the Commission and identify missing links in their ecosystem with the aim of deciding which measures and incentives need to be put in place to improve the macro- and micro-economic environment for start-ups and scale-ups.

In the new MFF (after 2020), Member States would like to see a larger financial envelop and more technical advisory resources for start-ups and scale-ups. There also needs to be a push forward in promoting alternative sources of financing for SMEs through regional and national capital markets. The Capital Markets Union needs to become a reality.

The EU needs to create an environment of certainty for start-ups and scale-ups. A second-chance culture needs to be encouraged. Moreover, both the EU and Member States need to promote entrepreneurial skills.

Informal meeting of the Competitiveness Ministers in April 2017

The Presidency plans to continue discussions on start-ups and scale-ups at the informal meeting of Competitiveness Ministers on 5-6 April. The Presidency will illustrate to Ministers the challenges and opportunities for scale-ups. The informal meeting will also help Ministers to understand the ecosystem that scale-ups operate in. Finally, it will be demonstrated how financial instruments can be used to improve access to finance for SMEs. The exchange of views at today's Competitiveness Council is expected to be instrumental to the Presidency in preparing the informal meeting in April.

Questions for the exchange of views

Ministers are invited to address the following questions:

Question 1: The Start-up and Scale-up Initiative sets out a range of concrete measures to connect and improve ecosystems with a view to fostering start-ups and scale-ups in the EU. Which of these measures need to be taken most urgently and how can governments be best involved in their implementation?

Question 2: Which national or regional incentives does your Member State have in place to support start-ups and scale-ups? Which of these incentives could in your view be "scaled up" to a European level?

Question 3: How can financial instruments be updated based on an exchange of best practices and experiences? How can national development banks play a more active role in the process?
