

The background is a solid blue color with a pattern of overlapping circles and spheres of various sizes, some with highlights and shadows, giving a 3D effect. A white rectangular box is positioned in the upper left quadrant, containing the title text.

Position on the European Innovation Act

At a glance

European Innovation Act

Initial Position

Innovation is crucial for the EU's competitiveness and economic security. However, innovative companies still face several barriers hindering their growth, including administrative burdens and difficulties in accessing funding, talent, infrastructures and markets. On 8 July 2025, the European Commission published a public consultation on this matter, open until 30 September 2025, aiming to gather feedback on policy options.

Bitkom rating

Bitkom welcomes the initiative aiming to close the growing gap between the EU and its competitors by reducing fragmentation and improving access to infrastructure, funding and talent for promising companies. The Draghi report, the Letta report and the Startup and Scaleup Strategy have clearly identified the obstacles, inconsistencies and bottlenecks. Now that the diagnosis has been made, it is time for treatment.

The most important takeaway

To make the European Innovation Act (EIA) a genuine driver of competitiveness, the following priorities should be at its core:

- **Building an innovation-friendly framework**

Define startups by adopting our EU Startup FlexiFrame combining core criteria and optional indicators. Challenge new regulation with an innovation stress test and a digital check. Launch EU-wide regulatory sandboxes with automatic experiment clauses, and a one-stop portal. Embed the Act strategically within the broader innovation framework of the European Union.

- **Mobilizing patient, long-term capital for innovation**

Incentivize institutional investors to channel long-term capital into VC and innovation. Build secondary markets for startup shares and grant EU-wide capital-gains tax exemptions for research and development (R&D) investments to boost promising young ventures.

- **Unlocking talent, infrastructure and market access**

Roll out a fast-track EU Tech Visa, harmonize ESOP taxation, and simplify remote-work rules. Provide quick, subsidized access to public High Performance Computing (HPC) and cloud via a digital application process. Create a 28th Regime and use the European Innovation Act as a building block for the Single Market completion.

Content

1. Access to an easier, more coordinated framework	4
2. Access to Finance	6
3. Access to Talent	7
4. Access to Markets	8
5. Access to Infrastructures	10
6. Encouraging commercialization of publicly funded research and innovation	10

1. Access to a more coordinated framework

Takeaways:

- The EIA should adopt a flexible startup definition instead of a rigid one to avoid excluding promising ventures.
- The EIA should ensure uniform enforcement of existing digital laws, favor regulations over directives, and embed an innovation stress test as well as a digital check before proposing new legislation.
- The EIA should establish an EU-wide, voluntary regulatory sandbox regime with a one-stop portal, streamlined procedures, and a six-month mandate to translate results into hard law.
- The EIA should be the horizontal «operating system», closely aligned with other EU innovation initiatives.
- The EIA should establish a governance mechanism with a clear mandate, authority, and accountability.

A single definition: Defining what a startup is will provide clarity for entrepreneurs, administrations and policymakers. It might even be legally necessary to create instruments in their support. However, this definition should be drafted with caution, as it carries the risk of setting the boundaries too tightly, unintentionally excluding promising ventures. Instead of a single, rigid definition, we suggest that the EIA should follow our idea of an EU Startup FlexiFrame, a dynamic 'meet X of Y characteristics' approach. Beyond certain criteria that must always be met to qualify as a startup (e.g., independence from large corporations), companies should qualify if they meet a certain number of additional key characteristics, such as the number of employees, or growth potential. Rather than adhering to an inflexible model, this EU Startup FlexiFrame ensures that essential requirements are upheld while allowing flexibility for innovation. To make this more concrete, a working group within the European Startup and Scaleup Forum should define both qualitative and quantitative indicators.

Innovation Stress Test: Before introducing new legislation, ensuring the uniform application of existing digital regulations across all Member States should be a priority. The GDPR, for example, has resulted in fragmentation, slowing innovation and distorting competition, reducing profits for small European tech firms by more than 15%.¹ This challenge extends to other digital laws, where divergent reporting obligations create additional burdens. Therefore, Bitkom supports conducting an innovation stress test before the official introduction of new regulations to assess whether the legislative proposals strengthen the EU's competitiveness. It could finally make the innovation principle a binding part of the better regulation guidelines and toolbox and should further be complemented by a digital check that assesses digital feasibility, interoperability, and burden reduction at the operational level.

¹ <https://www.youtube.com/watch?v=dVNna0erkFM> (1:09:36 min)

Regulatory Sandboxes: For the Innovation Act to work, the establishment of regulatory sandboxes must be a top priority. The Commission should embed a robust, EU-wide sandbox regime, with every new law undergoing an automatic experiment-clause check, while existing legislation must be retrofitted with clear legal bases that let innovators temporarily deviate from rigid rules without liability risk or red tape overload. A single EU portal should act as a one-stop shop for applications, guidance and public transparency, and enforce common minimum standards. Sandboxes must stay voluntary, operate with streamlined procedures and flexible timelines, and treat regulators as partners who help participants, protect data and trade secrets, and publish findings. Crucially, results must be fed back into hard law: within six months of each sandbox's completion, authorities should state how the insights will reshape permanent regulation. Only this cycle of safe experimentation, rapid learning and systematic upscaling will give Europe the agile rulebook its startups and deep tech scaleups need. Sandbox results must be eligible evidence in conformity assessment and procurement (see procurement section).

The EU Innovation Framework: The European Innovation Act should serve as the horizontal «operating system» of Europe's innovation policy, embedded within the Union's broader strategic, regulatory, and funding architecture. Its effectiveness will depend on targeted coordination with major initiatives such as Horizon Europe, the forthcoming FP10, the European Competitiveness Fund (ECF), the 28th Regime, the Banking, the Capital Markets and Savings and Investment Unions, as well as with sector-specific legislation in areas including artificial intelligence, data, cybersecurity, quantum, and defense. The Act should create structured links between its regulatory tools and EU funding streams, ensuring that innovations proven in EIA processes can seamlessly access support from FP10 or the ECF toolbox. By aligning strategies, closing gaps between regulation and investment, and working closely with Member States to address national administrative burdens, the EIA can avoid duplication, close policy gaps, and maximize the impact of public and private investment.

Governance: To achieve this level of coordination, a governance structure is needed that has both reach and credibility. One possible solution could be to build on the existing European Innovation Council Forum and develop it into a formal platform that coordinates innovation policies, programs and investments between the EU and the Member States. However, simply upgrading an existing institution is not enough if it is not equipped with a clear mandate, and the authority to set priorities and resolve political conflicts. It must commit to publishing measurable progress reports and demonstrate its ability to translate coordination goals into concrete results. Without these prerequisites, there is a real risk of creating another layer of consultation with limited impact.

2. Access to Finance

Takeaway:

- The EIA should unlock long-term capital, offer targeted tax incentives and EU-wide capital-gains relief, and build secondary markets to further help finance startups.

Access to Finance: Over the past decade, venture capital investment in the EU has averaged only 0.3% of GDP, which is less than a third of that figure in the US.² The lack of long-term capital is particularly brutal for deep tech startups that are crucial to Europe's future competitiveness. These research-intensive innovations need patient investors willing to commit significant capital to the future. Additionally, exit options are weak, Initial Public Offerings (IPOs) are costly and complex, and strategic acquisitions are rare. If we want to stop European unicorns from fleeing abroad, we need to fix the money problem, which is not about a shortage of capital, but about insufficient channeling into venture funding. Europe's institutional investors are sitting on trillions of euros, yet they are barely investing in technology startups. A well-designed, preferential tax treatment for equity investment in startups, especially in key sectors, could drive more capital into high growth companies. This could be achieved through targeted tax incentives or a reassessment of regulatory frameworks such as Solvency II and Basel IV. A stronger focus on capital-funded pension schemes, with an option to include diversified VC investments, could also channel more long-term capital into European entrepreneurship.

Financial Market Structure: A functioning innovation ecosystem requires deep, liquid and integrated capital markets able to leverage private savings, boost productive investment and enhance the global competitiveness of European businesses. Fully integrated markets carry the potential to unlock an estimated €470 billion annually.³ The EIA should support the development of secondary markets for startup shares, harmonized capital gains tax treatment, and targeted exemptions for early-stage R&D, deep tech, and research-driven startups. It should explicitly refer to and align with the Capital Markets Union, and the Savings and Investment Union to embed startup financing needs into broader EU-level reforms.

² <https://www.imf.org/-/media/Files/Publications/WP/2024/English/wpia2024146-print-pdf.ashx>

³ <https://www.newfinancial.org/reports/a-renewed-vision-for-eu-capital-markets>

3. Access to Talent

Takeaways:

- The EIA should launch a fast-track EU-wide tech visa, retain foreign graduates, and reform labor and tax rules targeted incentives to unlock cross-border hiring.
- The EIA should harmonize and simplify EU-wide ESOP taxation, enable cross-border equity grants, and support tokenized shares to make employee ownership easy for startups.

Training and Attracting Talent: Beyond retraining and reskilling its own workforce, the EU must rethink its approach to international mobility. A fast-track EU-wide tech visa would allow companies to recruit top talent globally with a single, streamlined application process. Tax incentives to attract talent would further boost Europe's ability to compete for the best minds. Thousands of international students graduate from Europe's top universities each year.⁴ The EU should make it easier for them to stay, ensuring a steady pipeline of skilled workers for emerging industries. Labor laws urgently need reform to support cross-border hiring and fully unlock Europe's talent potential. Reforms for remote work and stock option taxation should be a priority.

Employee Stock Ownership Plans (ESOPs): While young, innovative companies often lack the resources to offer competitive salaries to top talent, Employee Stock Ownership Plans (ESOPs) can be a highly valuable alternative. In Germany, half of all startups grant equity to their employees, with most opting for virtual shares.⁵ The primary motivations behind this are talent retention, motivation, and additional compensation. However, for startups without ESOPs, administrative complexity is a key barrier, cited by one-third of them. Another big challenge is the lack of harmonized taxation for stock options across Europe. Each country has its own approach. Additionally, issuing stock options becomes even more complicated when employees are based in foreign subsidiaries. The tokenization of shares presents significant opportunities in this context.

⁴ https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Learning_mobility_statistics#Graduates_from_abroad

⁵ <https://www.bitkom.org/sites/main/files/2024-09/bitkom-startup-report-2024.pdf>

4. Access to Markets

Takeaways:

- The EIA should be aligned with the Single Market Strategy, slashing bureaucracy, harmonizing rules across Member States, so firms can scale seamlessly across the EU.
- The EIA should flank the 28th Regime.
- The EIA should expand matching networks, standard contracts and low-threshold pilots, and subsidize corporate adoption to unlock startup–incumbent collaboration and market access.
- The EIA should modernize procurement with an EU digital pre-qualification and marketplace, cross-border joint buying, limits on in-house awards, faster/leaner processes, and startup-inclusive, innovation-driving contracts.

A Single Market: Neither tariffs nor deteriorating relations with trade partners pose the biggest threats to Europe, but rather the internal barriers the EU has imposed on itself. Excessive bureaucracy and fragmented regulations stifle innovation and competitiveness. Germany's most successful founders make this clear in our Unicorn Report: less bureaucracy and greater harmonization of the EU Single Market are the two top priorities for them.⁶ The IMF estimates that internal barriers amount to the equivalent of a tariff of 45% for goods and 110% for services, far more damaging than any trade measures imposed from abroad.⁷ To fully unlock the potential of the Single Market, we must eliminate unnecessary bureaucracy and create a regulatory environment that enables businesses to scale seamlessly across borders. This requires not only EU-level action but also the commitment of Member States to address national administrative burdens. Regulatory simplification must go hand in hand with better enforcement.⁸ The Innovation Act should serve as a building block for this Single Market completion.

The 28th Regime: Another related matter the EIA should be closely aligned with is the 28th Regime. Instead of dealing with 27 national legal systems, innovative companies should operate under a single framework. We cannot emphasize enough how important this initiative is for innovation. A 28th Regime must provide a default legal structure and enable fast, digital registration valid across all Member States for seamless cross-border expansion without needing multiple legal entities. This is about efficiency, clarity, and making Europe the easiest place in the world to build and scale a business.⁹

⁶ <https://www.bitkom.org/sites/main/files/2025-01/getstarted-unicorn-report.pdf>

⁷ <https://www.imf.org/en/News/Articles/2024/12/15/sp121624-europes-choice-policies-for-growth-and-resilience>

⁸ For further information on a fully integrated CMU, see our position on the [Savings and Investment Union](#)

⁹ For further information on a 28th Regime, see our position on the [28th Regime](#)

Public Procurement: Public procurement in Europe is stacked against startups.

Excessive administrative requirements often disqualify them before their proposals are even considered. If the EU wants real innovation in public services, procurement rules need to change. A centralized digital pre-qualification system would allow startups to upload their certifications and qualifications once, rather than submitting the same paperwork for every tender. Priority should also be given to allowing procurement via online marketplaces to simplify, standardize, and ensure fair procurement processes across borders. In Germany, we have the so called EVB-IT Verträge (supplementary contractual conditions for the procurement of IT services). These contracts are negotiated between Bitkom and the public sector. They serve as standard contracts for all procurements under the regime of the Federal Budget Code. Also, many other procurement offices use these contracts. The advantage of these standard contracts is that they eliminate the need for both parties to spend time and money on drafting and reviewing contracts¹⁰ Moreover, bureaucracy would be reduced, and European cooperation would be fostered if national public procurement authorities could procure together with other Member States' public authorities. This would benefit economies of scale and support startups. In-house procurement by government agencies should be limited to ensure that contracts remain open to competition. Faster evaluation of bids, advance payments and simplified compliance procedures would reduce the financial and administrative burden. The EIA should further promote guaranteed demand mechanisms, where successful completion of R&D or prototype contracts creates a clear, credible pathway to follow-on production contracts.¹¹ Europe needs to start using procurement strategically to strengthen its own innovation ecosystem. Large public contracts in key industries should be structured to encourage the participation of European startups, rather than shutting out innovation, procurement should drive it.

Private Procurement: As with public procurement, there is enormous untapped value creation potential in joining forces with established businesses. 32% of German companies have already recognized this potential and are working with innovative tech startups. Satisfaction is extremely high: 93% of cooperating companies rate the results as positive.¹² Nevertheless, the first step remains difficult for many. These obstacles are significant, but they can be overcome. Matching formats and regional innovation networks must be specifically expanded to structurally promote exchange, visibility and cooperation between AI startups and established companies. The EU should further establish subsidies for companies that use solutions from startups. This will actively promote cooperation and create market access. Moreover, standard contracts, low-threshold pilot formats and better integrated funding instruments can help to effectively overcome lengthy purchasing processes, unclear responsibilities and barriers to innovation in everyday business operations.

¹⁰ All contracts can be found [here](#)

¹¹ https://www.nber.org/system/files/working_papers/w28644/w28644.pdf

¹² [https://www.bitkom.org/Presse/Presseinformation/Jedes-dritte-Unternehmen-sucht-Naehe-Startups#:~:text=Jedes%20dritte%20Unternehmen%20\(32%20Prozent,Unternehmen%20heraus%20selbst%20Startups%20gegr%C3%BCndet.](https://www.bitkom.org/Presse/Presseinformation/Jedes-dritte-Unternehmen-sucht-Naehe-Startups#:~:text=Jedes%20dritte%20Unternehmen%20(32%20Prozent,Unternehmen%20heraus%20selbst%20Startups%20gegr%C3%BCndet.)

5. Access to Infrastructures

Takeaway:

- The EIA should give startups priority, low-friction access to EU HPC and cloud, subsidized compute, free starter quotas, a one-stop digital application, EU-wide coordination, and enable European providers to offer competitive terms.

Access to Infrastructure: The most important future industries rely on massive computational power. Yet, public computing resources are also often reserved for academic research. Startups have only limited access to them, and this access is associated with lengthy bureaucratic processes that consume time and resources. Especially in the early stages, excessive application procedures, a lack of transparency and long waiting times are fatal. The Innovation Act should prioritize access for startups and European coordination of capacities. They should be given quick access to public HPC infrastructure through subsidized computing time, free start quotas and simplified digital application procedures. European cloud providers should be supported to offer competitive terms to startups.

6. Encouraging commercialization of publicly funded research and innovation

Takeaways:

- The EIA should standardize and back-load IP transfer, embed entrepreneurship in STEM, fund scalable transfer centers, and launch a European IP Marketplace to turn research into startups.
- The EIA should introduce performance-based top-ups and flexible grants that grow with a university's track record of spin-off creation.
- The EIA should prioritize establishing a comprehensive network of regionally anchored transfer ecosystems, supported by substantial European funding to ensure scalability and sustainability.

IPR: To increase the number of startups originating from research, the transfer of intellectual property must be simplified and standardized. A uniform transparent valuation framework should replace today's case-by-case haggling, so that spin-offs are no longer held back. Up-front license fees or equity stakes drain scarce resources in a startup's early stage. Startup-friendly 'back-loaded' models solve this. The university keeps participation rights but earns returns only once the company is generating revenue or profit.

Transfer Incentives: If Europe wants its research institutions to produce companies more effectively, its incentive structure must be adjusted accordingly. This means going beyond project-based research grants. The EU could introduce performance-based top-ups and flexible grants that grow with a university's track record of spin-off creation. By signaling that successful venture creation is a core metric for public support, the Union would strengthen the pipeline from lab to market.

Strong Ecosystems: The EU must prioritize establishing a comprehensive network of regionally anchored transfer ecosystems, supported by substantial European funding to ensure scalability and sustainability. These centers should serve as dynamic hubs that connect research institutions, venture capital, and industry partners, creating pathways for researchers who wish to pursue entrepreneurial ventures. The German Digital Hubs could serve as a guiding initiative. The EU should ensure that such networks are financed, established, and consistently expanded in all Member States.

Bitkom represents more than 2,200 companies from the digital economy. They generate an annual turnover of 200 billion euros in Germany and employ more than 2 million people. Among the members are 1,000 small and medium-sized businesses, over 500 startups and almost all global players. These companies provide services in software, IT, telecommunications or the internet, produce hardware and consumer electronics, work in digital media, create content, operate platforms or are in other ways affiliated with the digital economy. 82 percent of the members' headquarters are in Germany, 8 percent in the rest of the EU and 7 percent in the US. 3 percent are from other regions of the world. Bitkom promotes and drives the digital transformation of the German economy and advocates for citizens to participate in and benefit from digitalisation. At the heart of Bitkom's concerns are ensuring a strong European digital policy and a fully integrated digital single market, as well as making Germany a key driver of digital change in Europe and the world.

Published by

Bitkom e.V.

Albrechtstr. 10 | 10117 Berlin

Contact people

Christofer Bingener | Policy Officer Startups & Scaleups

P +49 30 27576-220 | c.bingener@bitkom.org

Carlo Zensus | Policy Officer Innovation & Foreign Trade

P +49 30 27576-349 | c.zensus@bitkom.org

Esther Steverding | Policy Officer Public Sector

P +49 30 27576-216 | e.severding@bitkom.org

Responsible Bitkom Committee

WG Innovation Policy

Copyright

Bitkom 2025