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09 March 2021

Feedback on the EC's Roadmap for a Communication on a Europe's digital decade: 2030 digital targets

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By participating and actively engaging in the EC's common digital plan towards 2030, Invest Europe wants to ensure the role of start-ups, venture capital and private equity as drivers of innovation is acknowledged. We believe them to be crucial players in making the digital transformation successful. Moreover, we hope the EC will make creating the right incentives, as well as the right policy and tax environment for innovative start-ups and companies a priority in the context of the 2030 digital targets.

Invest Europe welcomes the initiative of the European Commission of establishing a clear pathway to a common digital decade vision for the EU, Member States and its citizens. We believe this is indeed needed to complement and coordinate the already existing policies, strategies, and initiatives on the topic which right now are somewhat fragmented.

Moreover, we fully support the idea that Europe's future will be determined by its success in achieving the digital and green transitions. And we fundamentally agree that in order for this digital transformation to be successful, it will need to be based on a clear vision of a common future that includes all Europeans.

We would like to start our feedback by expressing our foremost commitment on working towards fulfilling the EU green and digital transitions and to strengthen the EU's leadership role in the international context.

The Roadmap arrives timely in a moment in which Europe is still suffering the consequences of the pandemic. A pandemic that has made clearer than ever the critical role of digital technologies for citizens and business. We subscribe to the idea that in order to recover from this crisis, ensuring that everyone benefits from digital opportunities will be deemed essential.

The Roadmap as presented covers five issues that the EC considers should be tackled, from the need for a clear strategy with coherent and visible digital goals to the need of strengthening its capacity to project Europe's digital goals in its international cooperation. Whilst we consider these are all relevant issues that need to be addressed by the future communication and subsequent actions, we also believe there is an important element missing in the Roadmap that is key if we want to fulfil all digital targets by 2030. This is the role that the Private Equity and Venture Capital industries can play in fostering digitalisation and, more importantly, how the European Commission can further facilitate this.

Private Equity and Venture Capital are amongst the main sources of funding for start-ups, most of which are in tech/digital related sectors and consequently constitute key players for the fulfilment of the 2030 digital targets. Likewise, innovative SMEs are also important drivers of digitalisation and change. Both will be in charge of making the digital transition possible and successful. In numbers, private equity funds provide long-term financing for more than 22,600 European businesses each year, 64% of which are SMEs, employing over 10.5 million people. As an industry committing long-term and active capital to businesses across Europe, and investing in sectors as

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diverse as innovative technology, life sciences, infrastructure or health, private equity and venture capital investors are uniquely placed to adopt a significant role in ensuring the foundations of the digital and green transitions as well as the recovery of the European economy. For all the above, we believe the PE/VC industry is part of the solution and its role should be considered when defining the pathway towards achieving the 2030 digital targets.

Before entering into the specifics of how the EC can further support the PE/VC industry, we would like to acknowledge the important efforts made so far by the European Union and, particularly, the European Commission to help SMEs and start-ups in these unprecedent crisis that unfortunately we are still suffering from. In this context, the funding provided through the Multiannual Financial Framework (MFF) and 'Next Generation EU' instrument have been key in helping thousands of companies weather the crisis and form the backbone of a European economic recovery. Likewise, all funding support instruments provided via the European Investment Fund (EIF) have helped European companies bear the worse moments of the crisis and have allowed them to continue growing.

These instruments are already contributing, directly and indirectly, to the digital transformation. However, as the Roadmap mentions the European Union still needs to do more in developing and deploying strategic cutting-edge technologies as the current scale is not sufficient to achieve the objectives set. Moreover, as also signalled in the Roadmap, currently the majority of this technology is being developed outside Europe and this is something that we also aim at changing as we want Europe to recover its digital sovereignty. A massive scale-up of investments is needed in order to fulfil the targets, but this will only be workable in the right legal and regulatory environment.

Although at the end of 2020 Europe accounted for around 25% of global GDP, its share of global tech venture capital investment was only 13%, despite the growth observed in last years. More than anything, this illustrates the dominance of the US in terms of global venture capital investment. US tech still attracts more than half of all venture capital investment globally, despite accounting for 26% of global GDP and being home to just 5% of the world's population.

We believe the EC has the opportunity to counter the trend as outlaid above by further boosting private investments in deep-tech companies to allow the in-house development of cutting-edge technologies. The EC can actively facilitate the scale-up of investments and contribute to the digital transition not only via public funding but also by taking different initiatives that will make private investments thrive.

These other initiatives include making carefully balanced decisions when choosing where to allocate their direct funding. As presented above, reserving budget for the digital transition and investing it through different instruments like the RRF or MFF is a first step in supporting companies. But, in doing so, we believe the political ambition needs to be very carefully balanced. If all funding is directed to certain sectors in order to maximise returns, we will risk leaving others behind. And as expressed in the Roadmap, for the digital transformation to be successful, it needs to be a transformation of all economic sectors that takes on board all citizens not leaving anyone behind. Choosing to invest only in the 'winners' will have negative consequences in the long-run. In this sense, we believe policymakers need to put more focus on ensuring that public funding instruments are perfectly complementary to those already in the market.

On top of the need for scaling up investments, another of the issues signalled in the roadmap is the fact that the majority of technologies are currently being developed outside the EU. To address this problem, we first need to identify its causes.

One of the reasons why more technologies are developed in the US compared to the EU, is because their start-ups are simply more successful than European ones. Many factors can be identified behind this higher level of achievement, but a very important one that we would like to address here is the ability of attracting and retaining talent. As important as funding is human capital, as these individuals are ultimately those responsible for the development and success of the company. Right now, European start-ups are competing not only with already well-established companies, but also with start-ups in other parts of the world that are seen as more attractive or rewarding. One way in which start-ups can attract the right talent is by providing stock options to its employees. As research showcases, US start-ups are more successful at retaining and attracting talent mainly due to the promotion of stock options. This is one of the factors that ultimately make US start-ups more successful. We recognise more awareness is needed, but for the ultimate success of these type of incentives, it is necessary to have the right tax framework. We believe the right tax incentives will allow start-ups to attract the talent they need to continue growing. Moreover, a harmonised tax treatment of stock options across Europe would create a level-playing field for start-ups. At the moment those countries that have a more favourable treatment of stock options, are also those with a bigger and more successful start-ups' ecosystem and higher success rates. If we want to achieve 2030 goals, we need to allow for start-ups across the board to have the same opportunities to attract talent and thrive. Policymakers have now the opportunity to create the best environment for tech start-ups to grow and develop within Europe contributing to the green and digital transitions.

As mentioned above regulation and tax practices vary massively across Europe, from some of the world's most favourable schemes for start-ups, to some of the most burdensome. If the European tech ecosystem is to grow and thrive, all key stakeholders including policymakers need to work collaboratively. We need to address the barriers that taxation and bureaucracy pose to innovation if we want to achieve the 2030 digital targets.

We believe the European Commission has on its hands the success of the digital transformation. If Europe wants to be the point of reference when it comes to technology, it must look at its regulation and taxation policies some of which are right now hampering the development of those tech start-ups that will boost change.

As the latest "State of European Tech 2020" report signals, the European tech community is hopeful that Europe can make up ground with the US and China over the next decade. In this context, 70% of LPs investing in venture capital, 65% of VCs and 58% of founders agree that Europe will gain ground over the next ten years. Therefore, the change is possible, and the industry stands ready to actively contribute to the digital goals, but ultimately the right incentives from regulators are needed to make this a reality.

All in all, we encourage the EC to recognise the role of start-ups, venture capital and private equity as crucial to the digital transformation of Europe. And we hope that creating the right incentives, as well as the right policy and tax environment for innovative start-ups and companies will be made a priority in the context of the 2030 digital targets. We believe in a mission-driven policy that helps all economic sectors without interfering with market instruments and actors but rather complements and supports them.

Finally, we would like to reinforce the commitment of Invest Europe and its members to the digital transformation. We stand ready to help policymakers achieve the 2030 digital targets.

We remain at your disposal for more questions and will stand ready to give you additional details on the proposals presented above as well as on the specificities of private equity and venture capital investments and on the needs of the businesses they support.

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About Invest Europe

Invest Europe is the association representing Europe's private equity, venture capital and infrastructure sectors, as well as their investors.

Our members take a long-term approach to investing in privately held companies, from start-ups to established firms. They inject not only capital but dynamism, innovation and expertise. This commitment helps deliver strong and sustainable growth, resulting in healthy returns for Europe's leading pension funds and insurers, to the benefit of the millions of European citizens who depend on them.

Invest Europe aims to make a constructive contribution to policy affecting private capital investment in Europe. We provide information to the public on our members' role in the economy. Our research provides the most authoritative source of data on trends and developments in our industry.

Invest Europe is the guardian of the industry's professional standards, demanding accountability, good governance and transparency from our members.

Invest Europe is a non-profit organisation with 25 employees in Brussels, Belgium.

For more information, please visit www.investeurope.eu.