EUROPE AT A CROSSROADS

CAN INNOVATION SURVIVE UNDER INCREASING REGULATION?

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INTRODUCTION

TECH POTENTIAL VS. REGULATION RISKS

Europe stands at a crossroads, where its future economic success depends on the ability to enhance competitiveness. While new technologies like AI offer immense potential, Europe risks losing its competitive edge due to over-regulation. Globally, Europe is falling further behind the US and China, where massive investments and more flexible regulations drive rapid innovation. Thirty years ago, Europe accounted for about a quarter of global GDP, but since then, it has been in steady decline. Today, EU GDP per capita is only half that of the USA. None of the world's ten largest companies are European, none of the most valuable unicorns are European, and not a single one of the 50 largest European companies has been founded in the last 30 years. Europe's economic power is eroding at an alarming rate.

Europe is a pioneer in tech regulation – but why not in tech innovation? The continent boasts world-class universities, producing exceptional talent. With this research and development capacity, Europe could lead the world in new technology if we made it a collective priority. The real question is: Can Europe foster an environment that unleashes our innovation potential and gives businesses the room they need to grow?

THE DANISH DILEMMA

Denmark exemplifies this dilemma. Danish politicians are quick to comply and often over-implement when the EU imposes new regulations, reflecting a lack of critical engagement with the broader implications of these rules. Instead of challenging or shaping these rules to drive real change, we focus solely on meeting compliance. While we are busy ensuring we follow the rules to the letter, the US is investing trillions in innovation. This forces us to question how sustainable this approach is and whether it's holding us back from remaining competitive and innovative.

THE COST OF OVER-REGULATION

Today, the EU has around 100 tech-focused laws and over 270 regulators active in digital networks across all member states, meaning that the regulatory burden is only growing and the compliance costs have grown dramatically for the startups. The risk of overlapping and contradicting regulation is clearly seen in the EU's regulatory landscape consisting of, amongst other regulations, the AI Act, GDPR, Digital Market Act, Digital Services Act and so forth.

The intention behind these regulations comes from a good place, aiming to eliminate risks—yet striving for zero risk is unrealistic and ultimately pushes innovation away from Europe. Instead of merely imposing stricter controls, we need to explore new approaches to deregulation that can unlock hidden growth and fully harness the potential of technology.

BALANCING GROWTH AND CONTROL

The next era belongs to the countries that dare to bet on new technology, and understand how to take advantage of the benefits it brings for individuals, society and the economy. Europe must ensure a balance between regulation and innovation that fosters the latter. The future of the European economy and startup climate depends on this balance – and perhaps the time has come for both Denmark and the EU to take on a new direction.

THE ENTREPRENEURIAL EXODUS

Europe's startups stand at a crossroads. Concern for the continent's digital future is growing, and the consequences are already noticeable. Danish unicorn examples such as Unity Technologies, Tradeshift and SteelSeries, demonstrate that successful European startups will seek better conditions outside the continent, if the market weakens the businesses instead of strengthening them.

When they exit the European market, they take jobs, economic growth, tax revenue, and new innovations with them. This leads to a further decrease in Europe's competitiveness. Entrepreneurs and future digital frontrunners, who are supposed to breathe life into growth and innovation in Europe, are leaving the continent due to incomprehensible frameworks and a mountain of regulations that hinder the very same.

The never ending regulation on tech is a trend that must be stopped if Europe wishes to uphold a high level of welfare, a high standard of living, secure a green transition, and take care of security issues such as Ukraine's freedom.

THE IMPORTANCE OF DIALOGUE AND INCLUSION

Nevertheless, the entrepreneurs are often forgotten in these discussions. Instead, the agenda frequently centers around, for instance, how we protect and shield consumers from the 'terrible' consequences that new technologies can have, rather than focusing on how Europe can become the most digital market, and ensure that there is also a wealthy and innovative society for future generations.

At Danish Entrepreneurs, we have set ourselves an important mission. Entrepreneurs must be heard and listened to. It is startups we need to nurture and support to increase innovation, investments, and competitiveness in Europe, as well as to strengthen our global position.

BACKGROUND

On September 11, Danish Entrepreneurs hosted the official policy summit at Tech BBQ. Prior to the summit, the team from Danish Entrepreneurs introduced a "policy grill" aimed at gathering policy suggestions from the ecosystem to be incorporated into the discussions at the summit.

While some of these policy wishes reached the policymakers' agenda, many did not. This was simply due to the fact that, during the two-hour period we toured Tech BBQ, it was impossible to address the +100 policy wishes we received from the ecosystem.

We felt it would be too self-serving to keep these important opinions to ourselves, which is why this report will present the inputs, categorized into four areas: competencies, capital, compliance, and culture. At Danish Entrepreneurs, we are committed to ensuring that these policy wishes will be established in the D9+ forum, which Denmark holds the presidency of at this very moment, as well as in relation to Denmark's Presidency of the EU Council.

We firmly believe that we should utilize the unique position Denmark currently holds and listen to the entrepreneurs' challenges and priorities. Entrepreneurs are able to change the world for the better, but they cannot do it alone. It is the responsibility of policymakers to pave the way for more innovation, not less. Currently, Europe is falling further and further behind, which makes the dialogue between policymakers and startups more crucial than ever.

INSIGHTS FROM FOUNDERS, INVESTORS, AND ECOSYSTEM LEADERS AT TECH BBQ

CAPITAL

We asked startups for their input on improving access to capital. What challenges do they face, and what solutions do they suggest to close the funding gap in Europe?

COMPETENCIES

Startups shared their thoughts on the importance of talent. What skills are they missing, and how can Europe foster the right competencies to support their growth?

CULTURE

We explored how startups view the entrepreneurial culture in Europe. What kind of environment do they believe is necessary to encourage innovation and risk-taking?

COMPLIANCE

Startups spoke about the impact of regulations. What are the key compliance challenges they face, and how can regulatory frameworks be improved to promote growth and innovation?

HOW DO WE FOSTER A BETTER EUROPEAN STARTUP ENVIRONMENT?

COMPETENCES

"We've got to make employee stock options simpler to manage so startups can attract and keep top talent."

"Startups need more support to boost AI and digital skills amongst employees"

"It's tough to succeed when jobs only go through recommendations. We need a more transparent market where the best talent gets hired, not just friends of friends."

"We need a EU Startup Visa to make it easier to bring in foreign talent."

"It should be easier to find entrepreneurs to hire through apps or research tools."

"For smaller startups, finding the right talent to work with open-source AI is a big hurdle."

CULTURE

"We should involve participants in programs, events, and policymaking so they feel truly engaged."

"We need more international speakers to inspire and promote entrepreneurship."

"It should be mandatory for VCs to report diversity stats and set a goal of 20% of capital going to female or mixed-gender startups"

"We need to put more focus on supporting young entrepreneurs."

"We should make coding and digital skills a part of school curriculums from a young age."

"We need to jump on the AI wave to foster the entrepreneurial spirit in the EU."

"Let's create special incentives for women founders and other underrepresented groups to thrive."

CAPITAL

"We need better frameworks for startups—just look at public procurement, it's not working for us."

"We should have more grants focused on early-stage startups and scale-ups to give them a better shot."

"We need more opportunities to apply for funds, and the existing ones need bigger budgets."

"I'd love to see more support in regards to funding when you're ready to take your physical product to market."

"Cut the red tape for investors and simplify regulation across EU member states to make investments more smooth."

"Governments need to focus more on providing capital for startups."

"EIFO should focus more on supporting green startups and prioritize investment in sustainable solutions."

COMPLIANCE

"Please harmonize data protection laws to reduce the complexity of compliance"

"Startup tax regulations need to be less complicated."

"I wish the novel ford process will change to a simple and cheaper process. The current setup makes innovation focus on USA and Asia, hindering activitiees in EU, leaving us full behind"

"We need to reduce the bureaucracy—it's slowing everything down."

"Switzerland should be allowed to participate in EU-funded projects."

"We should implement R&D tax credits for software startups."

"If we restrict targeted advertising, it will kill all new digital startups and their ability to reach new customers. This will be the death of startups and only make it possible for Big Tech to afford advertising in traditional matters where you don't know if you will reach our optimal buyer."

"The faster we implement a common European company status, the better. A common European company status is the best way going forward."

"Regulation is a tool that should come along with challenges, but in Europe we overregulate from the beginning, which stops innovation"

"We should either get rid of some regulations or at least slow down on GDPR enforcement."

"Let's set up a dedicated startup group in the EU Parliament to focus on our needs."

When trying to take advantage of AI, it is difficult to try out the service or product, because it often requires access to data, and in that process you spend too much time on ensuring that you live up to any laws there might be

"We need an AI regulatory sandbox to test out new ideas safely."

"It needs to be easier to understand and comply with EU and ESG regulations."

"It should be simpler to become sustainability compliant."

"Better public procurement so startups have a regulatory sandbox, where they can test their solutions."

"Take a break from creating new regulations and focus on implementing the existing ones properly."

"There's too much overlap between AI regulations and GDPR, making things complicated."

"Let's cut the bureaucracy for small companies— it's holding us back and the compliance cost is draining a lot of growth."

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"Review public procurement processes to help startups sell innovative solutions."

"It's become way too difficult to get a business bank account. That needs to change."

"Ensuring compliance with GDPR requires investing in legal expertise, data protection officers, and technology for data management, which can be expensive for small businesses."

"Europe should back open-source AI with clear and fair regulations."

"Startups need easier funding, help with compliance, and lower taxes."

"Cut corporate taxes for startups, at least for the first five years."

"It's way too expensive to get products approved by the medicine agency—it needs to be more affordable."

"We need a sandbox within all new regulationsmade for small and new companies to test out their solutions."

"We must lower the overall tax of businesses in Denmark."

"Every member state in the EU have different additions to GDPR laws or other restrictions on advertments, which makes it difficult for startups to adapt to new markets."

"Misunderstanding the legal implications of using or contributing to open source AI can lead to unintended licensing issues or loss of competitive advantage."

"It is an absolutely no brainer that we need the possibility to apply for Seed Enterprise Investment Schemes in Denmark."

"Non-compliance can result in hefty fines, which is a significant risk for startups and small businesses with limited resources."

"Too many European startups are being founded outside of Europe—something needs to change."

"We must secure a stable framework for transatlantic data transfers."

"Create an EU one-stop-shop for cross-border regulatory advice."

"Let startups test their solutions in public procurement sandboxes."

"We need to focus more on sustainibility."

"We need to reduce the red tape; it's too time-consuming."

"We need faster and clearer regulations for startups."

"We need to lower taxes across the EU for startups."

"We need to reduce the red tape; It's too time-consuming."

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