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Feedback of

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to the

European Commission

regarding the

European Innovation Act

I. Introduction

ACT | The App Association (hereafter ‘App Association’) welcomes the opportunity to submit comments to the European Commission’s consultation on the European Innovation Act.

The App Association is a policy trade association for the **small business technology developer community**. Our members are entrepreneurs, innovators, and independent developers within the global app ecosystem that engage with verticals across every industry. We work with and for our members to promote a policy environment that rewards and inspires innovation while providing resources that help them raise capital, create jobs, and continue to build incredible technology. Today, the ecosystem the App Association represents—which we call the app economy—is valued at approximately €95.7 billion and is responsible for more than 1.4 million jobs in the European Union (EU).¹

II. European Innovation Act

Startups and scaleups are the backbone of European innovation. Yet, over the past decade, many have faced persistent challenges in growing and scaling their businesses.

Notably, the increase of digital regulations in the recent years has created additional challenges for startups, often exacerbated by overlaps and even conflicts with other regulations. A recent report by DOT Europe and Freshfield has highlighted numerous (partly overlapping) documentation requirements, including risk or impact assessments, leading to significant administrative burden for companies and giving rise to higher compliance risks and operational challenges.² Not only that, but it also underlines those regulations like the General Data Protection Regulation (GDPR), the European Electronic Communications Code (EECC), and the NIS2 Directive have tight reporting deadlines that apply to the same incident, involving various regulators, requiring different reporting forms and often requiring distinct types of information.³

This concern of over-regulation is also reflected in [Atomico’s 2024 State of European Tech report](#), which surveyed 3,000 tech founders and investors. The findings show that 41 per cent are dissatisfied with the Digital Markets Act (DMA), 60 per cent with the GDPR, and 53 per cent with the AI Act. Not only that, but Former Prime Minister Mario Draghi also highlighted in his report that ‘innovative companies that want to scale up in Europe are hindered at every stage by inconsistent and restrictive regulations’.⁴ As Adam Paton Stanley-Smith, CEO of Germany-based App Association member company

¹ See [220912_ACT-App-EU-Report.pdf](#).

² DOT Europe report, page 6.

³ DOT Europe report, page 7.

⁴ The Draghi report, page 8.

Meaningful, explained, *‘We’re already compliant with GDPR. The problem comes in with all the overlapping and contradicting rules on top of it. This is especially problematic if privacy and security tools like encryption are weakened. This level of complexity and risk make people want to start businesses elsewhere. If Europe wants to lead, it has to make it easier for SMEs [small and medium-sized entities] to grow’*. All of the above underscores that the regulation is failing to deliver meaningful benefits for SME developers, reinforcing the need for a more measured and effective approach.

We believe the European Innovation Act offers an opportunity to address many different challenges. Its first priority should be to tackle overlapping regulatory obligations. A single incident reporting template or, better, a centralised reporting mechanism would allow companies to notify incidents through one platform, thereby reducing complexity. In addition, when revising existing frameworks, the Commission should ensure that startups are exempted from disproportionate reporting requirements that slow down their ability to innovate and compete globally. Now, more than ever, we believe the focus should shift towards practical implementation and providing clear guidance to SMEs on how they can navigate this complex regulatory environment. Rather than introducing additional layers of regulation, the priority should be to consolidate and streamline existing frameworks, reducing overlaps and inconsistencies.

Future regulations must also be grounded in demonstrated harms rather than hypothetical risks. Tools such as innovation stress tests, regulatory sandboxes, and compliance offices should be put in place to help startups quickly understand their obligations and ensure compliance without unnecessary barriers. To be effective, innovation stress tests must meaningfully involve innovators themselves, or at the very least ensure that people familiar with their needs and struggles are represented in the process. This will guarantee that the assessment reflects the realities startups face on the ground. Likewise, for regulatory sandboxes to deliver real value, it is essential that they are coordinated at the EU level or at minimum implemented with strong involvement of the EU at the national level to ensure harmonisation across Member States. Without such alignment, fragmentation risks undermining the very benefits that sandboxes are designed to deliver.

At the same time, there are broader areas that must be addressed to strengthen Europe’s innovation ecosystem:

Coordination with national authorities is crucial to ensure coherence not only in the development of innovation policies but also in the implementation of existing regulations. Too often, the divergence in national transpositions or enforcement practices creates fragmentation and legal uncertainty, discouraging companies from scaling beyond their domestic markets. This is also underlined in the Draghi Report, where he states that digital companies face heterogeneous requirements, a proliferation of

regulatory agencies and ‘gold plating’ of EU legislation by national authorities.⁵ A more coordinated approach, supported by EU-level guidance and oversight, would significantly reduce regulatory complexity for startups and scaleups operating across borders.

Access to finance remains one of the main challenges for innovative startups. While Europe has made progress in mobilising investment for early-stage companies, scaling remains particularly difficult. The lack of harmonisation in investment rules and limited incentives for cross-border funding continue to constrain growth. As a result, many European companies prefer to seek financing from U.S. venture capitalists and scale up in the U.S. market. Between 2008 and 2021, close to 30 per cent of the ‘unicorns’ founded in Europe, startups that went on to be valued over USD 1 billion, relocated their headquarters abroad, with the vast majority moving to the United States⁶. Jason Culloty of Ireland-based member company, Skillsvista, said, *‘Funding in Europe is an uphill battle, with limited incentives for angels or VCs. This has resulted in funding gaps across the startup lifecycle, impacting the growth of the startup sector and innovation across Europe. In other regions, access to capital is easier, leaving European founders at a disadvantage. Europe needs to simplify regulations and improve incentives for both investors and founders’*. An EU-level framework that fosters greater integration of capital markets, encourages venture capital, and ensures regulatory consistency would go a long way in unlocking the potential of Europe’s most innovative companies.

Access to talent and skills is equally critical. Innovative companies depend on highly skilled workers to develop and scale their solutions, yet Europe faces both a shortage of talent and structural barriers to offering globally competitive remuneration. Almost 60 per cent of EU companies report that lack of skills is a major barrier to investment and a similar share report difficulties in recruiting Information and Communications Technology (ICT) specialists.⁷ Employee ownership schemes such as stock options are a proven tool to attract and retain top talent. However, their use in Europe is hindered by fragmented rules across Member States, including divergences in taxation, employee and company eligibility, and the lack of mutual recognition of such schemes. Developing a harmonised EU framework with common standards on taxation, eligibility, and rights would empower innovative companies to compete more effectively for talent, while ensuring legal certainty for both employers and employees.

Adding to the complexity, the absence of an EU-wide definition for startups and scaleups has led to divergent national interpretations, legal fragmentation, and greater uncertainty. The App Association therefore welcomes the European Commission’s consideration of a harmonised definition. Such clarity would not only facilitate cross-border operations

⁵ Draghi report, p. 32. https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en

⁶ Draghi report, p.8.

⁷ Draghi report, p. 38

but also strengthen legal certainty regarding company rights and obligations. It would also ease access to finance by providing a clearer framework for investors.

Furthermore, startups depend on **a strong intellectual property (IP) framework** to protect their creativity and innovations. We continuously encourage our members to be proactive about copyright and trademark registration and to help them navigate the process. However, complex and costly procedures across fragmented national systems discourage investors from filing intellectual property rights (IPRs), hindering young companies from leveraging the Single Market.⁸ At the App Association, we advocate for a IPR valuation tool to simplify the IPR valuation processes as well as more financial support, at reduced rates, to startups and scaleups for IPR valuation. In addition, startups often build products on existing standards, so they must be able to license the standard-essential patents (SEPs) needed to implement them and connect with the world on fair, reasonable, and non-discriminatory (FRAND) terms. We need more transparency, and policymakers must urgently address the imbalance of power in SEP license negotiations.

Lastly, **access to infrastructure** is essential for the growth of startups. Whether it is high-speed connectivity, cloud computing resources, testing facilities, or secure data spaces, innovative SMEs need equal and affordable access to infrastructure to scale their solutions. As stated by a briefing of the European Parliament, in the EU, investment in infrastructure has been declining since 2009.⁹ The World Bank,¹⁰ in their research working paper rightly underlines those investments in network infrastructure, such as electricity or telecommunications, improve access to corresponding services and lower costs for entrepreneurs, which is conducive to growth in of private investment. In this context, it is crucial that EU infrastructure policies are explicitly designed with startups and scaleups in mind, ensuring equal, affordable, and non-discriminatory access to the resources they need to innovate and compete globally.

III. Conclusion

The App Association firmly believes that the European Innovation Act represents a critical opportunity to reset the course of Europe's innovation policy. For startups and scaleups to thrive, Europe must reduce unnecessary regulatory burdens, harmonise rules across Member States, and ensure that future obligations are grounded in demonstrated harms rather than theoretical risks.

A key step in this process will be the creation of a clear and harmonised EU definition for startups and scaleups. Such a definition would provide legal certainty, reduce

⁸ Draghi report, p. 32.

⁹ European Parliament. Investment in Infrastructure in the EU, Gaps, challenges and opportunities, p.1

¹⁰ <https://documents1.worldbank.org/curated/en/349701468138569134/pdf/wps4460.pdf>

fragmentation across national regimes, and facilitate access to finance and cross-border growth. Equally important is the introduction of an innovation stress test for new and revised regulations. This mechanism would allow policymakers to assess the real impact of proposed rules on startups before adoption, ensuring that Europe's most innovative companies are not disproportionately burdened and can continue to compete globally.

At the same time, complementary measures are needed to improve access to finance, talent, intellectual property protection, and infrastructure without which European innovators will continue to face disadvantages compared to their global counterparts. By consolidating existing frameworks, enhancing coordination between national authorities, and providing clear and practical guidance, the European Commission can create a regulatory environment in which startups are not held back by compliance costs but empowered to innovate and scale.

We stand ready to work with the European Commission to ensure that the European Innovation Act delivers on its promise: a future in which European startups and scaleups can innovate, grow, and compete on a level playing field creating jobs, driving investment, and ensuring Europe remains a leader in global innovation.

Sincerely,



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