Risk capital markets and job creation: implementation of the action plan RCAP

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This Commission Communication is a progress report on the Risk Capital Action Plan (RCAP). The Communication reviews progress in implementing the strategy for developing the EU risk capital market in light of the conclusions from the Special Lisbon European Council and the deadline of 2003 set for full implementation of the RCAP. The EU risk capital market performed very well in 1999 but remains small and fragmented in comparison to that of the United States (US). Although there is no evidence of a generalised market failure, early stage and technology investment remains particularly low. Thus, further development of the EU risk capital market requires accelerated market integration, the easing of country-specific constraints on efficient market functioning and, more generally, the promotion of an entrepreneurial culture. Against this background, timely implementation of the Financial Services Action Plan (FSAP) will do much to foster a more integrated EU risk capital market. A wide range of measures included in the FSAP and relevant to risk capital have been recently adopted by the Commission or are under preparation by the Commission services. In addition, the Community patent proposed by the Commission will do much to lower costs and increase legal certainty for innovative enterprises wishing to operate outside their own Member State. With regard to structural reform to promote risk capital at the national level, it is proceeding. For example, in several Member States regulatory constraints on institutional investment in equity markets have been relaxed and the administrative procedures for establishing a business have been lightened. However, little has been done to address the discentive effects of bankruptcy and insolvency procedures in most of the Member States. Modest progress is being made in addressing fiscal obstacles to risk captial investment, with adjustments having been made to the taxation of corporate profits and capital gains in some of the Member States. However, tax reforms will need to be accelerated and extended if the RCAP is to be implemented by the deadline. A series of Community actions to promote a culture of entrepreneurship has been taken. The Commission has also taken actions to promote innovation throughout the Union. Member States are also taking measures in this area, notably promoting entrepreneurship through funding of relevant disciplines in private and public universities, amongst others. In conclusion, consistent with the EU philosophy that underlines the importance of a favourable environment, there is a limited role for public funding as a means to address identifiable market failures. However, the advantages need to be weighed against risks of market distortion and, particularly in the risk capital area, of displacing or crowding out private sector activity. Much remains to be done if the EU risk capital market is to be brought onto par with the US. To this end, it is essential to implement the RCAP by the deadline of 2003.