Risk capital markets and the job creation: action plan. Cardiff European Council 1998

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OBJECTIVE: to propose a European Union action plan promoting the development of risk capital markets in the European Union with the aim of future job creation. CONTENT: this communication is a first response to the mandate given to the Commission by the Luxembourg European Council (November 1977) to examine the role of pan-European risk capital markets in job creation. It sets out the main arguments why implementing a full range of these financial products in the EU is vital for future job creation. It briefly compares the EU's performance vis-...-vis the United States, which is a long way ahead of Europe in this field, and underlines the main barriers that are preventing a much wider use of these financing instruments in the EU. These obstacles are mainly due to over-fragmentation of the market, regulatory and institutional barriers and taxation. The communication also cites other barriers such as cultural barriers to entrepreneurship. The Commission considers that the low rate of enterprise creation in the Community is due to the limited availability of seed capital and excessive punishment of failure in Europe (compared with the United States, where the "right to fail", including bankruptcy, is seen as part of the learning process of business). In the third part of the document, the Commission outlines the main elements of an action plan which aims to develop a strong European risk capital sector on all fronts. The first objective is to remove the barriers which are preventing the sector from developing, in order to create a new spirit of enterprise in Europe. The proposed action plan (and the related timetable of actions) could provide the tools, technologies and financial instruments necessary to allow a new generation of European entrepreneurs to start up and succeed. The key elements of this strategy are as follows: - the finalisation of actions already under way: development of a network of local "business angels", market monitoring, transposition and implementation of all directives relating to financial services, developing electronic trade clusters for SMEs and promoting education systems conducive to entrepreneurship and innovation; - the establishment during 1998 and 1999 of a number of regulatory Community actions with the purpose of eliminating the institutional and regulatory barriers to the development of risk capital (creation of a European passport for "closed-end funds", amendment of the relevant directive to make approved prospectuses or offer documents valid in all Member States). Actions are also proposed to stimulate the growth of high-tech SMEs and reform the European patent system. Further actions are proposed for the elimination of cultural barriers to entrepreneurship and to better develop human resources; - in the medium term, measures for the adoption of prudential rules to facilitate investment by institutional investors in risk capital, assessing existing accounting and auditing rules, reducing capital requirements for company creation and reviewing insolvency and bankruptcy laws. Measures are also proposed in the field of taxation, although responsibility for this remains with the Member States (double taxation of venture capital funds, capital gains tax, tax regimes for start-up companies and comparison of taxes on venture and non-venture capital in the Member States).