Basic information

1998/2171(COS) COS - Procedure on a strategy paper (historic)	Procedure completed
Risk capital markets and the job creation: action plan. Cardiff European Council 1998 **Subject** 2.50.03 Securities and financial markets, stock exchange, CIUTS, investments 4.15.02 Employment: guidelines, actions, Funds	

Key players

European Parliament	**Committee responsible**	**Rapporteur**	**Appointed**
	ECON Economic and Monetary Affairs, Industrial Policy	KATIFORIS Giorgos (PSE)	23/04/1998
Council of the European Union	**Council configuration**	**Meetings**	**Date**
	Economic and Financial Affairs ECOFIN	2136	1998-11-23

Key events

Date	Event	Reference	Summary
31/03/1998	Non-legislative basic document published	SEC(1998)0552	Summary
14/09/1998	Committee referral announced in Parliament		
23/11/1998	Debate in Council		
23/02/1999	Vote in committee		Summary
23/02/1999	Committee report tabled for plenary	A4-0090/1999	
09/03/1999	End of procedure in Parliament		
21/06/1999	Final act published in Official Journal		

Technical information

Procedure reference	1998/2171(COS)
Procedure type	COS - Procedure on a strategy paper (historic)
Procedure subtype	Commission strategy paper
Legal basis	Rules of Procedure EP 148
Stage reached in procedure	Procedure completed

Committee dossier	ECON/4/10388

Documentation gateway				
European Parliament				
Document type	**Committee**	**Reference**	**Date**	**Summary**
Committee report tabled for plenary, single reading		A4-0090/1999 OJ C 175 21.06.1999, p. 0005	23/02/1999	
Text adopted by Parliament, single reading		T4-0145/1999 OJ C 175 21.06.1999, p. 0016-0032	09/03/1999	Summary
Council of the EU				
Document type		**Reference**	**Date**	**Summary**
Document attached to the procedure		09476/1998	12/06/1998	
European Commission				
Document type		**Reference**	**Date**	**Summary**
Non-legislative basic document		SEC(1998)0552	31/03/1998	Summary
Non-legislative basic document		COM(1999)0493	20/10/1999	
Follow-up document		COM(2000)0658	18/10/2000	
Non-legislative basic document		COM(2001)0605	25/10/2001	Summary
Follow-up document		COM(2002)0563	16/10/2002	Summary

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

1998/2171(COS) - 25/10/2001

PURPOSE : to present the Commission's assessment of the Risk Capital Action Plan (RCAP). CONTENT : This document reports on progress for the year 2000 and for early 2001. It is the third since the adoption of the RCAP in 1998. The performance of the risk capital markets in Europe in 2000 was spectacular, and more so in the seed and start-up phases which have, traditionally, been the weakest links of the financing cycle. The European industry has become not only bigger but also more sophisticated and better organised. Growth was shared by all Member States, even though important differences persist. When compared to the US, the size of the European market is still small. The downturn in economic growth will have a negative impact on the growth part of the risk capital industry. Progress in setting up a proper regulatory framework for the development of risk capital has continued, particularly in relation to financial measures where the centre of gravity of decision taking has shifted from the Commission to the Member states and the European Parliament. Many difficulties still exist, such as the absence of a single affordable patent, and the whole array of fiscal barriers, often of a discriminatory nature, with the potential to delay further the establishment of a true single risk capital market. Euro notes will add pressure to eliminate remaining barriers. The development of European entrepreneurship is a priority area. A sector where things could prove cost-effective is that of R&D. The Lisbon summit envisaged the creation of the most dynamic economy in the world by the end of this decade. This will require effective R&D programmes. In this regard, the rapid adoption of the New Framework Programme for R&D should be a top political priority. In

the area of public funding, the Commission has clarified its policy towards state aid. The EIF has strengthened and fully defined its role as the risk capital arm of the EIB Group; the EIB Group and the Commission have signed a joint memorandum to co-finance R&D activtites; risk capital is becoming more involved in regional development; and some Community instruments have been redirected towards early stage finance. In conclusion, there has been some progress in all RCAP areas, but more sustained activity has to continue on a wide range of risk capital fronts.

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

1998/2171(COS) - 31/03/1998 - Non-legislative basic document

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).

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

1998/2171(COS) - 16/10/2002

This Communication reports on progress in the implementation of the RCAP for the year 2001 and, in some aspects, for the first half of 2002. It is the fourth since the adoption of the RCAP in 1998. Market analysis suggests that the last 18 months has been a period of adjustment for the European risk capital industry. The severe correction, which started in mid-2000, still continuous and was particularly significant in the Accession Countries due to, among other things, their sensitivity to global trends. In spite of the negative trend, however, the year 2001 was, for the European industry, the second highest both in terms of funds invested and of funds raised. The decline in Europe has been less pronounced than in the US - although there is a long way to go to match their industry. The medium term prospects for EU venture capital investment seem to be relatively favourable, with significant scope to continue financing viable projects due to the high level of non-invested funds. Inflows of EUR 15 billion were recorded in 2001 - the second highest amount ever- for future venture capital investment and EUR 22 billion for buy-outs. A sign of maturity is the greater diversification of the sources of funding. In 2001, for the second consecutive year, pension funds were the largest single source of private equity capital (27%) in the EU, ahead of banks (24%) and insurance companies (13%). The involvement of endowments, charities, and universities in EU venture capital is also increasing. The problem in Europe is compounded by the presence of a still highly fragmented capital market, which the Financial Services Action Plan is addressing. Furthermore, the weakness and poor performance showed by the EU high-growth stock markets means that the scope for IPOs, an important exit strategy for venture capital investors, remains largely closed at the moment. Improvements to the functioning, regulation and liquidity of these markets is necessary for risk capital to grow and for a sufficient pan-European dimension to emerge, through further and necessary rationalisation. The modernisation of the regulatory framework has continued successfully in a financial environment dominated by the successful introduction of the Euro in physical form. There are important advances in the mandatory introduction of international accounting standards by 2005 and in the forthcoming legislation on supplementary pension funds. As a result those institutions may become important sources of risk capital funds, as it is already the case in the US. On the negative side, difficulties still persists for having an affordable cost-effective European patent. Entrepreneurship policy is also expanding in importance. The forthcoming Green Paper on the subject should raise its profile further and its crucial linkage with risk capital. Projects leading to a better matching of supply and demand of risk capital, as the one already under completion with the help of the Commission, should be encouraged. The objective agreed at the Barcelona European Council to increase EU investment in R&D (approaching 3% of GDP by 2010, of which two-thirds from the private sector) requires increased investment by the private sector and reinforces the role of risk capital, either private or public, to finance promising innovative projects and initiatives. Concerning public funding, the adoption by the Commission of its Communication on state aid and risk capital has clarified the question of compatibility of public funding of risk capital measures with the state aid articles of the Treaty. The EIF has embarked upon a phase of rapid expansion and has been able to attract, under difficult market conditions, private investors to early stage funds. Finally, the share of Structural Funds for financing venture capital investments has been noticeably increased. All these recent policy changes show

that the accompany measures to develop European risk capital have undergone profound and positive change in the last 4 years. Compared with 1998, risk capital markets have not only grown but also matured. The current effort to improve the environment for risk capital investment should be maintained, and be seen from a long-term perspective, regardless of cyclical considerations.

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

1998/2171(COS) - 09/03/1999 - Text adopted by Parliament, single reading

This report on a communication from the Commission on the role of risk capital in job creation, drafted by Mr. Giorgos Katiforis (PES, Greece) was adopted without debate. The Parliament welcomes the Commission's emphasis on the need to mobilise risk capital to encourage entrepreneurship, thereby stimulating the creation and development of SMEs and their ability to create employment. It believes that the following three broadly interacting aspects represent the priority areas to be tackled to improve the provision of risk capital to SMEs, and its utilisation by them: - the lack of a 'risk culture' in the productive sectors of the economy, both among those providing finance for businesses, particularly the banking sector, and among many SMEs themselves who either do not wish to grow or where 'risk' projects are inadequately thought through; - the absence at national level of adequate legal, administrative and fiscal frameworks enabling the creation and development of SMEs to take place, with excessive bureaucracy characterising some countries' administrative and legal structures; - the absence of fiscal and other supportive mechanisms at Community and Member State level to mobilise private and institutional savings into SME investments. It calls on the Commission to give priority to encouraging the Member States to implement the Action Plan within their areas of responsibility, and to tackle especially regulatory barriers, the simplification of regulatory provisions, improvement of market structures and tax harmonisation. Parliament believes that the Action Plan could be enhanced by the incorporation of: (a) measures to change risk culture in order to: - promote separate industrial and commercial banking institutions, dedicated to financing businesses; - encourage such organisations to provide long-term capital in the form of loans, secured against both tangible and intangible assets of the companies; - provide investment grants and/or guaranteed loans for technical innovation projects of small companies; - provide financial support for managers of micro-businesses and small companies when they are considering the development of products or of markets, or the expansion of productive facilities; - provide financial support for advice and support schemes for micro businesses' expansion, via firms of accountants who are close to the businesses and are trusted by them; - encourage the use of partnership arrangements between small companies and larger companies to enable the former to engage in cross-border trading, with reeduced costs and administrative effort, and to encourage the commercial development of SMEs via supply chain development; - encourage the use of electronic trading and the facilities offered by the information society for SMEs through grants and pilot schemes. (b) measures to mobilise savings into investment in SMEs by : - encouraging private individuals to invest in SMEs; - encouraging the development of EASDAQ and similar equivalents to allow medium-sized companies access to equity markets; - encouraging the development of the European corporate bondmarket as an option to equity markets for medium-sized companies; - removing excessive restrictions on the type of investments permitted for pension funds.