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REPORT

on the Commission communication to the Council and the Parliament on implementation of the risk capital action plan (RCAP)
(COM(2001) 605 – C5-0015/2002 – 2001/2213(COS))

Committee on Economic and Monetary Affairs

Rapporteur: Peter William Skinner

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PROCEDURAL PAGE

By letter of 25 October 2001, the Commission forwarded to Parliament a communication to the Council and the Parliament on implementation of the risk capital action plan (RCAP) (COM(2001) 605 – 2001/2213(COS)).

At the sitting of 16 January 2002 the President of Parliament announced that he had referred the communication to the Committee on Economic and Monetary Affairs as the committee responsible and the Committee on Employment and Social Affairsfor its opinion(C5-0015/2002).

The Committee on Economic and Monetary Affairs had appointed Peter William Skinner rapporteur at its meeting of 21 November 2001.

The committee considered the Commission communication and the draft report at its meetings of 27 August 2001, 6 November 2001, 8 January and 22 January 2002.

At the last meeting it adopted the motion for a resolution by 34 votes with 2 abstentions.

The following were present for the vote: Christa Randzio-Plath, chairwoman; José Manuel García-Margallo y Marfil, Philippe A.R. Herzog and John Purvis vice-chairmen; Peter William Skinner, rapporteur; Generoso Andria, Luis Berenguer Fuster, Hans Blokland, Renato Brunetta, Hans Udo Bullmann, Benedetto Della Vedova, Harald Ettl (for Simon Francis Murphy), Jonathan Evans, Carles-Alfred Gasòliba i Böhm, Robert Goebbels, Lisbeth Grönfeldt Bergman, Mary Honeyball, Brice Hortefeux, Othmar Karas, Giorgos Katiforis, Christoph Werner Konrad, Wilfried Kuckelkorn (for Fernando Pérez Royo), Werner Langen (for Ingo Friedrich), Astrid Lulling, Ioannis Marinos, Helmuth Markov (for Armonia Bordes), Peter Michael Mombaur (for Hans-Peter Mayer), Alexander Radwan, Bernhard Rapkay, Karin Riis-Jørgensen, Olle Schmidt, Charles Tannock (for Piia-Noora Kauppi), Helena Torres Marques, Bruno Trentin, Ieke van den Burg (for Pervenche Berès) and Theresa Villiers.

The Committee on Employment and Social Affairs decided on 4 December 2001 not to deliver an opinion.

The report was tabled on 23 January 2002 .

The deadline for tabling amendments will be indicated in the draft agenda for the relevant part-session.

MOTION FOR A RESOLUTION

European Parliament resolution on the Commission communication to the Council and the Parliament on implementation of the risk capital action plan (COM(2001) 605 – C5-0015/2002 – 2001/2213(COS))

The European Parliament,

– having regard to the Commission communication (COM(2001) 605 – C5-0015/2002[1]),

- having regard to the Commission's Communication on state aid and risk capital[2];

- having regard to the European Council's European Charter for Small Enterprises of June 2000, and in particular to its line of Action 7 on risk capital,

- having regard to the conclusions of the European Councils of Lisbon and Stockholm[3];

- having regard to its resolution of 3 October 2000 on the Commission Communication " Risk Capital: Implementation of the action plan - proposals for moving forward" (COM(1999) 493 - C5-0320/1999)[4];

– having regard to Rule 47(1) of its Rules of Procedure,

– having regard to the report of the Committee on Economic and Monetary Affairs (A5-0020/2002),

A. whereas access to finance continues to be a problem for SMEs alongside administrative, regulatory and fiscal constraints;

B. whereas first results of the benchmarking exercise called for by the European Parliament and the Lisbon European Council on issues such as the length of time and the costs involved in setting up a company are now available;

C. whereas venture capital (seed, start-up and expansion) represents a viable financing option for SMEs since costs for awarding small loans are relatively high and in particular start-ups are considered a larger risk by credit institutions, which impose higher demands in terms of collateral and interest charges;

D. whereas while there are obstacles on the supply side of risk capital, there are also major weaknesses at the demand side

E. whereas the European Councils in Lisbon and Stockholm endorsed the Financial Services Action Plan, setting 2005 as the deadline for the integration of the financial markets and

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[1] OJ C not yet published
[2] OJ C 235, 21.8.2001, p. 3-11
[3] Lisbon European Council: Presidency Conclusions, 24.3.2000, n° 100/1/00 (Council Bulletin EU 3-2000)
Stockholm European Council: Presidency Counclusions, 24.3.2001, n° 100/1/01 (Council Bulletin EU 3-2001)
[4] OJ C 178, 22.6.2001, p. 24-61

2003 as target date for integration of the securities markets, whereas the deadline for the completion of the Risk Capital Action Plan set by the Lisbon European Council is the year 2003, demonstrating the inter-related nature of the securities and risk capital markets;

F. whereas, although progress has been achieved, the integration of EU financial markets is still far from complete and overall progress in implementing the Financial Services Action Plan has been rather slow and risks falling behind schedule;

G. whereas venture capital investment in Europe has tripled between 1998 and 2000, while investment in early-stage venture capital has even increased four times over; whereas nevertheless Europe's venture capital industry is still lagging far behind the US relative to its share of the global economy and even in the most advanced EU member states a solid venture capital market is far from being established;

H. whereas major differences persist between the national markets (venture capital investment as percentage of GDP ranging between 0,4% in the UK and less than 0,1 % in Austria), reflecting the fragmentation of national markets; whereas although the UK represent the largest national venture capital market, even there the bulk of venture capital is non-European but originates in particular from the US (notably US pension funds);

I. whereas the largest source for raising funds is pension funds, followed by banks and insurance companies,

J. whereas the current global economic slowdown and stock market turbulences are also felt in the venture capital industry (according to EVCA (European Venture Capital Association) venture capital investment fell 27% by amount invested in the first 6 months of 2001);

K. whereas there are still significant administrative legal and cultural barriers to be overcome and one of the most pressing is EU bankruptcy, which is still widely considered a stigma, while its should rather be seen as part of the learning process of business;

1. Welcomes the Commission communication which reveals the significant progress achieved in the field of risk capital since the adoption of the Risk Capital Action Plan and supports in particular its emphasis on the promotion of entrepreneurship;

2. Points at the interconnection between the Risk Capital Action Plan (RCAP) and the Financial Services Action Plan (FSAP) and calls on the Commission to ensure that cross-reference is made within the relevant directives of the FSAP to the intentions of the RCAP;

3. Welcomes the benchmarking exercise which shows that time and costs to start up a business have been substantially reduced in many Member States 'to levels comparable to the worlds best', but calls on those Member States, where costs are still too high and procedures take unacceptably long to make special efforts to improve the situation;

4. Notes that the points concerning risk capital referred to in the European Charter for Small Enterprises need to be implemented;

5. Believes that insufficient progress is being achieved in removing the fiscal, regulatory and administrative barriers, and alongside this, shortage of appropriate finance can still be a major obstacle for starting a business;

6. Underlines that venture capital and buyouts need to be considered in policy making as a key mechanism for entrepreneurship and should benefit from the same tax and other incentives for entrepreneurial investment in start up and other growth companies;

7. Calls on Member States to consider giving favourable tax treatment of capital gains on unquoted investment in growth companies as this would recognise the risks inherent in launching, joining or backing new growth businesses;

8. Welcomes the fact that the Broad Economic Policy Guidelines 2001-2002 for the first time include recommendations on the development of the EU risk capital markets and calls on the Member States to act on these recommendations,

9. Regrets that Member States have yet again failed to reach agreement on the Community Patent and calls for a Community patent allowing SMEs easy and cheap filing of patents;

10. Points out that in many member states pension funds cannot or do not invest in venture capital funds, excluding a major source of funding from the market; and calls for a revision of the respective regulations and national tax regimes in particular in the field of double taxation and withholding tax to facilitate and stimulate pension funds' investment in venture capital schemes;

11. Points out that as technological development is an important growth factor, financial backing of innovative SMEs is of primary importance to close the knowledge gap between Europe and the US and achieve to goal of the EU to become "the world's most dynamic knowledge-based economy by 2010";

12. Welcomes the reform of the EIB group, which ensured that most Community venture capital instruments are now concentrated within the EIF, but points out that this concentration on high-technology sectors may not happen at the detriment of SMEs in sectors such as industry and services; the EIF, in cooperation with the relevant parties, must map out more clearly what innovative funding instruments the SMEs require;

13. Is of the opinion that the EIF must play an even more active role today in filling the funding gap which has arisen due to the economic slowdown, the stock market turbulence and the resulting partial withdrawal of traditional sources of finance, is furthermore of the opinion that the EIB should demonstrate this by regular and specific reporting before the European Parliament's Committee on Economic and Monetary Affairs;

14. Calls for the EIB to produce an annual quantitative and qualitative evaluation of the award of appropriations to SMEs in connection with the provision of risk capital, in order to assess the efficiency of this instrument;

15. Welcomes the Commission's communication on state aid and risk capital, which recognises that public funding of private equity measures can be justified under certain exceptional circumstances and clarifies the Commission's approach on how these measures shall be assessed under state aid rules;

16. Reiterates its call for an economic study on the likely employment effects of risk capital investment;

17. Reiterates its call for a 'one-stop shop' risk capital website to provide a single access point for information about projects seeking risk capital and sources of EU and member States funding for SME's, considers that easy access to information on financing is a first and vital step to obtain access to financing;

18. Calls on Member States to ensure that legislation does not prevent individuals who have undergone bankruptcy from playing an active role in future company formation on that ground alone;

19. Instructs its President to forward this resolution to the Council and Commission.

EXPLANATORY STATEMENT

At a first glance the story of venture capital in Europe in the last few years has been a story of success. While risk capital markets have been of negligible importance in most member states and growth rather slow until the end of the nineties, the total volume of venture capital investment (seed, start-up and expansion) has grown from € 10 billion in 1999 to € 19,6 billion in 2000. The European Private Equity and Venture Capital Association (EVCA) even suggested that '2000 was the best year ever for the European venture capital industry'. The largest source for raising funds are pension funds (mainly from the US) followed by banks and insurance companies. The Risk Capital Action Plan (RCAP), which was adopted in June 1998 by the Cardiff Summit, has contributed significantly to this development.

Functioning and well developed risk capital markets are a vital prerequisite if the EU is to reach its strategic objective set at the Lisbon Council of 23 and 24 March 2000 'to become the most competitive and dynamic knowledge-based economy in the world by 2010'. It is in SMEs that technological development and innovation take place. The Lisbon Council therefore acknowledged this by underlining that 'efficient risk capital markets play a major role in innovative high growth SMEs and the creation of new and sustainable jobs' (conclusion 20). It furthermore called for the full implementation of the RCAP by 2003. This date was later reconfirmed at the Stockholm European Council of 24 March 2001.

The positive growth figures of risk capital markets must nevertheless be seen with some scepticism. First of all the European market is still significantly smaller than that of the US: while in the EU in 2000 the total volume of venture capital investment amounted to just 0,23% of GDP, the US figure was 0,7% of GDP (€74 billion). Furthermore there is not one European risk capital market but 15 national markets and huge differences between those markets persist: venture capital investments as % of GDP range from around 0,4 %in the UK to less than 0,1 % in Austria. There is consequently much room for improvement. In addition the global economic slowdown and stock market turbulences were also felt in risk capital markets. According to EVCA in the first half of 2001 venture capital investment fell 27% by amount invested.

Risk capital continues therefore to be an area in need of conclusive action and close monitoring. The RCAP is an important and so far successful instrument to stimulate the development in this area. Functioning risk capital markets are again an instrument to foster the creation and development of SMEs and thus of innovation and job creation. The promotion of risk capital is therefore vital. There are nevertheless still a series of obstacles as well on the supply as on the demand side.

The EIB or rather the EIF after last years reform, which ensured that most Community venture capital instruments are now concentrated within the EIF, has a vital role to play. Although it seems to be successful specific information on the results of its activities, is not publicly available, and thus difficult to evaluate. It has nevertheless to be pointed out that EIF funds should not exclusively be directed at high-technology SME's to the disadvantage of SMEs in the traditional sectors. The EIF has assured the rapporteur that this is not the case but there have been complaints in this sense. The role of the EIF is even more important in these critical times of economic downturn, where investors are more reluctant than ever to invest in risky projects and banks willingness to hand out credits to SMEs is far from enthusiastic.

In this context the Commission's communication on state aid and risk capital is of interest. By clarifying the approach according to which it private equity measures will be assessed under the state aid rules the Commission accepts and facilitates the role of public funds to create a favourable environment to create and sustain businesses under certain circumstances. The availability of public funds is important as SMEs are faced with the drying out of sources of finance due to the economic downturn and stock market turbulences, but also social partners and other community based groups must play a more active role in this field.

Access to finance is the most pressing problem for SMEs even more important than administrative, regulatory or fiscal constraints. Although sources of finance exist, SMEs do often lack the manpower and know-how to find out about them. That is why your rapporteur reiterates the demand already raised in his earlier report to establish a 'one- stop shop' risk capital website t provide a single access point for information about projects seeking risk capital and sources of EU and member states' funding for SMEs. But a lot of other measures at different levels are required if the supply and demand of risk capital is to be boosted.

The integration of financial markets is one important step. The Financial Services Action Plan (FSAP) is supposed to be implemented by 2005, but it appears that progress is rather slow and risks falling behind schedule (as stated e.g. in the Commission's 2001 Review of the EU economy). Furthermore parts of the FSAP are obviously relevant also to and connected with the RCAP, e.g. as regards the proposal for a prospectuses Directive, and these interconnections must be duly considered. Cross references to the intentions of the RCAP must also be made in the relevant FSAP directives. Another important matter is the Community patent, which is very important for SMEs, which under the current regime are facing huge expenses and high administrative barriers when trying to file a valid patent in the internal market. The Belgian Presidency's s hopes for an agreement on that matter did not come true and now every effort must be made to come to an agreement at least this year.

Further issues that need to be addressed are the promotion of stock option schemes for employees, the more favourable tax treatment of capital gains on unquoted investment in growth companies and - in particular - the regulatory treatment of pension funds. The reform of national pension systems to meet the challenge of the ageing population will result in pension funds playing an ever-growing role as source of finance also on risk capital markets. But there are still national regulations and tax regimes limiting the funds possibilities to invest. These regulations and schemes must be adapted to improve the supply side of risk capital.

Furthermore, and the Commission rightly stresses this in its report, there are at the same time major weaknesses at the demand side. It underlines in its report that 'the promotion, at all levels, of entrepreneurship remains a political objective of prime importance"(p.14). It states furthermore that 'there are not, at present, enough entrepreneurs in Europe with the capacity to create and propose a world class flow of innovative projects and companies, which could become the target of risk capital financing (p. 20). Your rapporteur shares this concern and subscribes to the Commission's conclusion that 'the emphasis now should be on the demand side' (p.20) If major efforts are undertaken to make risk capital available but SMEs are reluctant to use it, these efforts are in vain. We need more entrepreneurs and we need entrepreneurs, who are aware of and ready to use the possibilities of financing through risk capital. Many SMEs are, even when faced with the alternative of expensive bank loans, still reluctant about calling on external financing through equity and prefer control over growth. That is why your rapporteur insists on the role of secondary and tertiary educations in promoting venture, capital, private equity and entrepreneurship.

Another issue in the context of entrepreneurship is that of bankruptcy and its perception in Europe. While in the US bankruptcy is seen as a part of the learning process of doing business, in Europe it is almost seen as a stigma and legislation preventing individuals who have undergone bankruptcy from playing an active role in future company formation exists in some Member States. This is another barrier to the development of entrepreneurship: entrepreneurial individuals must be able to benefit from their business experience be that experience negative or positive. This does of course not preclude that safeguards against fraudulent or negligent activity are retained.

In conclusion it can be said that halfway through the implementation of the RCAP some important progress has been achieved. There is nevertheless still much to be done both on the supply and in particular on the demand side of risk capital. It is only with an enhanced spirit of entrepreneurship that the EU economy will advance and this spirit must be fuelled by risk capital.