

State aid and risk capital, implementation of the action plan RCAP

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PURPOSE : to present a report on the implementation of the Risk Capital Action Plan (RCAP) during the years 2000 and the beginning of 2001. **CONTENT** : this communication reports on progress in the implementation of the RCAP for the year 2000 and for early 2001. It is the third of this type since the adoption of the RCAP in 1998 and comes at the midpoint of the RCAP which is due to be completed by 2003. 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, reflecting the presence of a fairly fragmented pan-European market. In spite of the strong development, when compared with the US, the size of the European market is still small implying that Europe has still a long way to go. The fall in stock markets, which started in 2000 and accelerated in 2001, the downturn in economic growth and the surrounding climate of uncertainty exacerbated by the events of 11 of September 2001 in the USA, will impact negatively on the growth path of the risk capital industry. This may affect disproportionately investment in the seed and start-up segments. The current market difficulties together with the wide gap with the US should represent additional stimuli to reinforce efforts to complete the RCAP. Progress in the setting-up of 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 towards Member States and European Parliament. Many difficulties still subsist in important areas such as the absence of an affordable single patent or the whole array of fiscal barriers, often of a discriminatory nature, with the potential to delay even further the establishment of a true single risk capital market. The introduction in the near future of Euro-notes and coins will add supplementary pressure to eliminate remaining cross-border barriers. The development and promotion of European entrepreneurship, a key priority area, has been pursued primarily through conferences, workshops, training schemes and exchange of best practices. Cultural barriers are difficult to erase and, in spite of the positive evolution of recent years, programmes need to continue for longer. A sector where efforts to develop entrepreneurship could prove to be the most 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 the creation, diffusion, and commercialisation of sophisticated technologies and related applications, results of effective and dynamic R&D programmes. In order to exploit fully the work of researchers, encouraging them to develop an innovation and commercial reflex will be important. 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 important steps have been taken to improve the overall efficiency of Community risk capital markets: 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 activities; risk capital is becoming more involved in regional development; and some Community instruments have been redirected toward early stage finance. In conclusion, there has been some progress in all the RCAP areas. However, for Europe to become a world leader, as foreseen in Lisbon, much more sustained activity has to continue on a wide range of risk capital fronts.