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PROMOTION AND FINANCING OF TECHNOLOGICAL AND INDUSTRIAL COOPERATION

(Communication from the Commission)

PROMOTION AND FINANCING OF TECHNOLOGICAL AND INDUSTRIAL COOPERATION

Communication from the Commission to the Council and to Parliament

SUMMARY

In a communication sent to the Council and to Parliament on 15 December 1986,¹ the Commission set out the objectives it envisaged for the development of financial engineering on a Community scale. In particular, it made the point that the financing of transnational technological cooperation between European firms would be one of the priorities for this new initiative.

The purpose of this communication is to identify the requisite conditions for financing such transnational cooperation in an appropriate manner.

In taking into account both the needs of operators and the initiatives already taken by Member States and the Community, this communication analyses the main difficulties facing firms and agencies providing finance that undertake transnational technological and industrial cooperation projects. These difficulties stem, in essence, from the tax, legal and financial environment within operators carry out their activities.

The communication also puts forward an action programme containing a number of selective proposals aimed at facilitating the transition to the industrial application stage of cooperative ventures that already exist at the pre-competitive development stage, notably through Community programmes in the field of technological R&D.

¹ COM(86)723 final.

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PROMOTION AND FINANCING OF TECHNOLOGICAL AND INDUSTRIAL COOPERATION

Draft communication from the Commission to the Council and to Parliament

1. **OBJECTIVES**

In a communication sent to the Council and to Parliament on 15 December 1986,¹ the Commission set out the objectives it envisaged for the development of financial engineering on a Community scale. In particular, it made the point that the financing of transnational technological cooperation between European firms would be one of the priorities for this new initiative.

On 1 July 1987 this aspiration was, from an institutional viewpoint, embodied in the Single European Act, which, in the form of new Article 130 f of the EEC Treaty, lays down that the Community is to support firms' efforts to cooperate with one another, aiming at enabling them to exploit the internal market potential to the full, in particular through the removal of legal and tax barriers to such cooperation.

The programme for completing the Community's internal market, now being implemented, is aimed intrinsically at creating an environment which favourable to firms and, in particular, to the expansion of business cooperation. Whether they concern standards, public procurement, company law, the abolition of frontier formalities and the liberalization of capital movements or competition law, the measures taken will contribute to this end.

With a view to exploiting this environment to the full, the communication pursues a twofold objective.

First, by taking into account both the need of scientific, industrial and financial operators, as made known to the Commission on numerous occasions in recent months, and the initiatives already taken by Member States and the Community, it sets out to identify the main difficulties and the risks facing firms and agencies providing finance that undertake transnational technological and industrial cooperation projects. These difficulties stem, in essence, from the tax, legal and financial environment within which operators carry out their activities.

Second, it puts forward a number of selective proposals aimed at facilitating, especially where the provision of finance is concerned, the transition to the industrial application stage of transnational cooperative ventures that already exist at the pre-competitive development stage, notably through Community programmes in the field of technological R&D as well as demonstration programmes. These proposals thereby aim at upholding the transnational impetus of these industrial and technological initiatives.

It announces, finally, a programme of concrete actions which the Commission will launch in the coming months with a view to fostering technological and industrial cooperation in Europe.

1 COM(86)723 final.

2. ASSESSMENT

2.1 Growing financial needs

An increasing number of European industrialists now recognize that the globalization of markets and of the challenges they face render ineffective any strategy confined to strictly national or, even in some cases, European boundaries. This realization, which the Commission has been striving to bring about since the early 1980s, has led to a proliferation of transnational technological cooperation projects.

In the Community, the expansion of technological R&D initiatives such as Esprit, Brite or Race¹ stem from implementation of the framework programme for the period 1987-91 and of its new specific programmes. The shared-cost transnational measures under the framework programme amount to some 11 000 million ECU, of which, given the pre-competitive nature of the research involved, 50% is to be financed by the industrial operators or university research teams out of their own resources or from various outside contributions.

Such a development, on which the Commission's efforts to make better use of the results of research are centred, should lead, downstream, to a growing number of transnational projects representing the industrial follow-up to pre-competitive development work undertaken within a Community framework.

In a wider context, the Eureka initiative, which brings together nineteen European countries and the Commission, has resulted in 165 projects costing in the neighbourhood of 4 000 million ECU being launched. In many cases, these transnational projects are being carried out jointly on the basis of the results of joint research².

However, in the absence of back-up measures by the Community authorities, there is a considerable risk that such projects will remain within an unduly national framework and, as a result, will be unable to benefit fully from the size and catalytic effect of the large internal market.

¹ The Esprit programme (just under 2 500 million ECU in two stages) concerns information technologies, the Brite programme (500 million ECU in two stages) industrial technologies and the Race programme (550 million ECU) advanced telecommunications.

² Other transnational cooperative programmes (Airbus, ESA, etc.) are also going to generate greater need for finance : for instance, the anticipated doubling in ESA financing (some 30 000 million ECU for the period 1988-2000) will lead to increased investment, bearing in mind that the European Space Programme has a high investment multiplier (around 2.2).

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Through this communication, therefore, the Commission is hoping to help establish the necessary conditions for the transnational development of these projects and for their financing.

Whether the initiatives form part of the follow-up to the framework programme or come under the Eureka heading, the projects concerned vary a great deal, notably as regards the nature of the operators involved, whether small firms or large multinational groups, and as regards their cost, which ranges from some 20 000-30 000 ECU to several hundred million ECU.

In terms of the entire innovation process (from basic research to marketing), it is fair to say that such projects are no longer pre-competitive research projects, which receive huge public subsidies, including out of Community resources, e.g. the Esprit programme. Even so, they are still not projects holding out immediate prospects of industrial application, for which traditional forms of financing are suitable. If anything, they form a "grey area", lying somewhere between the generic research stage and the marketing stage.

Since, by definition, they are tailored to the world market, such transnational projects present enormous advantages. However, although significant, their prospective returns are deferred and subject to considerable risk.

When it comes to financing, some of the projects will be undertaken by the industrial partners concerned without any new injection of capital while others will be dependent on fresh capital being brought in.

It is still difficult to quantify exactly the private financing requirements to which these transnational initiatives will give rise, since the statistical tools for systematically determining such requirements do not as yet exist. A rough indication, but one that sheds some light on the matters, can though be gained from the estimation made in September 1987 by European bankers on the basis of an analysis of the Eureka projects that 12% of those projects were already suitable for private financing. Other Eureka projects, costing some 2 000 million ECU, are still located too far "upstream" to interest private operators but will provide investors with investment opportunities as and when they are developed.

In addition, the proliferation of projects and the tendency for public subsidies to level off and even fall will doubtless lead to a greater need for financing.

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Under present circumstances, conventional methods of financing, such as self-financing, long-term loans or project financing, can seldom satisfy the needs of such projects. This mismatch is particularly noticeable where the promoters are small firms that have only recently set up in business or are still in the process of doing so, striving to press ahead - beyond the pre-competitive stage - with initiatives that, in many cases, were launched in conjunction with large industrial groups under Community technological R&D and demonstration programmes. The reasons for this include the following :

- the self-financing capacity of such firms is inadequate;
- the often intangible nature of their initial assets, which are unlikely to provide an acceptable guarantee, and the fact that, for several years to come, repayment of the financial support needed will probably absorb all the anticipated profits mean that the granting of conventional loans is fraught with risk;
- traditional project-financing techniques call for a lower level of risk than that associated with the technological projects in question.

This being so, the provision of equity capital should be an appropriate way of meeting the financing requirements of promoters of these projects. The necessary mechanisms are discussed in the second part of this communication.

However, in order to be able to receive such an injection of capital, cooperation-based projects must be undertaken in specific legal forms (e.g. joint ventures) and, for reasons that will be spelt out below, only a few projects satisfy this condition.

Lastly, the transnational nature of the projects and, in particular, the differences in the tax environment and administrative rules applying to each of the promoters involved not only make for higher costs but also add to financing difficulties or at least make it necessary for the industrial operators and the agencies providing finance to assemble more sophisticated packages.

The following observations are designed to clarify this latter point.

2.2 Diversity and divergence of tax regimes

In the financing of a transnational technological project, tax is payable at three levels : by the investor, by the financial intermediary (and, more particularly, the venture-capital company), and by the promoter.

Now, whether we take the general arrangements applicable to dividends or capital gains or concentrate more particularly on the rules specifically concerned with venture capital and technological innovation, the national tax environments within which the partners in a transnational technological project have to operate differ enormously and are indeed discriminatory in some respects.

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The following examples will illustrate this diversity :

- under legislation in force in a number of countries, purchases of shares in innovative firms qualify for tax concessions, as do dividends and realized capital gains in some cases;
- in some Member States, venture-capital institutions benefit from the principle of tax transparency whereas, in others, their income is subject to the general tax rules applicable to any company, irrespective of its activity;
- lastly, in some cases, measures to promote technological investment include, in the tax sphere, the possibility of accelerated depreciation for firms as well as of tax exemptions for business profits or tax credits.

What is also noticeable in Member States is the lack of any provision - in the form, say, of a tax incentive or some other incentive - aimed at promoting technological projects based on transfrontier cooperation.

National tax legislation differs at present notably as regards investment income accruing to residents from domestic assets and that accruing to them from assets held abroad. Three examples can be given here :

- the granting in connection with certain forms of financial saving of tax incentives confined to investment in domestic financial assets (shares in local companies);
- as a result, where the taxation of financial intermediaries such as venture-capital companies is concerned, the rules for ensuring the tax transparency of such intermediaries are, in some cases, applied in a discriminatory fashion, according to whether or not the portfolio income accrues from investments abroad;
- some Member States allow resident companies to deduct operating losses incurred by subsidiaries from taxable income. However, transnational operations are seldom covered by such rules, which virtually never apply to subsidiaries located in other Member States.

The purpose here is not to undertake a comparative analysis of these various tax regimes or to assess, from the angle of economic rationality, the impact at Community level of what is often seen as a subsidy race. It is, though, important to stress that the distortions and disincentives to which such a situation may give rise hinder or at least complicate, where the future Community-wide financial market is concerned, the launching of transnational projects, especially if a specific legal structure is to be established for this form of cooperation.

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2.3 Lack of proper legal framework for cooperation

As pointed out above, the financing of a transnational project presupposes the creation of specific legal structures. While some significant progress has been made in the field of European company law since the Communities were set up (notably the adoption of harmonized accounts), a specific legal framework has not yet been established.

Even the European Economic Interest Grouping (EEIG), which is scheduled to become operative on 1 July 1989 and is the first legal instrument that could be applied to transnational cooperation, offers no solution to the problem of financing, since it will not be able to draw on the savings of the public.

This deficiency can be made good, however, through the assembling of appropriate financial and legal packages. But such packages are complex and costly and, more often than not, are motivated primarily by tax reasons and not by considerations relating to the intrinsic economic rationality of the project in question. Furthermore, they are in fact reserved for partners possessing the requisite high level of resources and expertise, which means in practice large groups. This can be illustrated by two practical examples.

European Silicone Structures (ES2) was set up in June 1985, with injections of capital from various industrial financing companies with a view to providing at European level a facility for producing small batches of integrated circuits to customer specifications. The founders of ES2 have established in a number of European countries companies which are all subsidiaries of a Luxembourg holding company.

Similar considerations have led the members of the Round Table of European Industrialists to base their network of venture-capital companies on a parent company incorporated under Dutch law and on satellite funds set up in several European countries.

Although now operational, arrangements of this type were put into effect only after lengthy periods of analysis and consultation. Given the pace of technological progress, such delays can only impede European companies' efforts to fend off competition from their US and Japanese counterparts.

2.4 Deficiencies of a venture-capital market that is still too nationally oriented

Faced with the high level of real interest rates, innovative companies tended until recently to opt for equity capital funding, not because it was necessarily less expensive but because its remuneration could be adjusted to fluctuating company results and could, therefore, be deferred.

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Under the circumstances, the venture-capital industry, which is attracted basically by the capital gains to be realized on holdings in companies offering the prospect of generating a significant return in the medium term, is to be expected to play an important part in financing transnational technological cooperation projects. On the basis of a survey it carried out in 1987, the European Venture Capital Association (EVCA), which was set up in 1983 on the Commission's initiative as part of its policy of promoting innovation, estimates that its members together have available for investment some 10 000 million ECU.

However, whether because of the origin of the funds collected or because of the nature of the investments made, the activities of European venture-capital companies are still, in essence, geared to the national market.

The syndication of venture-capital operations nevertheless is an appropriate way of meeting the financing requirements of transnational technological projects. It limits the size and risk of investment in such projects and offers promoters access to financial and managerial expertise that is geographically dispersed and hence indispensable.

A few venture-capital operators have, it is true, broadened the geographical spread of their activities by setting up in several Member States. Yet transnational syndication is still very much a minority practice in Europe.

In 1986, 49.2% of transactions were syndicated, but there was a foreign partner in only 23% of the syndicated investments (i.e. 11.3 % of all transactions).

An even more significant fact is that most venture-capital syndications concern national projects. Except in a few cases, there is no syndicated funding of transnational projects.

Finally, venture-capital operators are still reluctant to fund the kinds of technological project covered by this communication largely because such projects are relatively remote from the marketing stage.

2.5 Limitations of stock markets

One of the preconditions for the development of venture-capital and its increased use in funding transnational technological projects is the existence of "exit mechanisms", i.e. opportunities for venture-capital operators to sell their holdings and realize a capital gain, the proviso being, of course, that the companies financed manage to grow.

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The spectacular growth of stock markets prior to October 1987 meant that companies promoting technological projects had no opportunity of securing an official stock exchange listing, primarily because the nature of such companies was incompatible with the criteria to be met if such listings were not to undermine investor protection.

However, in the wake of the process of stock market deregulation and following the authorities' efforts to facilitate access to equity capital for small and medium-sized enterprises (SMEs) and at the same time to afford investors adequate guarantees, second-tier markets have been set up in nearly all Member States. The advantage of these markets is that the listing requirements are less stringent, particularly as regards the amount of time the company has been in existence, the minimum percentage of shares which must be offered to the public, disclosure formalities and the cost of admission.

However, these markets are still very small and, in a number of financial centres, only a tiny number of securities are quoted on them.

Furthermore, by their very nature, these markets and those trading on them are often essentially regional in character.

As things stand, therefore, they do not offer venture-capital companies an appropriate forum in which to deal in their holdings.

3. ACTION PROGRAMME

The emergence of transnational technological projects represents one of Europe's responses to a changing world economy. However, it is essential that, after paving the way for the launching of such projects (notably through Community pre-competitive research programmes), the Community and the Member States should facilitate their implementation on a transnational basis and, in particular, provide them with easier access to adequate funding.

As we have just seen, the current deficiencies of financial and stock exchange institutions and mechanisms, the diversity of national tax and legal systems (which makes any interface between them difficult), and the discriminatory nature of some of those systems are hindering the implementation and especially the financing of such projects.

The Commission therefore takes the view that the Community's contribution to the promotion and financing of transnational cooperation in the fields of technology and industry must involve the following :

- measures to foster interaction between industrial, scientific and financial operators, thereby expanding the Community's technological base, as envisaged in the Single European Act;

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- measures to encourage the establishment, by private operators, of investment mechanisms tailored to the financial needs of the promoters of transnational technological projects and, more specifically, to those of SMEs taking part in such projects;
- measures to remove the main obstacles to the transnational development of projects stemming from the tax, legal and financial environment in which they are carried out. In some cases, this can be done by successfully carrying through a number of the Commission's general initiatives, such as those relating to macro-economic strategy, implementation of the White Paper on completing the internal market, harmonization of direct taxation, and the policy on innovation and the exploitation of R&D. In the other cases, however, priority needs to be given to specific measures designed to clear the way for the participation of firms and the agencies financing them in transnational technological projects and, hence, in the expansion of industrial cooperation between European companies.

In identifying the measures to be taken in these three areas, the Commission has been deliberately selective. It has taken account not only of the needs of operators but also of the initiatives already taken by Member States and the Community and of the changes taking place in Europe on three levels:

- the trend towards simplifying taxation and easing the tax burden on firms;
- the growing importance of equity funding for firms;
- the systematic promotion of technological innovation.

3.1 Promoting interaction between operators

While those participating in transnational technological projects (whether they are in the process of setting up firms or, in some cases, are even experienced industrialists) complain of the difficulty of raising finance for their projects, the agencies interested in providing it report a lack of worthwhile proposals.

This apparent paradox highlights the insufficient interaction between financing agencies and innovative entrepreneurs in Europe. The Commission would therefore like to ensure that the financial community has at its disposal the non-confidential information it needs on transnational projects representing the industrial follow-up to the Community's technological R&D and demonstration programmes, since such a link-up is more often than not a guarantee of the quality and technological credibility of such projects.

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To that end, the Commission will establish a data base for such projects, to which financial institutions will have priority access. In addition to this systematic information, the services which the Commission already provides for scientific and industrial operators - with the aim of promoting the commercial exploitation and use of the results of Community research - will be beefed up so as to reduce the risk of project failure.

In addition, implementation of the SPRINT programme will serve a similar objective. In its Decision of 9 June 1987 concerning this strategic programme for innovation and technology transfer, the Council included in the list of priority actions "initiatives to develop opportunities for cooperation between firms, particularly SMEs", notably through the establishment of transnational consultant networks and technical centres whose task it will be to foster technological cooperation agreements between client firms. It also approved the "organization of pilot activities, transnational in aim or in nature, relating to the training of specialists on the ... financing of innovation ... in firms, in particular small and medium-sized enterprises". These activities will supplement those connected with the establishment of technology transfer networks. Such networks have already been set up under the SPRINT programme and bring together scientists, financing agencies and industrialists.

Finally, the Business Cooperation Centre (BCC), which forms part of the SME Task Force, helps firms to find partners for cooperation projects of a technical (including subcontracting), commercial or financial nature at transnational or inter-regional level. For that purpose, it calls on its European network of correspondents and will soon have available a computerized system (the Business Cooperation Network - BC-NET) that will provide a link-up between business advisers in all regions of the Community.

In this way it will be possible:

- to make it easier for SMEs to participate in Community programmes;
- to identify more closely the nature and extent of the obstacles to cooperation between firms;
- to support local measures with a view to testing cooperation arrangements and promoting regional development (Euro-partnership).

Expansion of the pilot phase of the programme for setting up Euro-Info-Centres will contribute to achievement of those three objectives.

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3.2 Promoting the establishment of appropriate investment mechanisms

In order to foster the transnational syndication of funding, the Commission launched in 1985, in collaboration with the European Venture Capital Association (EVCA), a pilot project called Venture Consort, which is designed to encourage venture-capital operations at Community level in support of innovative SMEs. A total of 3.3 million ECU has so far been contributed by Venture Consort to 18 national projects. The budgetary authority earmarked 1.9 million ECU for this purpose for 1987.

The Venture Consort project is to be regarded as a step in the right direction, in that it has stimulated transfrontier cooperation between European venture-capital companies.

But the Commission would like financial intermediaries to turn their attention now to a segment of the market that is still inadequately catered for, viz. the financing of transnational technological projects, which, being relatively remote from the marketing stage, hold out the prospect of significant returns that will though be deferred and will be subject to above-average risk.

The useful contacts established by the Commission in 1987 with the European financial community have led us to hope that the organizational arrangements for giving practical shape to initiatives launched in this connection will shortly be put in hand.

Such initiatives could include the introduction by European financial intermediaries of new investment instruments - which the Commission groups together at the moment under the heading "Eurotech Capital" - specializing in the financing of transnational technological projects.

Eurotech Capital would be the prototype for a kind of financial mechanism that the Commission would like to see proliferate: a private institution managed solely in accordance with market dictates and serving a two-fold purpose: (i) to provide equity capital for transnational technological projects, and (ii) to realize capital gains on its holding when it withdraws a few years later on. From a legal viewpoint, Eurotech Capital could be set up either as a fund or as an investment company.

The main function of Eurotech Capital would be to act as a catalyst for mobilizing capital. Since it would be both an operator and a financial engineering agency and would supply services in the shape of technological and commercial appraisals, it would act not to the detriment of, but rather in collaboration with, existing operators - banks and venture-capital companies - with which it could team up in the financing process.

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European financial and industrial circles have, in a number of cases, expressed interest in this type of instrument, realizing that Eurotech Capital would be one way of responding to needs that are both structural in nature and growing. Eurotech Capital has three special features that would distinguish it from most existing financial instruments.

The first is the transnational character of its founders.

The second is that it is specifically aimed at transnational technological projects, which, if we look at the process running from research through development to marketing, are located much further upstream than projects at present being financed by venture-capital companies.

The third is its size, which is suited to the scale and foreseeable number of projects - expected to cost several billion ECU - and is commensurate with the need to spread risks.

As a back-up for similar schemes which are already operating in some Member States but the scope of which is confined to the national territory in question, the Commission is also examining, in collaboration with the European insurance industry, arrangements that would provide direct or indirect cover for technological and/or commercial risk, thereby fostering the provision of equity capital to project promoters. The Commission is taking a particularly close look at how a syndicate of private insurance companies could write policies providing partial cover for financial risks, whether encountered by those investing in a project or by the promoter himself.

3.3 Improving the tax, legal and financial environment

- (a) The Commission will shortly be presenting to the Council a communication on company taxation the purpose of which will be both wider-ranging than, and different from, the purpose of the present document. It will be accompanied by concrete proposals for action.

It will aim at setting in place transparent and uniform tax laws, excluding, as far as possible, specific schemes for certain categories of taxpayer.

The selective guidelines sketched out below are consistent with this approach. To be more precise, they are designed to remove the obstacles that the divergent nature and/or discriminatory aspects of Member States' tax systems put in the way of the development and financing of transnational technological projects.

Returning to the points at which tax is charged during the financing of such projects, three measures concerning the taxation of venture-capital companies and of innovative businesses are particularly important.

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First, to the extent that venture-capital is expected to figure prominently in the financing of transnational technological projects, a key precondition of its development is that the activities of venture-capital companies as intermediaries between those providing finance and the project promoters should not add to the tax burden, and this means avoiding any form of double taxation. This principle of tax transparency is already applied to the activities of investment funds. In the context of its study of company taxation, the Commission will examine the extension of this principle, under certain circumstances to the non-taxation of capital gains when venture-capital companies surrender their holdings. It should be noted that rules along these lines are already in force in several Member States¹.

Second, cooperation between innovative businesses involved in a transnational project can only benefit from the arrangements laid down in the Commission's 1975 proposal for a Directive concerning the harmonization of systems of company taxation. The proposal, which would introduce common arrangements for easing the burden of economic double taxation through a tax credit that would be granted without discrimination to all Community residents (natural and legal persons alike), is shortly to be updated by the Commission once Parliament has given its opinion.

Finally, with the same goal in mind, the three proposals for Directives pending before the Council - on the common system of taxation applying to mergers, divisions and contributions of assets, on the common system of taxation for parent companies and subsidiaries, and on the arbitration procedure for eliminating double taxation in the case of associated enterprises - must be adopted as a matter of urgency. This will ultimately remove the remaining anachronistic traces of the instances of double taxation that still exist.

- (b) In the field of company law, there are several measures that would make for the removal of the obstacles identified above. These guidelines are entirely consistent with the goal assigned back in 1958 to Community initiatives in this area, viz. to set in place the basic elements of a legal environment conducive to industrial cooperation within the Community.

The first is the proposal for a tenth Directive currently before Parliament. Since its purpose is to facilitate cross-border mergers of public limited companies, the proposal is essential if firms are to be able to adapt their statutes to the Community dimension.

¹ Notably laws dating from 11.07.85 in France, 14.03.86 in Spain and 31.07.84 in Belgium.

Second, in line with the wish expressed by the European Council of June 1987, the Commission will make every effort to get the Council to resume discussion of the proposal for a Regulation on the European Company. Even more so than was the case twenty years ago, European company status would pave the way for the emergence in Europe of firms capable of playing a major role on the world stage.

Moreover, without prejudice to completion of the work on the European Company, the Commission will consider how far implementation of large transnational technological projects could benefit from the application in different fields - based on Article 235 of the EEC Treaty - of the concept of Joint Undertaking defined in Articles 45 to 51 of the Euratom Treaty. The key merit of that concept is that certain advantages, particularly in the tax field, that are listed in Annex III to the Euratom Treaty, can be conferred on a Joint Undertaking in recognition of its importance to the Community.

Lastly, the Commission will be proposing amendments to the fourth and seventh company law Directives that will allow firms to draw up their accounts either in national currency or in ECUs.

The Commission will also examine further measures to facilitate the issue, payment and quotation of shares in ECUs. Such measures, which are already in force in some Member States and which have received strong support from large companies in the Community, would certainly encourage transnational cooperation. The ECU can be the basis for a partnership between firms since it enables results to be presented with a minimum of accounting distortions due to divergent exchange-rate movements. Moreover, opting for the ECU, which is a "neutral" currency, prevents any one partner from becoming dominant by virtue of its national currency.

- (c) Turning to stock markets, new guidelines will be put forward to overcome the limitations referred to above. In particular, a recommendation will be made to the effect that second-tier markets be set up in all Member States. In addition, given the flexibility of such markets and the fairly similar minimum listing requirements imposed, it might be suggested that the principle of presumption of reciprocal admissibility to second-tier markets in the Community be applied without prior formal harmonization of listing requirements.

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4. CONCLUSIONS

The promotion and financing of transnational technological projects should contribute to the establishment in Europe of an integrated technological, industrial and financial area.

The Commission's action in this field is entirely consistent with the objectives of technological development and of economic and social cohesion laid down in the Single European Act. A small number of priority measures now need to be taken speedily at Community level.

These measures would help set in place a more suitable framework for the development and financing of transnational technological co-operation in Europe.

The Commission therefore requests the Council to approve the analysis and take note of the action programme outlined in the present document.

It should be noted that this programme consists partly of actions already launched but which are cited for reasons of completeness, in order to cover every facet of the complex problem of financing transnational technological and industrial co-operation.

To this end, the Commission stresses the urgency for the Council to adopt rapidly the following two proposals :

- the "tax package" to promote industrial cooperation (i.e. three proposals for Directives, on common systems of taxation applying to mergers, divisions and contributions of assets and to parent companies and subsidiaries, and on the introduction of an arbitration procedure for eliminating double taxation in the case of associated enterprises);
- the proposal for a Directive on cross-border mergers of public limited companies.

For its part, the Commission will be taking steps in the first half of 1988 with a view to getting discussion moving again in the Council on the proposal for a Regulation on the European Company.

Moreover, in order to make it easier for the Community authorities to approve the 1975 proposal for a Directive on the harmonization of systems of company taxation, the Commission will in 1988 present a proposal for harmonizing the corporation tax base and, where appropriate, once it has received Parliament's opinion, a number of amendments updating the 1975 proposal.

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In the coming months, the Commission will also submit to the Council communications dealing with the following five matters:

- amendments to the fourth and seventh company law Directives that will allow firms to draw up their annual accounts in national currency or in ECUs (3rd quarter of 1988);
- application to venture-capital companies of the principle of tax transparency (early 1989);
- provisions to facilitate the issue, payment and quotation of shares in ECUs;
- recommendations to facilitate the development of second-tier markets;
- possibly, arrangements to provide insurance cover for technological and commercial risk.

In addition, the Commission will step up its efforts to encourage financial intermediaries to set up swiftly in 1988 investment instruments specializing in the financing of transnational technological projects. It will also establish a data bank in 1988 to provide operators with practical opportunities to secure private financing for projects, these opportunities being opened up by the implementation of Community technological R&D programmes.

The Commission will also press ahead with the SPRINT programme (including the establishment of technological transfer networks); it will prepare the ground for extending and expanding the programme beyond 1989, paying particular attention to certain aspects of innovation financing.

Lastly, the Commission will continue in 1988 to develop the activities of the Business Cooperation Centre (including the BC-NET) and the programme for setting up Euro-Info-Centres throughout the Community; it will also launch new initiatives aimed at providing scientific, industrial and financial operators with the services they need in order to use and exploit the results of Community research more effectively.