

# European Community

**BACKGROUND INFORMATION**

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BACKGROUND NOTE

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## A EUROPEAN COMPANY STATUTE

Businesses operating in the European Community may have the option of becoming "European companies" having a uniform statute recognized and respected throughout the nine Community countries. A draft regulation on a statute for European companies, which would create a legal structure for businesses independent of national company law, was adopted by the EC Commission on April 30 and is currently being studied by the Council of Ministers. The draft statute, is an amended version of a 1970 Commission proposal which takes into consideration suggestions made by the European Parliament. It will become European law after adoption by the Council, hopefully by the end of 1976.

Differences in national corporation laws keep European businesses from operating throughout the Community as freely as within the single member state in which they are incorporated. The European company statute, embodying a company law applicable throughout the Nine, will eliminate legal snarls discouraging cross-frontier mergers, holdings, and common subsidiaries. Entities formed under the proposed statute would exist and function as European, rather than national, companies. The proposal is meant to help industry to reorganize by expansion and by internal change, adapting to the dimensions of a growing Common Market.

The European company statute would not replace national company laws; it is a complete European companies act, which would exist alongside them. The statute is optional -- any business fulfilling the statute's requirements may choose to use this legal framework.

The statute will facilitate the formation of new multinational companies, but of a different type. Multinationals choosing the new European form will have a more visible structure and definite obligations in relation to stockholders, creditors, employees, and society as a whole.

#### ELIGIBILITY

Enterprises operating in at least two different member states may become "European corporations" or "companies" by mergers, holding arrangements, or they can be joint subsidiaries. Limited liability companies, joint stock companies, and other economically active legal bodies can form a joint subsidiary.

All potential European corporations must have a minimum amount of capital assets: holding companies and companies formed through mergers must have at least 250,000 units of account (UA), while companies formed through joint subsidiaries only need 100,000 UA. (One UA equals \$1.20635 at current exchange rates.)

European companies fall under the judicial control of the Community's Court of Justice. They must be registered in a Court-supervised commercial register. There is no law governing the location or number of the companies' registered office. Bearer and registered stocks may be issued by the companies and quoted on all Community stock exchanges.

### COMPANIES ALLOW GREATER WORKER PARTICIPATION

The European company statute will give workers a greater say in the affairs of the company that employs them. By involving everyone directly affected by a corporate action in the decision-making process, the European company statute attempts to reconcile their special interests. The European Parliament's suggestions for amending the 1970 draft statute brought it more into line with the main trends in Europe, especially on worker participation in management.

The statute requires a management board responsible for directing the business. A supervisory board appoints and watches over the management board and, if necessary dismisses it.

The supervisory board consists of a third stockholders' representatives and a third employees' representatives. The final third, elected and co-opted by the other two-thirds, is a group representing "general interests." Members of this group are independent of stockholders, employees, and organizations connected with both of them. The employees themselves decide by a simple majority vote whether to participate in the supervisory board or not.

In addition to these two bodies, the European company statute provides for a European Works Council (EWC) for all European companies with establishments in different member states, which would be the representative body of all European company employees, regardless of their membership in trade unions. The EWC has authority only in matters affecting the whole company or several establishments, and over those which cannot be dealt with by national-level employee representatives. It must be consulted before important economic decisions and must approve management board decisions directly affecting employees. The EWC can negotiate a "social plan" drawn up by the management board and discussed with employees in cases where economic decisions, over which they have no direct control, may harm them. The EWC has no authority in areas governed by collective bargaining, but it can conclude agreements with the trade unions represented in its different establishments. It will not conflict with the functioning of trade unions.

Members of the European Works Council are elected by all company employees by secret ballot.

#### TAXATION

The European company statute provides no special taxation system for companies opting for this form of organization. The European company is subject to the tax laws of the member state in which business is conducted.

The statute does not resolve, either, the whole question of harmonization of the nine national company laws whose different aspects are still under study in the Community.