

What kind of companies will a „1- € -EPC“  
generate?

Some data from the German „laboratory“

by Wilhelm Niemeier  
Weiler, Germany

# Overview

The „1 € - EPC“ in competition with incumbent national players

The British Limited in Germany

The new German „Unternehmergesellschaft“

Conclusions for the EPC

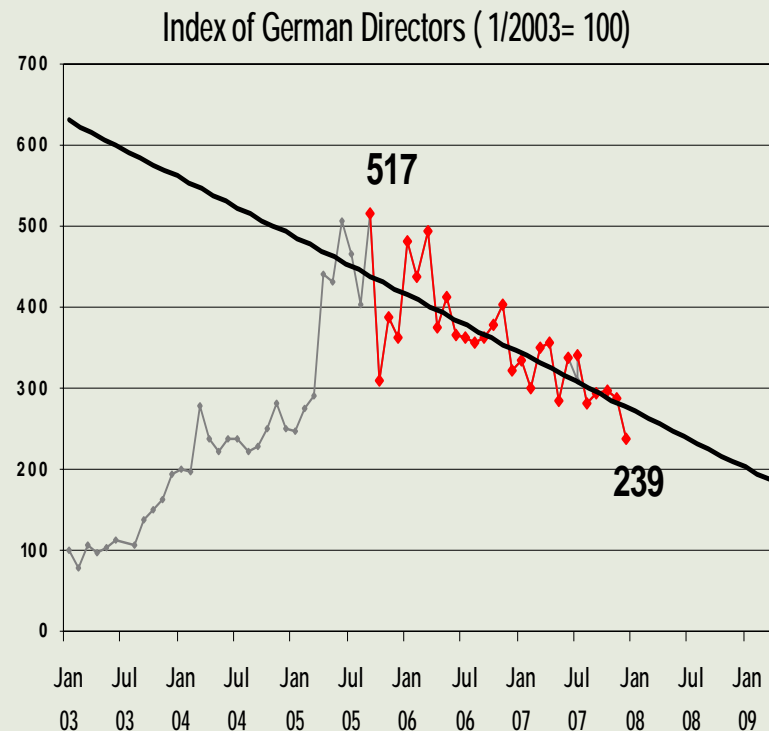
## The „1 €- EPC“ in competition with incumbent national players

- The Commission proposes the EPC as a 1 - € - Company, i.e. without minimum capital requirement
- The compromise proposed by the EP still allows the same, as long as founders submit to a solvency test
- The German GmbH, 25.000 € minimum capital, 1 Mill. incorporated in total , 60. to 70.000 per year, met competition by two similar „1-€-Modells“
  - British Limited, since „Inspire Art“ in 2003
  - The „Unternehmergeinschaft“ since November 2009
- Data from this „German laboratory“
  - on the acceptance of this model in the market
  - and the kind of companies it created
- Can give some guidance on how to best position the EPC in the market towards its incumbent competitors

# The British Limited in Germany

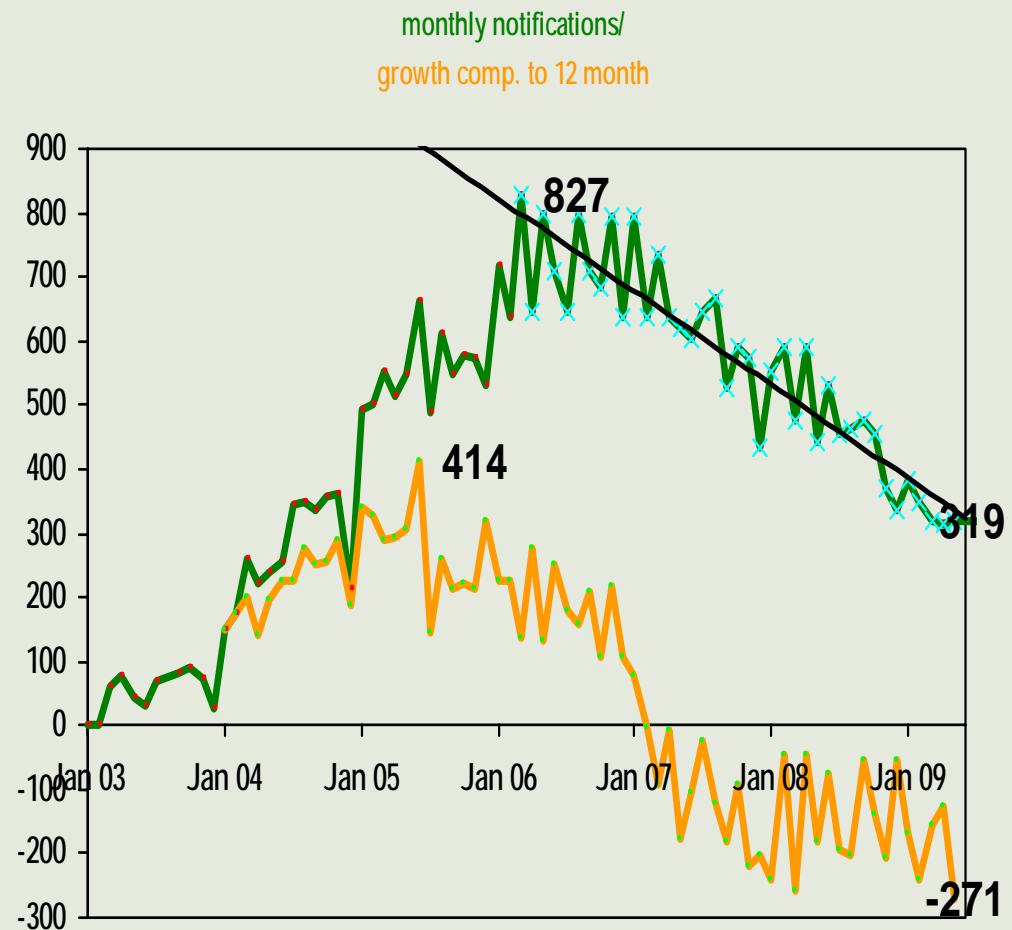
year	2003	2004	2005	2006
Incorp.	1.811	9.038	12.777	15.643
TradeNotif.	652	3.295	6.593	8.643

- Becht - Study showed strong inroad of the British limited into German market
- Share of up to 20% of all limited companies incorporated in 2006
- But: strong discrepancy to notifications of their trade to municipal trade registers in Germany, presumably unrealised plans
- And: Trend of incorporations turned negative in early 2006 according to index of German directors



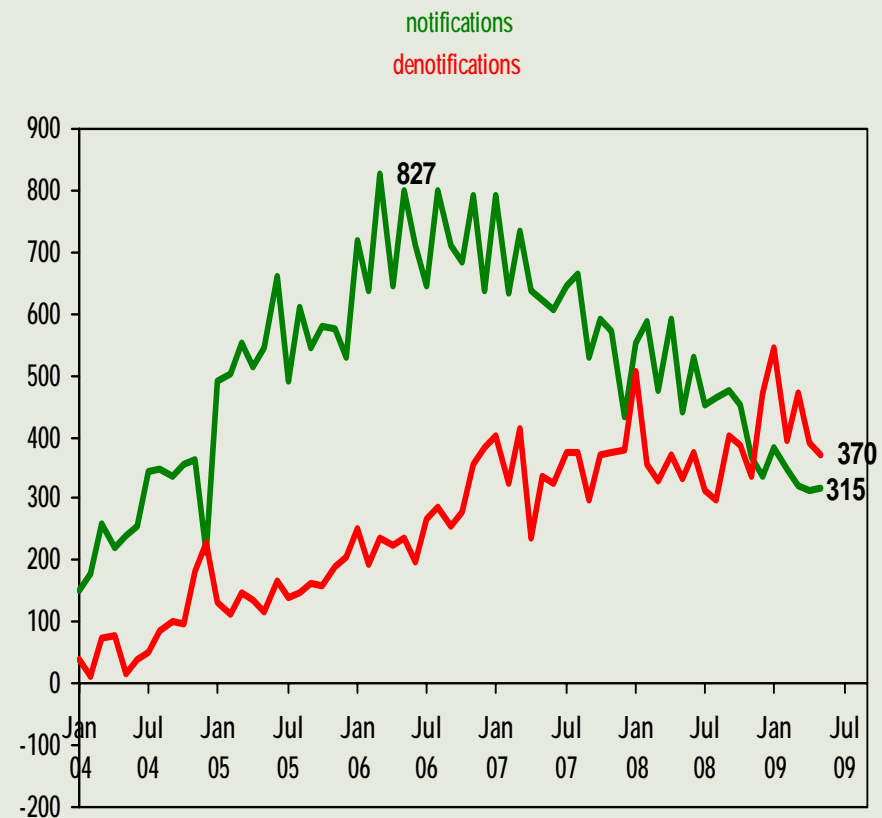
# The British Limited in Germany

- Monthly notifications to municipal trade registers
- Jump from early 2004 to 827 in 3/2006
- Have fallen to 319 in 5/2009.
- Growth compared to previous years' month turned negativ since 2/2007
- = strong and stable decline since now > 30 months
- Heading „back to square one“ in the market before „Inspire Art“



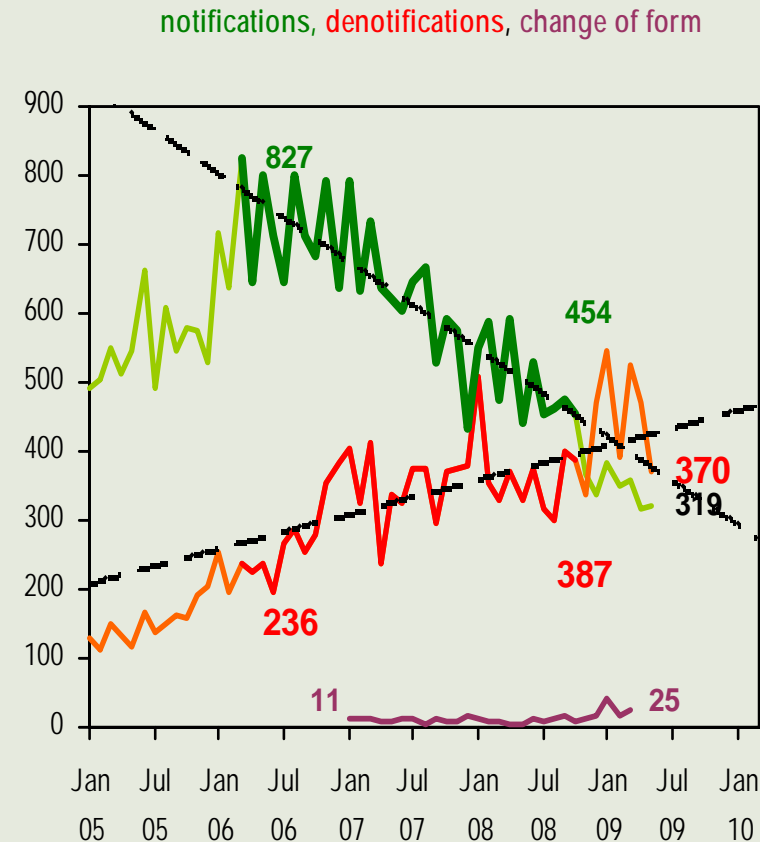
# The British Limited in Germany

- Strong and early rise of de - notfications in municipal trade registers
- Parallel trend of registered branches, with some delay
- **High rate** of early **mortality**, possible „death“ of
  - ~ **50 % after 12 month**
  - ~ 90 % after 24 month
- „Survival indicators“:
  - 7.800 with own telefon in 2009
  - 4.400 branches filed annual report for 2006 until 2009
- Compared to general survival rate of **50% after 5 years** of all newly founded companies



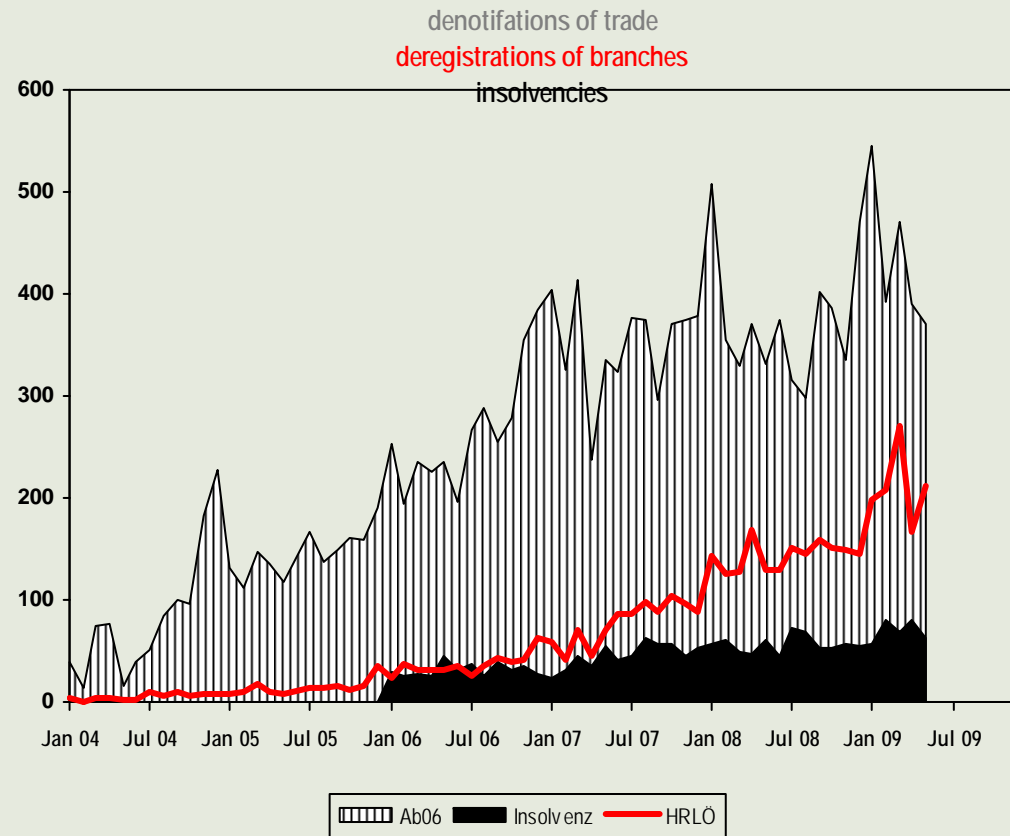
# The British Limited in Germany

- stable downward trend before introduction of the „Unternehmergeellschaft“ in 11/2008
- Legal maintenance costs as contributing factor
- But: Conversion of annual account offered for 120 €
- And: Hardly any conversion of British „Limiteds“ into „Unternehmergeellschaft“



# The British Limited in Germany

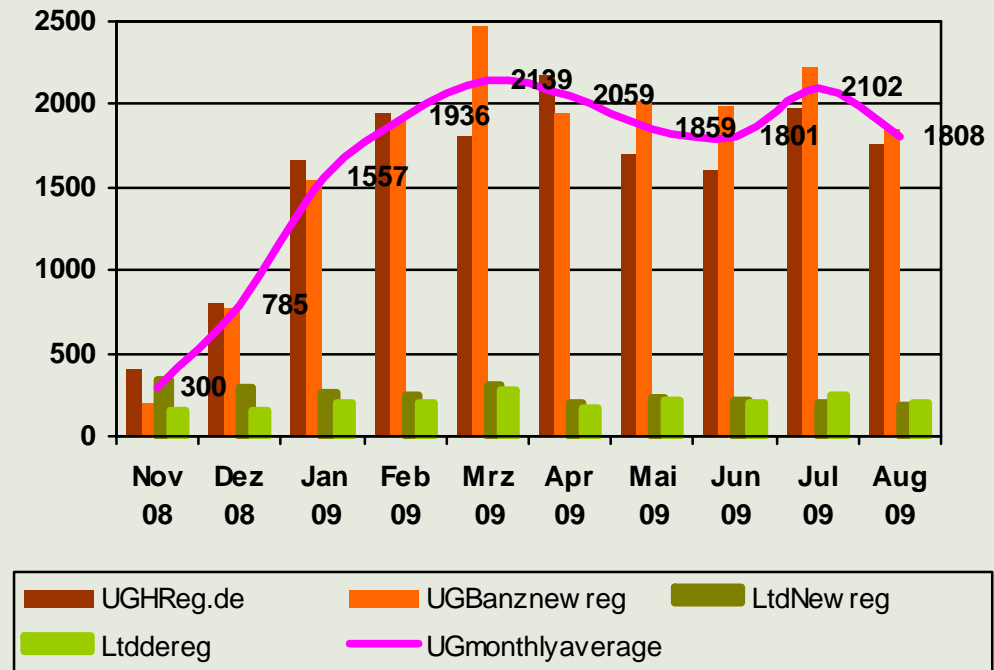
- 1- € - concept did not create viable foundations
- But generated companies with unsound financial starting basis
- reportedly attracted founders, which were often defaulters
- Companies had an extremely poor credit rating
- 80 % of banks refused financing
- Market exit with high quota of insolvency proceedings of up to one fourth (normal quota 5%)





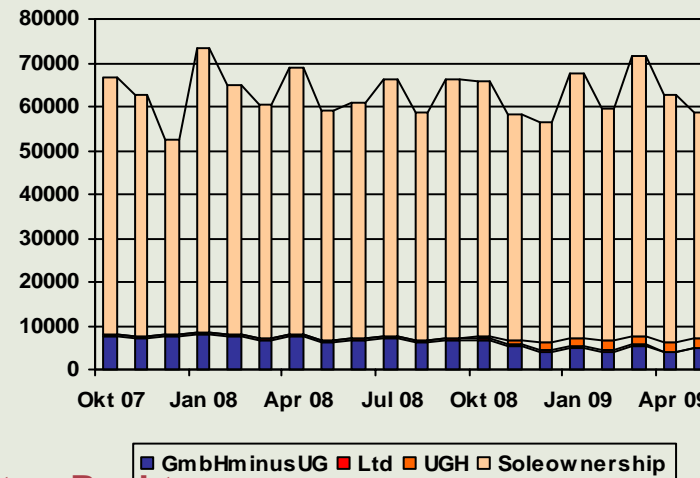
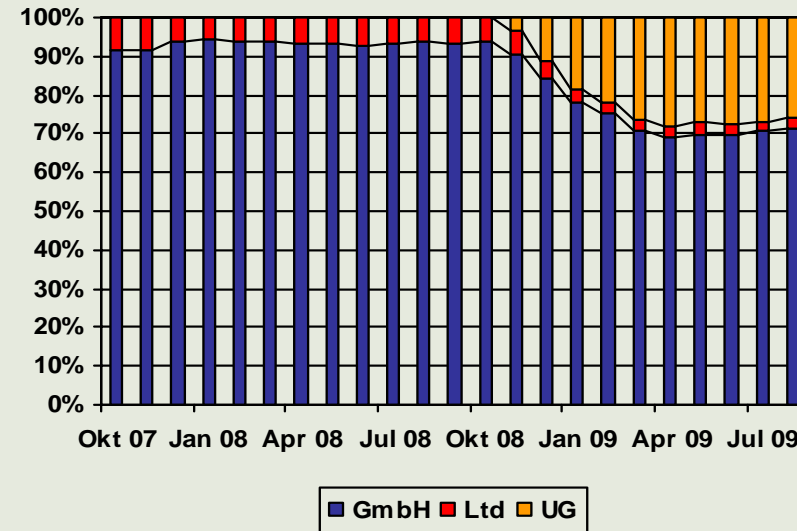
# The new German „Unternehmensgesellschaft“

- More than 16.000 „UG“ incorporated during the first 10 months
- 6 times higher than current registrations of branches by „limiteds“
- Currently 2,5 times higher than „limiteds“ at their peak in March 2006



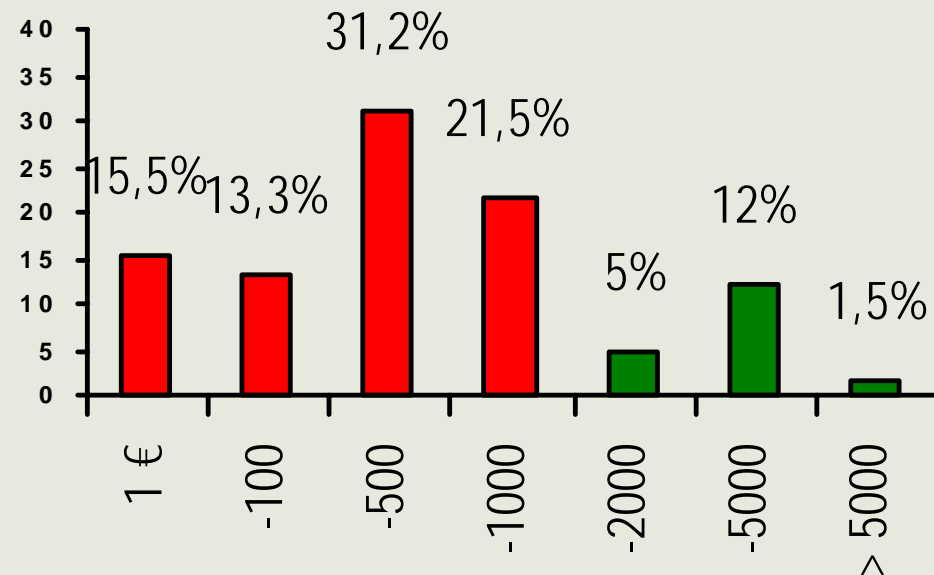
# The new German „Unternehmergesellschaft“

- 1/3 share in the market of closely held limited companies
- but creation of **new** business doubtful
  - Legal arbitrage of sole ownership and GmbH founders
  - Incorporation identical with actual realization ?
- „Own telefon test“:
  - 80 % of GmbH
  - less than 8 % of „UG“



# The new German „Unternehmergesellschaft“

- Sample of 200 of first 2000 incorporations
- Very low legal capital:
  - 80% up to only 1000 €
  - **60 % up to only 500 €**
- Extremely high rate of sponsors with **negative track rekord:**
  - > 20 % of shareholders or directors with prior insolvency proceedings
  - > 10 % with similar negative factors
- „1 - € - Choice“ attracts the very **bottom of the market**



## Conclusions for the EPC Concept

- The „1-€- concept“
  - generates significant numbers of incorporations
  - however far less businesses are actually realized
- Companies established in competition with their national incumbent
  - are very small with purely local scope
  - start with an unsound financial basis
  - show a extremely high rate of early mortality
  - attract their sponsors „from the bottom of the market“
- A minimum capital requirement as a test for seriousness, solidity and solvency at the start should ensure
  - that the EPC will not become the „ragman“ of the continent
  - and thus harm the reputation of the EPC as a legal form to the detriment of its benign users for cross border investments

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Thank you for your attention !

**Dr. Wilhelm Niemeier**

Rechtsanwalt, Fachanwalt für Steuerrecht

Am Heerberg 29

55413 Weiler

06721 36636 (Tel)

06721 36406 (Fax)

[wilhelm.niemeier@t-online.de](mailto:wilhelm.niemeier@t-online.de)

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