Regulatory Competition in Europe? – The Societas Europaea

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Working paper series: REFGOV-CG-39
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I. Introduction

The European Union (EU) recently implemented the Societas Europaea (SE), a transnational, pan-European form for company law. The initial goal for the SE was to offer companies a complete set of European company law rules, to facilitate their operations across the region. Differing attitudes towards employee involvement on company boards, board structure, and taxation, however, made it impossible for the Member States to agree to a single standard. To secure compromise, a framework structure superseded the original plan for harmonization. With numerous references to national law, thirty types of SE resulted, raising the specter of regulatory competition within the EU.

Historically, the EU has acted to minimize competition between countries. Most Member States have adopted the real seat principle, which requires the laws of the country where

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1 The author wishes to thank Simon Deakin, Professor of Law at the University of Cambridge; the ESRC Centre for Business Research, University of Cambridge; Denis Galligan, Professor of Socio-Legal Studies and Director of the Centre for Socio-Legal Studies, University of Oxford; the UK Fulbright Commission; and the Max Planck Institute for Foreign and International Private Law, Hamburg, Germany.
5 SE Regulation Recital (4), (12), (20), (21), (26); arts. 4(3); 13; 15(1); 47(1) para. 1; 51; 52(1)(b), (2); 53; 54(1), (2); 57; 59(1); 61; 62(1), (2). Further, Frits Bolkestein, Member of the European Commission in Charge of the Internal Market and Taxation, The New European Company: Opportunity in Diversity, Address to Conference, University of Leiden, Leiden, The Netherlands, November 29, 2002 (“. . . initial idea and the tangible achievement we have today, namely ‘the new European Company’, are worlds apart.”).
6 One for each of the twenty-seven EU Member States and one for each of the three additional Member States of the European Economic Area: Iceland, Lichtenstein, and Norway.
8 See Treaty Establishing the European Economic Community art. 54(3)(g) (now TEC art. 44(3)(g)); Treaty Establishing the European Economic Community art. 220 (now TEC art. 293); Luca Enriques,
a company bases its operations to govern all its activities. Such measures have deterred European companies from registering in countries with favorable legal regimes, and almost no charter market has developed in Europe.

A series of decisions by the European Court of Justice (ECJ), starting in 1999, however, began to shift the political landscape in which the debate over the SE was taking place. 

Centros Ltd. v. Erhvervs-og Selskabsstyrelsen indicated that the real seat principle might contravene the right to free establishment. In Überseering BV v. NCC Nordic Construction Company Baumanagement GmbH and Kamer van Koophandel en Fabrieken voor Amsterdam v. Inspire Art, two later cases, the ECJ affirmed the free right of companies to incorporate in any Member State.

The final SE legislation, in force since October 8, 2004, explicitly enables companies to transfer their registered seats, provided they move their headquarters in tandem. This represents the first and, to date, only means to reincorporate in Europe. Its combination with the SE’s references to national law has created new possibilities for Member States to compete for

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13 Embodied in articles 43 and 48 of the EC Treaty (the amended form of the Treaty of Rome).
17 Id. Art. 7.
18 SE Regulation art. 8.
19 Id. Art. 7.
corporate charters. Many commentators, consequently, have forecast a new European market based on regulatory competition.

This paper presents empirical data, gathered through a yearlong series of in-person interviews, to answer whether the SE is contributing to regulatory competition in Europe, diluting national social protections, rather than integrating Europe’s commercial markets, as initially intended. Corporate decision makers, union leaders, legal advisors, and policymakers in several Member States and at EU headquarters participated. The paper emphasizes conversations with representatives of companies that have adopted the SE form as well as those that have not.

The data suggest that the SE, if it is to remain viable, will spur further harmonization of corporate law in the EU, decreasing legal diversity between Member States. Specific features of the SE legislation limit companies from using it for arbitrage, and it has introduced only minimal regulatory competition. Member States seeking to keep and attract new companies will likely move towards a closer equilibrium in the terms they offer to them, leading to less overall variability in the law over the long term. While the SE does not appear to threaten the perpetuation of employee representation on company boards, it has diversified and also decreased the number of workers serving on boards, bringing the Member States into closer alignment on this issue and challenging labor unions to expand their focus to the regional level. Most companies have converted to the SE to rationalize their multinational operations and reduce their regulatory obligations. This generates pressure for the unification of additional areas of law and more national-level regulation. The empirical research sheds light on the decision-making processes of European companies and the mechanisms by which EU legislation can promote integration of the European market or introduce regulatory arbitrage.

II. Methodology

The number of companies that have so far converted to the SE form has been modest, but the group includes leading corporations in the finance and insurance industries. This article is based on data from interviews with general counsels, chief financial officers, and other legal

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20 See SE Regulation arts. 4(3); 13; 15(1); 41(1) para 1; 51; 52(1)(b), (2); 53; 54(1), (2); 57; 59(1); 61; 62(1), (2).
advisors at one half of the current, active SE’s. The companies included have headquarters in Austria, Belgium, China, Cyprus, Estonia, France, Finland, Germany, Luxembourg, Norway, the United Kingdom, and Sweden and comprise the biotechnology, chemicals, electronics, financial services, insurance, medical equipment, metals, oil, paper, real estate, and reinsurance industries.  

For context, additional conversations were held with legal academics, representatives to the European Commission, company lawyers, labor advocates, journalists, and policy analysts at European think tanks and non-governmental organizations. Directors and officers of companies that considered SE conversions but decided against them, in Bermuda, the Czech Republic, Germany, Hungary, Ireland, the Netherlands, Norway, the United Kingdom, Sweden, and Switzerland offered additional viewpoints.

Every company in the study supported the drafting of a wholly unified, European-level company law. Presented instead with the framework the SE offers, most companies adopting the SE have used it to effect cross-border restructurings or to centralize their operations. Others have moved their headquarters to accomplish specific goals or have made changes to their board structures, but many report the costs of doing so to exceed the benefits to be gained. This article explores the aspects of the legislation that discourage companies from large-scale regulatory competition and other forms of arbitrage and the pressure for convergence that the SE introduces.

III. Empirical Data

In the four years since the SE’s inception, conversions have increased nearly exponentially. [Figure 1.] The two chief innovations the legislation offers are the possibility to transfer the corporate seat throughout Europe and to effect cross-border mergers. SE’s may also elect a one-tier or two-tier board structure, with worker representatives appointed

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23 The interviews were not intended as a random sample but as a means for collecting first-hand accounts with which to understand the dynamics driving corporate decision-making. (Robert K. Yin, *Case Study Research: Design and Methods* (1993); K.M. Eisenhardt, *Building Theories from Case Study Research*, 14 Acad. of Mgmt. Rev. 532, 534 (1989).).

24 Note: only Austria, Belgium, Denmark, Finland, Iceland, Sweden, and the United Kingdom passed the necessary implementing legislation by the three-year deadline.

25 SE Regulation art. 8.


27 SE Regulation art. 7.

28 Directive, Section II.
pursuant to a negotiated process.\textsuperscript{29} In most other respects, however, SE’s follow the same national laws as other public limited-liability companies.\textsuperscript{30}

\textbf{Figure 1. Timeline}

A few companies have used the SE to move their headquarters and to adjust the organization of their boards, causing increased convergence between the Member States. The legislation’s drafting, however, limits the gains to be realized through these uses. Most companies have converted to the form in order to streamline their operations and to generate regulatory efficiencies through centralized branch structures. Companies in industries without Europe-wide regulation have, however, been less likely to adopt the SE. For the form to achieve sustainability, more harmonization of company law and regulation will be necessary.

\textbf{A. Regulatory Arbitrage?}

While the SE represents the first and, to date, the only mechanism for European companies to move their headquarters\textsuperscript{31} and the legislation leaves to national law such core subjects as

\textsuperscript{29} Should negotiations fail, the “Before-After” principle takes effect. See Recital 18 of Council Directive 2001/86/EC of 8 October 2002 Supplementing the Statute of a European Company with Regard to the Involvement of Employees, OJ(EC) l[2001] 294/22, [hereinafter the SE Directive]. According to the principle, management must guarantee that the same level of involvement existing before the transition to SE status will remain in effect afterwards.

\textsuperscript{30} SE Regulation art. 9(1)(c)(ii).

\textsuperscript{31} See, e.g., Carla Tavares Da Costa and Alexandra de Meester Billeiro, \textit{The European Company Statute} 50 (2003) (“Most national legislatures providing for the international transfer of seat require that the
directors’ liability, insolvency, auditing, and criminal rules, few companies have actually utilized the SE to move and take advantage of national differences in these areas. Robust predictions of the future remain premature, but it appears that the totality of the legislation and the broader context of European law limits the benefits that companies can achieve by relocating.  

1. SE Requirements

The core of the SE legislation developed prior to the Centros line of cases, when the mood in Europe was to prevent U.S.-style charter competition. Article 7 of the Directive requires companies to establish their headquarters in the Member State where they register, in line with the real seat theory. This has limited the SE’s flexibility and impeded the freedom of companies to move. Many companies in this study explained that they were unlikely to reincorporate so long as they also had to relocate their operational headquarters.

Moving a head office entails practical obstacles. Sufficient numbers of employees must be willing to follow. Smaller companies tend to be strongly tied to their local economies, and transfer to another Member State of a company registered in their territory- and consequently subject to their laws – should be accompanied by the dissolution of the company at stake, as well as the constitution of the company in the Member State of arrival according to its national laws. This operation implied a change of the applicable law to the company, and therefore, the loss of its legal personality. Without the continuity of the legal personality of the company, there is in reality no transfer of seat, but a sole dissolution and subsequent reformation of the company.); Eddy Wymeersch, The Transfer of the Company’s Seat in European Company Law, 40 Comm. Mkt. L. Rev. 661, 661 (2003) (“For decades, the transfer of the seat of a company has been the subject of controversy in European company law. Although the subject was expressly mentioned in the European Treaty, experts have not been able to agree on a workable solution. Also, in most States, national company law has not been able to come forward with acceptable solutions. As a consequence, companies were prevented from enjoying the same freedom of movement as natural persons, and this notwithstanding their express assimilation in the Treaty.”).

32 See, e.g., Klaus Heine and Wolfgang Kerber, European Corporate Laws, Regulatory Competition and Path Dependence, 13 Eur. J. L. & Econ. 47, 64 (2002) (“due to the above-mentioned path dependencies much time will be needed before a dynamic competition process can develop, and it can be expected that this competition will have to tackle with a whole set of serious problems.”).

33 Interviews #2, 4, 9, 10, 16, 17, 27, 29, 30, 46, 74. But see Luca Enriques, Silence is Golden: The European Company Statute as a Catalyst for Company Law Arbitrage, ECGI Working Paper No. 07/2003, March 2003 at P.6 (“The provision requiring the SE’s registered office to be located in the same Member State as its central administration should be no serious obstacle to using the SE as a vehicle for company law shopping.

34 See, e.g., John C. Coffee, Jr., The Future as History: The Prospects for Global Convergence in Corporate Governance and its Implications, 93 Nw. U. L. Rev. 641, 655 (1999) (“Law and culture are important constraints . . . Even after the Common Market, Europe is criss-crossed by national borders that, as a social matter, restrict the mobility of labor. Hence, labor is more resistant to corporate migration in Europe than in the United States.”).

These concerns were irrelevant for Narada, a battery manufacturing company originally based in Norway. It structured a joint venture with its main customer, the Norwegian telecommunications company Eltek, as an SE so that it could move the new entity to any place it hired staff. It selected a British citizen to run the venture, and transferred the SE to the UK.\footnote{Interview #69.}

### 2. SE Expenses

While the SE eliminates legal barriers to relocating,\footnote{SE Regulation art. 8(1).} it does not address obstacles posed by national taxation.\footnote{Hughes de Lasteyrie du Saillant v. Minister de L’Economie, Case C-9/02, however, has raised questions over the legality of exit taxes. While the European Court of Justice made a clear distinction between people and corporations, it held that France could not charge exiting residents taxes that it did not apply to domestic residents without violating the Freedom of Establishment.} Exit taxes frustrate the movement of European companies.\footnote{See, e.g., Anne Fairpo, Societas Europaea and Mobility, 892 Tax J. 24, 24, (2007); Roderik Bouwman and Jan Werbrouck, International Tax Aspects of the Societas Europaea, in Dirk von Gerven and Paul Storm, eds., The European Company 104 (2006); Carla Tavares Da Costa and Alexandrea de Meester Bilreiro, The European Company Statute 161 (2003) (“Despite Article 8 of the Regulation, the majority of the Member States continue to tax such transfers as if the company was being wound up or liquidated. The reason for this widespread practice is that, in most Member States, with the transfer of the company’s registered office to another Member State, i.e., the host State, the SE will cease to be subject to unlimited tax liability in the home country. Therefore, the objective is to prevent any capital gains, which have accrued in the home State, evading taxation. The taxation of capital gains upon the transfer of the company’s registered office to another Member State is the last chance to tax the appreciation and gains in such assets upon their actual transfer.”).} Germany, for example, requires companies that terminate their unlimited tax liability by moving to pay full liquidation taxes.\footnote{§ 12(1) of the Einkommensteuergesetz (Income Tax Act).} Austria, Greece, Ireland, Luxembourg, the Netherlands, Spain, and the UK defer exit taxes, but only if a company retains a permanent establishment in its original location to which its assets can be attributed for continuing taxation. Belgium, Denmark, Finland,
France, Germany, and Sweden impose exit taxes even on these companies. Portugal is the only Member State that does not charge exit taxes.\footnote{See Survey on the Societas Europaea (2003), available at http://www.europe.eu/int/comm/taxation_customs/taxation/company_tax/development.htm.}

Furthermore, the SE legislation allows Member States to establish compensation mechanisms for minority shareholders who oppose reincorporation and additional protections for creditors.\footnote{See SE Regulation arts. 8(2)-(4) (endowing creditors with prior information rights); 8(16) (allowing creditors to litigate claims arising prior to the transfer in the departure State); and 8(15) (blocking transfers when proceedings for winding up, liquidation, insolvency, or suspension of payments have taken place). SE Regulation 8(7) also allows Member States to legislate additional rules. Under Article 13 of the German Act on the SE, 22 December 2004, for example, creditors are entitled to a deposit security.} Few companies have been willing to risk the unpredictable costs of complying with these provisions.

Elcoteq, an electronics manufacturing company originally located in Finland and a main supplier to Nokia, the Finnish electronics company, was the first company to become an SE to transfer its seat. Its shareholders voted to approve moving the company’s headquarters in 2005. It created a Luxembourg-domiciled SE by merging the Finnish parent company with a Luxembourg subsidiary. The SE established new branches in Switzerland and in Finland.\footnote{Interview #63.}

Elcoteq moved to Luxembourg chiefly to benefit from a bilateral tax treaty between Luxembourg and Switzerland,\footnote{See, e.g., Roopa Aitken and Chris Morgan, Societas Europaea: Is Tax an Incentive or a Barrier?, 15 Eur. Bus. L. Rev, 1343, 1346 (2004) (stating that because tax treatment of an SE is equivalent to that of a national private limited company “the relevant double tax treaties concluded between the country and other countries will apply to an SE . . . .”).} although the company also describes the difficulty of recruiting top talent to Finland.\footnote{Interview #63.} Most of its officers were based in Switzerland, and Finnish employees accounted for only one percent of its workforce. Under the tax treaty, income allocated to the Swiss branch of a Luxembourg-based company is not taxed at the head-office level. Interest on loans originating from the Swiss branch also qualify as costs for tax purposes, reducing overall taxable income.\footnote{See, e.g., Daniel Shaviro, Some Observations Concerning Multijurisdictional Tax Competition, in Daniel Esty and Damien Geradin, eds., Regulatory Competition and Economic Integration: Comparative Perspectives 58 (2001) (“The main mechanism for such [non-mandatory] harmonization is a web or more than 1,500 bilateral tax treaties that provide complicated rules for coordinating the claims of ‘source’ countries where income is earned and ‘residence’ countries where business owners are found. However, rather than emerging spontaneously without broader harmonizing institutions, these treaties generally follow, in their broad outlines, a set of model treaties first developed in the 1920s through intensive multilateral negotiations under the auspices of the International Chamber of Commerce and the League of Nations. The global setting of these agreements lowered transaction costs for individual countries to . . . .”).}
Shareholders opposed to the move had the right to sell their shares back to the company. Elcoteq could not predict in advance how many would do so and, therefore, how much money to reserve. The legislation, furthermore, did not clarify whether the dissenting shareholders should receive the average share price of the period leading up to the shareholder vote or the price on the day of the vote.\textsuperscript{50}

The transfer of seat contributed to convergence between the laws of the two countries.\textsuperscript{51} Finland, like most European countries, has not proscribed a nominal share value, but Luxembourg has.\textsuperscript{52} To speed negotiations, Luxembourg repealed its rules, aligning itself with the rest of the continent.\textsuperscript{53} Luxembourg law also contains a “one share-vote” clause,\textsuperscript{54} but Finnish law does not.\textsuperscript{55} Elcoteq originally issued two series of shares, with the one held by the founders carrying ten times the other’s votes. It amended its share structure to match Luxembourg’s.\textsuperscript{56}

The SE’s provisions on employee involvement also exposed Eastern European Member States to Finland’s strong tradition of worker’s rights. Elcoteq struggled to negotiate with representatives of its Baltic subsidiaries. Progress stalled while some countries drafted laws delineating a process for choosing worker representatives,\textsuperscript{57} and other countries lacked translations for basic collective-bargaining vocabulary.\textsuperscript{58}

Prosafe, a Norwegian shipping company, also incurred large costs using the SE to move.\textsuperscript{59} It transferred its headquarters to Cyprus to avoid changes to Norway’s national tonnage
tax system. In 1996, Norway adopted a permissive scheme of tonnage taxation to make itself a competitive shipping base. It did not tax companies’ operating profits unless they paid taxable dividends to shareholders or moved their assets out of the country. In September 2006, however, the government announced a new plan to reclaim the tax credits. It demanded payment on all tax liabilities deferred under the 1996 law over a period of ten years and moved to impose forward taxes on shipping companies.

When it left Norway, Prosafe paid the full amount of its deferred tax liabilities. Since then, Norway has passed additional legislation taxing exiting companies as if their full valuation has been realized. Odjfell, another Norwegian shipping company, converted to the SE in contemplation of a move, but for now remains in Norway.

3. SE Limitations

The SE allows for seat transfers, but only limited benefits redound to companies that do so. Most European business and labor regulations apply based on where a company operates, not where it incorporates. Securities laws pertain to where a transaction occurs, and companies pay taxes wherever they earn income.

The majority of registered SE’s are non-operational “shelf companies” that exist legally but do not yet conduct business or employ anyone. Private companies, such as Foratis AG in

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60 Interview #52.
61 See Sec. 51A of the law on wealth and income tax No 8 of 18 August 1911; Ch. 5 of Annual Tax Decree by the Parliament.
63 Interview #52.
64 Interview #54.
Germany, create the empty structures to sell. Their buyers can move the shelves to any other Member States and then activate them.

Many commentators cite the existence of shelves to dismiss the SE. The percentage of operational SE companies, however, has grown. [Figure 2]. The shelves remaining suggest the possibility for future movement of companies across Europe.

**Figure 2.** Operating vs. Non-operating

![Operating vs. Non-operating](image)

To date, only four companies have activated a shelf, but shelves should appeal to companies in Member States with complicated rules for forming SEs. The companies can buy the pre-made forms, established under the laws of another country, and move them to their home

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70 See, e.g., CEPS Task Force Report, *Corporate Taxation and the European Company Statute* 16 (2008); Interviews #4, 9, 15, 17, 25, 29, 33, 43.

71 Note: While SE Regulation art. 14, para. 1, mandated the Member States to implement the SE Directive prior to October 8, 2004, only five member states – Austria, Belgium, Denmark, Finland, and Sweden – met the deadline.

72 Atrium Erste Europaische VV SE became Convergence CT SE, Atrium Funfte Europaische VV SE became Donata Holding SE, Pro-Jura 0407 SE became Orchestra Service SE, and Sarpedon 2006/01 Vermogensverwaltungs became Max Boegl International SE.
countries. Activating an existing shelf saves buyers time, and, in some jurisdictions, increases access to investment capital and other contracts.  

While shelf companies seem to indicate a wait-and-see attitude, and while companies have shown hesitance in reincorporating, many smaller companies have utilized the European Court of Justice’s case law on the Freedom of Establishment to incorporate, in the first instance, in the UK. Between 2003 and 2006, more than 67,000 new, private limited companies (plcs) were established there from other EU Member States. The average number of incorporations per year increased from 146 firms per country in the pre-Centros period to 671 firms per country afterwards. The largest flow of firms has been form France, Germany, the Netherlands and Norway, and 42,000 German firms have incorporated.  

Air Berlin, the low-cost German airline, became a high-profile example of the trend when it formed as a UK plc before going public and listing on the German DAX.

UK plcs gain access to the country’s capital markets and court system and avoid employee participation rules, although workers must continue to serve on national subsidiary boards in countries that require it. France, Spain, Germany, and the Netherlands have all recently eliminated or lowered their minimum capital laws to match the UK’s more lenient system. The Dutch and German consultation documents explicitly reference the need to compete with UK company law and incorporation procedures. The German government has also reformed its national rules to allow for the establishment of German corporations on UK limited terms, and

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73 Interview #27, 55, 74.
77 See Loi pour l’Initiative economique of 1 August 2003.
80 See supra note 77.
81 See www.justitie.nl.themas/wetgeving/dossiers/BVrecht/Information_in_English.asp and supra note 272.
82 Entwurf eines Gesetzes zur Modernisierung des GmbH-Rechts und zur Bekämpfung von Missbrauchen (MoMiG), drafted in May 2006; Patrick Leyens, German Company Law: Recent Developments and Future Challenges, 6 German L. J. 10 (2005).
the Dutch Parliament has launched a review of its private limited company law. European companies, however, have not used the SE in great numbers to transfer their seats to the UK.

**B. Internal Arbitrage?**

The SE legislation operates in conjunction with national law, and companies may choose not only a different Member State in which to reincorporate but also between the SE’s rules and the laws governing national corporations in their home country. Some, therefore, have converted to the SE for the opportunities it presents to adjust the organization of their boards, raising concerns that the form will contribute to the diminution of workers’ rights in Europe.

The SE Regulation allows companies to select between a one-tier and two-tier board structure, and the SE Directive enables changes to the number and makeup of employee representatives on boards. Belgian, British, Cypriot, Greek, Italian, Irish, Luxembourg, Portuguese, Romanian, Spanish, and Swedish company law dictates a one-tier board structure, in which executive and non-executive directors serve together. Austrian, Czech, Danish, Dutch, Estonian, German, Latvian, Polish, and Slovakian boards have two tiers, with a Management Board of executive directors running the company directly, and a Supervisory Board of non-executive directors overseeing the Management Board. Bulgarian, Finnish, French, Hungarian, Lithuanian, Norwegian, and Slovenian law offers companies a choice between the two arrangements.

Employee participation on Supervisory Boards is required in Austria, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, the Slovak Republic, Slovenia, Spain, and Sweden at

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85 SE Regulation art. 38.


differing levels. In Denmark, for example, companies with more than thirty-five employees must appoint them to one third of their Supervisory Board seats. Germany’s rules are the strictest: one half of the Supervisory Board seats in large companies must be allotted to workers.

A few European companies have utilized the SE to replace their two-tier boards with a one-tier structure. Others have negotiated smaller, more international Supervisory Boards. The SE, however, appears unlikely to bring an end to two-tier boards or employee participation. Most companies with codetermination appear committed to the stakeholder model from which it derives, in which companies serve the interests of many groups, including employees, rather than focusing solely on the maximization of shareholder wealth. More likely is a new equilibrium of smaller, more international Supervisory Boards.

1. SE Limitations

Every company in this study stressed that large corporations with significant employee participation would not convert to the SE to adopt a one-tier board. Doing so would eliminate the division between the Management and Supervisory Boards. The national laws of Member States with dual board structures do not delineate how a one-tier board with worker representatives should operate. The only SE companies that have chosen a one-tier board, therefore, have been companies too small for codetermination. One-tier boards have helped them to streamline operations and to increase executive power, aligning them more closely with companies from other European Member States.

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89 It does not exist under Belgian, British, Bulgarian, Cypriot, Estonian, Italian, Latvian, or Lithuanian law.
90 See, e.g., Theodor Baums and Peter Ulmer, eds., Employees Co-Determination in the Member States of the European Union (2004); Jan von Hein, Between a Rock and a Hard Place – German Codetermination Under Pressure, 3 Kyoto J. L. & Politics 1, 2 (2007).
92 See Dodge v. Ford Motor Co., 204 Mich. 459 (1919) (“A business corporation is organized and carried on primarily for the profit of the stockholders. The powers of the directors are to be employed for that end.”). Further, Mark J. Roe, The Shareholder Wealth Maximization Norm and Industrial Organization, 149 U. Pa. L. Rev. 2063, 2065 (2001) (“Shareholder wealth maximization is usually accepted as the appropriate goal in American business circles.”). But see Revlon v. MacAndrews & Forbes Holdings, 506 A. 2d 173 (Del. 1986) (deferring to the business judgment of directors and seemingly requiring shareholder interests to be primary only in cases of a sale of control).
93 The German Ministry of Economics and Labour has legislated codetermination in one-tier SE companies. See § 6 of the revised draft of 5 Apr 2004 of the SE-Ausführungsgesetz, available at www.bmj.bund.de.
94 For example, Mensch und Maschine Software, a German SE with 350 employees, and Sevic Systems, another German company with approximately 100 employees.
Plansee, an Austrian metalworks company, adopted the SE in order to substitute a one-tier board for its two-tier structure, even though this required it to increase the number of outside directors. Plansee forms one of a group of three related companies. The others, based in Luxembourg, previously had one-tier boards, and their Managing Directors served on the Supervisory Board of Plansee. The new, one-tier SE allows for all of the Managing Directors to sit on the same level in all three companies, eliminating any impression that the Managing Directors of the Luxembourg companies exert control over Plansee’s Managing Director. According to company lawyers and officers, the new organization also appears more understandable to foreign investors and potential venture partners.95

PCC, a German energy company, also used the SE to create a unitary board. The new board structure has helped the owner of this private company to increase his control. While previously, his decisions were ratified by a Supervisory Board of three outsiders, the new, integrated board includes only the owner; a former member of the Management Board; and one external member, a previous representative to the Supervisory Board. Under this arrangement, the owner more easily wins support for the initiatives he proposes.96

Many companies mention the European branding inherent to the SE as an additional benefit of conversion.97 PCC has failed in two takeover bids for Polish chemical companies and blames Polish perceptions of German corporate ownership as a threat to employment. PCC enthusiastically supports the European status the SE confers.98

2. SE Expenses

Every German company with employee representation to have converted to the SE – Allianz, BASF, Carthago Value Invest, Fresenius, Hager, Man Diesel, Max Boegl International, Porsche Holding, and Surteco – has continued to maintain a two-tier structure, but many have negotiated a reduced size and changed composition of the Supervisory Board.99 The SE

95 Interviews #53, 59.
96 Interviews #55, 58.
98 Interview #55.
99 Using the political system to reduce the burden of German codetermination has not been possible. (See, e.g., Angel R. Oquenda, Breaking on Through to the Other Side: Understanding Continental European Corporate Governance, 22 U. Pa. J. Int’l L. 975 (2001). Since its enactment in 1952, the German Codetermination Act has been revised only once in 1976. According to Oquenda, “during the debate that led to the enactment of the 1998 Corporate Control and Transparency Act, the acting Minister of Justice, businessmen, and legal experts unanimously supported reducing the size of the supervisory council. Nonetheless, unions and the Minister of Labor opposed this position. They eventually carried the day and blocked the reform.”
Directive allows agreements with workers that reduce the size of the Supervisory Board, even though the overall proportion of employee representation may not change. These companies have not, however, utilized the SE to eliminate codetermination entirely, by transferring their seats to Member States without employee involvement. They described employee participation, in interviews for this study, as an important instrument of legitimacy during decisions adverse to employee interests. Although more concentrated systems of decision-making could allow companies to more quickly make choices and implement them, codetermination helps companies to defuse conflicts and generate consensus.

Two key thresholds exist in German codetermination: companies with employees numbering between 500 and 2,000 must offer one third of their Supervisory Board seats to workers; companies with more than 2,000 employees must offer them one half of the seats. As a result, companies with less than 2,000 employees have converted to the SE in order to hold the percentage of worker representatives to the lower level. Those with more than 2,000 employees have utilized the SE as an opportunity to renegotiate the size of their Supervisory Boards, even though the SE does not permit them to change the percentage of representation on the board.

100 SE Directive Art 3(4).
101 See, e.g., K. van Hull and H. Gesell, European Corporate Law 372 (2006). Friedrich Kubler describes the process of using the SE to eliminate codetermination entirely in A Shifting Paradigm of European Company Law, 11 Colum. J. Eur. L. 219, 232-33 (2005). (“If we assume that a German stock corporate with more than 2000 employees, Widget AG, wants to get rid of the German regime of worker participation on the supervisory board, it can merge with a British plc by forming a European Company, Widget SE, to be registered in the UK. The British partner in the merger could be small and unimportant; it could be a wholly owned subsidiary of Widget. This move will not free Widget from codetermination; it will have to negotiate with its employees and their union the agreement provided for in the Directive . . . But two years after the date of the registration Widget can make the next move: now the firm is able to transform the (British) SE into a British plc. UK law does not impose any form of employee participation on companies. Neither the SE-Regulation nor the SE-Directive require the preservation of codetermination in such a case.”).
102 Interviews #2, 4, 10, 17, 21, 25, 26, 27, 29, 30, 38, 42, 45, 74.
103 See, e.g., Christoph Teichmann, Restructuring Companies in Europe: A German Perspective, 15 Eur. Bus. L. Rev. 1327, 1333 (2004) (“Some claim that employee representatives reduce efficiency because they may leak information to the workforce or act in the mere interest of their constituency; others maintain the viewpoint that employee representatives are a valuable source of information and that their insight into the company’s affairs contributes to a better performance of the Supervisory Board. One difficulty of assessing the efficiency of co-determination is that within the sample of companies of a certain size there is, at least in Germany, no comparable sample of companies without codetermination.”).
105 German Codetermination Act of 1976, Gesetz uber die Mitbestimmung der Arbeignehmer of May 4, 1976, Bundesgesetzblatt BGBI I 1153.
106 See, e.g., Jeffrey N. Gordon, Pathways to Corporate Convergence? Two Steps on the Road to Shareholder Capitalism in Germany, 5 Colum. J. Eur. L. 219, 222 (1999) (“Supervisory boards are
Fresenius, a healthcare company with 1,000 employees in 100 countries, converted to the SE to freeze the number of workers on its Supervisory Board in advance of growing to more than 2,000 employees. It planned to acquire a new hospital business, and the addition of its employees would have enlarged Fresenius’ Supervisory Board to twenty people from twelve.\footnote{107}

Allianz, the blue chip German insurance, asset management, and banking company, with more than 181,000 employees, is obliged by German law to place workers in half of its Supervisory Board seats. Pursuant to its negotiations on converting to the SE, the Special Negotiating Body and company management concluded an agreement to decrease the size of the Supervisory Board from twenty to twelve, thereby reducing the number of workers on the Board from ten to six.\footnote{108} The new Supervisory Board also includes a French and a British employee, whereas it used to be entirely German.\footnote{109}

All companies, with and without codetermination, emphasized in interviews the ease of coordinating smaller Supervisory Boards. Fewer people more easily reach decisions, maintain confidentiality, and cost less in salaries for board service. Conversion to the SE also endows Supervisory Board chairs with new rights to veto board decisions and to cast tie-breaking votes, redistributing power to the chair from the employee representatives.\footnote{110}

Adopting the SE to adjust board requirements comes at significant cost. Allianz paid a total of 95 million Euros for its conversion.\footnote{111} The Directive sets out a complicated process for establishing the level of worker representation in the new SE company.\footnote{112} It took BASF, the German chemical company, three months to nominate and elect representatives to the Special Negotiating Body from the thirty-two countries in which it operates.\footnote{113} All of the German companies that have transformed into SE’s have used the entire six-month period for which the Directive allows negotiations. The Before-After Principle may mandate a company to make no changes, despite its having undertaken the costs of negotiating,\footnote{114} so some German companies

\footnote{107} Interview #31, 29, 74.
\footnote{109} Interviews #21, 29, 74; www.allianz.com/en/allianz_group/about_us/employees/page1.html.
\footnote{110} Interviews #5, 10, 14, 17, 21, 23, 28, 29, 30, 31, 36, 37, 39, 55, 58.
\footnote{111} Statutes of Allianz SE, version dated November 2007 § 18.1.
\footnote{112} See, e.g., Christoph Teichmann, Restructuring Companies in Europe: A German Perspective, 15 Eur. Bus. L. Rev. 1327, 1335 (2004) (“To be sure, the negotiation procedure of the Directive is burdensome and time consuming. Given the time pressure usually involved in international mergers and acquisitions, the negotiation period of six months provided for by the directive may fatally affect the dynamics of such transactions.”).
\footnote{113} Interview # 29.
\footnote{114} SE Regulation Recital (18). See also, Position Paper of 13 June 2003, available at www.bdi-online.de.
have elected to bypass the process and simply continue their original employee participation scheme.\textsuperscript{115}

The Directive also leaves uncertain various aspects of the negotiation process. Allianz, and BASF, maintain that a company’s Articles of Association determine the size of its Supervisory Board. Other legal commentators, however, have argued that the size of the Supervisory Board must itself be established by the Special Negotiating Body.

The reduction in the size of Allianz’s Supervisory Board to twelve and the internationalization of its members tracks the experience of other large German companies that have made the transition to the SE form.\textsuperscript{116} Some fear the SE will weaken labor strength, as employees of different Member States have no common history of acting together and hold divergent national interests.\textsuperscript{117} Others argue that internationalization serves to enhance the legitimacy of employee representation because it reflects the actual composition of modern workforces.\textsuperscript{118}

According to the European Trade Union Institute for Research, Education, and Health and Safety (ETUI), SE-related changes have been useful in forcing a parallel internationalization of union activities.\textsuperscript{119} The European Trade Union Confederation (ETUC) has begun to intermediate in the negotiation process provided for in the SE Directive. Coordinating translators has become a new priority for helping workers to act collectively at the European level. Unions are acting to school workers in a broader conception of their rights and goals, as companies who speak an international language of business increasingly pay little attention to national-level unions who refer to national laws and also leverage regionalization to play national unions off against one another.\textsuperscript{120}

Unionization levels among the European Member States vary widely,\textsuperscript{121} and the SE has triggered discussions of employee involvement in countries without similar traditions. Every

\textsuperscript{115} Interview # 28.
\textsuperscript{116} Man Diesel SE, for example, also reduced its Supervisory Board from 20 to 12 and internationalized its employee representatives.
\textsuperscript{117} Interviews #4, 5, 9, 12, 26, 35, 38, 41.
\textsuperscript{118} Interviews #10, 14, 17, 21, 27, 31, 37.
\textsuperscript{119} Interview # 74; see also Richard M. Buxbaum, et al., \textit{European Business Law: Legal and Economic Analyses on Integration and Harmonization} 48 (1991) (discussing the “national organizing vision” of American labor unions and the likelihood that “the emergence of vigorous competition across national borders within the EC will turn the attention of European labor leaders to the community level”).
\textsuperscript{120} Interviews #26, 38, 41, 74.
\textsuperscript{121} The union density rate in Norway is nearly 80 percent, while in France it is only 10 percent. Collective bargaining coverage in Slovenia is nearly complete, while in Lithuania it is only ten percent. Further, Industrial Relations in the 25 EU Member States and Norway, in Norbert Kluge and Michael Stollt, eds., \textit{The European Company – Prospects for Worker Board-Level Participation in the Enlarged EU} 64-65 (2006).
country in which an SE operates must provide representatives to the Special Negotiating Body. Sampo Life Insurance Baltic SE, for example, a Finnish life insurance company, had difficulty finding candidates from its Estonian, Latvian, and Lithuanian subsidiaries. The process created a new awareness of representation in these countries.\textsuperscript{122}

In contrast to the Baltic States, Scandinavia has a strong tradition of labor organization. More than 80\% of Sweden’s population belongs to a union, and companies with more than twenty-five employees must place workers on their boards.\textsuperscript{123} Nordea, the largest financial services group in the Nordic and Baltic Regions, and its principal union, the Confederation of the Nordic Bank, Finance and Insurance Unions (NFU), worked closely to strengthen union organization in Baltic subsidiaries, in preparation for the company’s planned conversion to the SE. The NFU received a grant from the European Union to support a series of meetings at Nordea’s non-Nordic entities. Nordea’s directors participated, stating their desire to develop reliable employee contacts in the region.\textsuperscript{124}

C. Harmonization?

The SE’s facilitation of regional restructuring has attracted the largest proportion of companies, far more than have the SE’s possibilities for reincorporation. The form offers the ability to complete cross-border mergers, liberating companies from the legal contortions they had previously engaged in and enabling them to absorb their subsidiaries and establish branches.\textsuperscript{125} The branch structure has helped to streamline companies’ international operations, saved VAT taxes, and allowed for supervision in one location in specific industries, at the level of the parent company. In the financial, insurance, and reinsurance sectors, for example, regulation by a single supervisor has allowed for savings in administrative and compliance costs and the pooling of regulatory capital.\textsuperscript{126} Companies in industries that are not regulated at the

\textsuperscript{122} Interviews # 6, 7, 26, 38, 41, 43, 56, 57, 63, 74.

\textsuperscript{123} Industrial Relations in the 25 EU Member States and Norway and Worker Board-Level Participation in the EU-25, in Norbert Kluge and Michael Stollt, eds., The European Company – Prospects for Worker Board-Level Participation in the Enlarged EU 64-65, 83-85 (2006).

\textsuperscript{124} Interviews #7, 8; Nordiska Finansanstalldas Union: Nordea SE Project, available at www.nfufinance.org/Resource.phx/plaza/nordea/nordea.htx.


\textsuperscript{126} See, e.g., Stephen Weatherill, Pre-emption, Harmonisation and the Distribution of Competence to Regulate the Internal Market, in Catherine Barnard and Joanne Scott, eds., The Law of the Single European Market: Unpacking the Premises 41 (2002) (‘‘...the dominant legislative preference is for a system of ‘home State control’, according to which harmonized rules of proper regulatory conduct are agreed at Community level but enforced at national level and pursuant to which it is assumed that ‘home States’ will subject firms based on their territory to the agreed Community rules while ‘host States’, in which target consumers of the firm are based, are excluded from actively applying not only domestic
European level, however, have been less likely to convert to the SE. The broader legal environment within which the SE legislation operates necessarily constrains what companies can use it to accomplish. Pressure for increased harmonization and European-level regulation will build as companies interested in converting to the SE encounter the limitations of what it can offer them, stimulating the progress of the EU.

1. SE Capabilities

a. Cross-Border Merger

Before the adoption of the Directive on Cross-Border mergers in October 2005, the SE provided the only tool with which companies could carry out legal mergers across national boundaries. Allianz, the flagship company to convert to the SE, adopted the form to enable a cross-border merger with its 55.4%-owned Italian subsidiary, Riunione Adriatica di Sicurtà (RAS). RAS owned substantial holdings in other Allianz subsidiaries in Switzerland, Austria, Portugal, and Spain. Fully integrating RAS into the Allianz parent company simplified Allianz’s structure, as it gained close to full ownership of the four other subsidiaries. [Figure 3].

Figure 3. The Organizational Structure of Allianz

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128 See Carla Tavares Da Costa and Alexandra de Meester Bilreiro, The European Company Statute 21 (2003) (“With the sole exception of Italian law, most national laws render cross-border mergers almost impracticable.”).
129 Interview #21, transcript on file with the author.
Converting to the SE took Allianz more than a year and cost the company €95 million. Without the new form and its capacity to complete a cross-border merger, however, Allianz would have needed to acquire RAS through a more expensive, riskier takeover bid.\textsuperscript{130} Companies need only gain the approval of two-thirds of their targets’ shareholders in order to carry out a merger; takeover bids require the cash acquisition of all of their targets’ shares, in order to initiate a squeeze-out process. National law proscribes the squeeze-out threshold, and in Italy the threshold is 98%.\textsuperscript{131} Buyers must frequently make premium payments to hold-out shareholders to win sufficient support. Many observers of the Allianz deal maintain that the company would not have been able to buy enough shares in RAS at a realistic price. Becoming an SE thus formed a necessary step in its acquisition of RAS.\textsuperscript{132}

b. Branching

\textsuperscript{130} The Cross-Border Merger Directive had not yet taken effect.


\textsuperscript{132} Interviews #3, 4, 5, 29, 30, 31, 39, and 65, transcripts on file with the author.
In the fields for which centralized regulation is now available, companies must adopt a branched configuration in order to qualify for it, as Member States retain individual oversight of a company’s subsidiaries. Each subsidiary must report to its national regulator, which multiples costs and allows for conflicting obligations. As a result, companies have used the SE to absorb their subsidiaries through cross-border mergers and establish branches.

Scor, a French reinsurance company, created three SE’s in order to take advantage of the EU’s 2005 Reinsurance Directives. It transformed Scor SA, a French holding company at the head of the group, into Scor SE. Over a year and a half, it merged its German, Italian, and Dutch subsidiaries into Scor Global Life SE and Scor Global P&C SE and replaced them with branches.

The Reinsurance Directives permit unified supervision of reinsurance companies and their branches in their home country. Reinsurance concerns global risk and its distribution, and the EU sought oversight of companies’ overall strategies, rather than their activities within individual Member States. Branches, unlike subsidiaries, do not amount to independent legal entities and need not make separate corporate filings, convene separate boards, or pay VAT taxes on transactions with their parent companies. Scor, in using cross-border mergers to reconstitute its subsidiaries as branches, gained a centralized regulator as well as savings in

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133 See, e.g., Second Banking Directive, 89/646/EEC.
134 See, e.g., Jean Dermine, Don’t Put the Cart Before the Horse, paper presented at conference on Cross-Border Banking, Regulatory Challenges, 6-7 October 2005, at p.4; European Commission, Supervision of Branches, MARKT/G/3/MV D (2007). Even so, the host country remains responsible for liquidity issues as well as monetary policies. (See art 27 of Directive 2000/12/EC).
135 Ample reasons to retain subsidiaries persist, however. Subsidiaries boast limited liability, a separate, “local” legal entity, and predictable tax treatment, among other features. Further, Paul Storm, The Societas Europaea: A New Opportunity?, in Dirk van Gervan and Paul Storm, eds., The European Company 15 (2006) ([Irrespective of the existence of a single market, the international management literature predicts that international firms will operate with a mix of branches and subsidiaries . . . .”]).
137 Interviews #20, 45.
138 Reinsurance Directives recital (9) (“This Directive . . . mak[es] it possible to grant a single authorization valid throughout the Community and apply the principle of supervision by the home Member State.”); art. 15 (“The financial supervision of a reinsurance undertaking, including that of the business it carries on through branches . . . shall be the sole responsibility of the home Member State.”).
139 Id. recital (4).
141 See Ministero dell’Economia e delle Finanze, Agenzia delle Entrate v. FCE Bank plc, 23 March 2006 (services rendered by a company in one member state to its branch in another member state are outside of the scope of VAT).
compliance and corporate governance costs.\textsuperscript{142} As one lawyer explained, however, “Each regulated industry is different; selling tractors would be different [from the reinsurance industry]. The SE was sold to the public as a one-size fits all tool, and it’s not.”\textsuperscript{143} The SE would not have offered these advantages in other sectors.

c. Capital Reserves

Scor’s conversion to the SE has, furthermore, eased its capital-reserve obligations under the Solvency II Directive.\textsuperscript{144} Solvency II generally increased the amount of regulatory capital that insurance and reinsurance companies must reserve.\textsuperscript{145} All of the capital that Scor’s subsidiaries held is now held by its branches and counts as the company’s own, reducing the total amount of money necessary.\textsuperscript{146}

For this reason, Sampo Life, the Finnish life insurance company, formed an SE company, Sampo Life Insurance Baltic. It merged its Estonian, Lithuanian, and Latvian subsidiaries into a single European company headquartered in Estonia, and established branches in the other two countries.\textsuperscript{147} The money the subsidiaries previously held now counts as part of the SE’s total pool of regulatory capital, reducing the amount Sampo must reserve by one third.\textsuperscript{148}

Use of the SE mitigated the concerns of Sampo’s regulators. While structural changes within the life insurance sector typically elicit heightened scrutiny, the SE conversion signaled a legitimate, European-level restructuring.\textsuperscript{149} Scor also chose the SE, rather than the Directive on Cross-Border Mergers, to absorb its subsidiaries for the impression it would make on its supervisor.\textsuperscript{150} As the CFO of a multinational reinsurance company explained, “It’s much brighter to say we’re becoming an SE – we consider Europe a unique market and we will act through branches – than it is to say we’re pulling out our subsidiaries.” Many companies in this study characterized the SE as an important cover in carrying out reorganizations that would otherwise trouble clients and regulators.\textsuperscript{151}

\textsuperscript{142} As the CFO of one SE said in an interview, “The FSA tried to make us have independent directors in our tiny UK subsidiary. I said go to hell and established a branch.”
\textsuperscript{143} Interview #45.
\textsuperscript{144} Proposal COM (2008) 119 Final.
\textsuperscript{145} Id. at Pillar I.
\textsuperscript{146} See id. Annex IV for the calculation of solvency capital requirements; interviews #20, 30, and 45.
\textsuperscript{147} Interview #57.
\textsuperscript{148} Interview #56.
\textsuperscript{149} Interview #57.
\textsuperscript{150} Interview #20.
\textsuperscript{151} Interviews #4, 28, 30, 34, 43.
Areas touching on consumer’s rights remain subject to national-level regulation.\textsuperscript{152} As a result, Sampo Life Insurance Baltic was not able to achieve the same centralized supervision as Scor. In order to comply with the separate regimes, Sampo offers different insurance products in each country.\textsuperscript{153}

d. Consolidation

Swiss Re, the insurance and reinsurance multinational, has used the SE in a broad restructuring. To benefit from EU legislation, it shifted its insurance and reinsurance businesses from their original headquarters in Switzerland to two new centralized, Luxembourg-based entities.\textsuperscript{154}

By using the SE, Swiss Re consolidated its insurance subsidiaries without disturbing their licenses to conduct business in the U.S.\textsuperscript{155} The company combined its Dutch and British non-life insurance subsidiaries into a UK-based SE, moved the SE to Luxembourg, and then established a German branch. UK law does not include provisions for mergers, so Swiss Re formed the SE through a cumbersome, court-approved transfer of assets and liabilities. Without the SE, though, it would have had to liquidate each business, establish new companies in Luxembourg, and apply and pay for new licenses.\textsuperscript{156}

The company used the 2005 Directive on Cross-Border Mergers, rather than the SE, to relocate its reinsurance subsidiaries. It formed a private company in Luxembourg and merged into it its UK, Irish, Dutch, and German entities. Next, it will integrate its Danish, French, Italian, and Spanish reinsurance subsidiaries into this structure.\textsuperscript{157}

Partner Re, another reinsurance company, bypassed the SE when it moved its headquarters from Switzerland to Ireland to qualify for the EU Reinsurance Directives. It avoided the form in order to eliminate exposure to employee involvement and to gain predictability on taxation, particularly its rights to offset losses in one jurisdiction against total profits. The company also hesitated to adopt new legislation for which potential gaps or


\textsuperscript{153} Interview #57.
\textsuperscript{154} Interview #64.
\textsuperscript{155} SE Regulation art. 29.
\textsuperscript{156} Interview #65.
\textsuperscript{157} Interview #64.
mistakes could be remedied only by petitioning national courts, jurisdiction by jurisdiction, rather than by directly lobbying a single regulator.\footnote{158 Interview #43.}

3. SE Limitations

In order to pass the SE legislation, the Member States opted for a framework structure that harmonized only minimal amounts of company law and left the rest to national law. Law, however, does not appear to be so easily circumscribed. To attract more companies, the SE will drive further legal harmonization.\footnote{159 See, e.g., Ernst Haas, \textit{The Uniting of Europe} (1958) (posing spillover pressure to expand authority of central institutions into neighboring policy sectors); Malcolm Gommie, \textit{EU Taxation and the Societas Europaea – Harmless Creature of Trojan Horse?}, 44 Eur. Taxation 35, 36 (2004).} Otherwise, companies in regulated industries lacking regional supervisory regimes will not convert to the SE.

a. Deposit Guarantees

In 2003, Nordea Bank publicized plans to become an SE. Its goal has been to integrate its subsidiaries into a single Swedish entity and operate through branches. A branch structure would enable it to gain centralized supervision, reduce spending on compliance and corporate governance requirements, and lend more money.\footnote{160 The Second Banking Directive, Directive 89/646/EEC allows for home country supervision of foreign bank branches under a single license. Foreign bank subsidiaries continue to be regulated by their host state. \textit{Further}, Alfred Lewis and Gioia Pescetto, \textit{EU and US Banking in the 1990s} 12-13 (1996).}

A bank may not loan more than 10\% of its total capital to a single customer. Capital held by branches counts as the parent company’s.\footnote{161 Interview #7.}

National-level deposit guarantee schemes, however, have impeded Nordea’s SE conversion. European banks must contribute to funds guaranteeing their savings in every country in which they operate.\footnote{162 The Directive on Deposit Guarantee Schemes, 94/19/EC, as adopted by the Council of Ministers in 1994.} Each country has different rules on the coverage limit, priority given to deposits, ex ante or ex post financing, and other features.\footnote{163 For example, the Danish scheme guarantees a maximum of 300,000 Danish Krone for ordinary deposits, the Swedish scheme guarantees a maximum of 250,000 Swedish Krona, and the Norwegian scheme guarantees a maximum of 2,000,000 Norwegian Krone. In Denmark, a bank makes current payment but is repaid them on withdrawal. In Finland, Norway, and Sweden, banks pay nonrefundable premiums.}

If Nordea became an SE, all of its savings would transfer to the Swedish parent company, and it would make future payments only into Sweden’s scheme. Yet the Member States where Nordea currently operates subsidiaries have refused to refund the money it previously paid them, even though the risk the funds guarantee would shift to Sweden. Nordea has actively petitioned the European
Commission for a harmonized, European-level system of deposit guarantees, but so far the Member States have not agreed on a solution.\textsuperscript{164}

b. National Regulation

For the SE to attract more companies in additional industries, further harmonization will be necessary. Telecoms, for example, do not currently benefit from the form. They must operate a subsidiary in each country in which they do business; Member States license individual companies, and not their branches, to operate at specific frequencies.\textsuperscript{165} Pharmaceutical companies, too, have to register their drugs separately, in each Member State, and report the high cost of applying for new approvals.\textsuperscript{166} Allianz, despite becoming an SE, left its Italian subsidiary in place rather than establishing a branch because Italy only allows independent, Italian license holders to underwrite insurance there.\textsuperscript{167}

Protectionist attitudes also dampen enthusiasm for the SE. A lawyer advised an executive search company against converting to the SE, explaining that Eastern European regulators would view restructuring as a means for taking money out of the region and therefore block the conversion of Eastern European subsidiaries into branches.\textsuperscript{168} Companies House, the government register of UK companies, notified an Austrian SE that it could not establish a branch in England.\textsuperscript{169} The suggestion that PepsiCo might buy Danone caused French politicians to ask the Prime Minister to retain the national “jewel” for France.\textsuperscript{170} In 2007, the German energy company E.ON dropped its bid for Endesa, a Spanish utility company, after the Spanish government opposed the deal in favor of a rival bid from another Spanish company.\textsuperscript{171} The European Commission criticized Spain’s actions to thwart the merger, and referred the case to the European Court of Justice. “Europe continues to fight yesterday’s battles; there is very little community of purpose,” says one policy analyst.\textsuperscript{172}

c. Taxation

Protectionism kept the European Member States from attaining consensus on a harmonized tax regime for SE companies. The decision to leave taxation to national law helped

\textsuperscript{164} Interviews #8, 27, 33.
\textsuperscript{165} Interview #46.
\textsuperscript{166} Interview #42.
\textsuperscript{167} Interview #21.
\textsuperscript{168} Interview #47.
\textsuperscript{169} Interview #53.
\textsuperscript{172} Interview #15.
secure the passage of the legislation.\textsuperscript{173} Member States with low corporate tax rates, such as Estonia, with no tax on retained earnings, Ireland, with a 12.5\% tax rate, and Slovakia, with a 17\% tax rate, feared elimination of their competitive advantage.\textsuperscript{174} The lack of harmonized taxation for the SE form, however, has been extensively criticized,\textsuperscript{175} even by the European Commission.\textsuperscript{176} Operating across multiple tax regimes leads to double taxation and undertaxation, overly tax-driven arrangements, and extra compliance costs.\textsuperscript{177} Uncoordinated national tax regimes hinder the development of the single European market.\textsuperscript{178} Many more companies would be interested in adopting the SE if it offered a unified system of taxation.\textsuperscript{179}

For this reason, the SE has begun to generate discussions of what a European-level tax regime might look like.\textsuperscript{180} A proposal called the Common Consolidated Corporate Tax Base

\begin{footnotesize}
\textsuperscript{173} See, e.g., Pieter Sanders, \textit{The European Company}, 70 J. Bus. L. 184, 192 ("The creation of a European company is one thing and the solution of the tax problems involved is another.").

\textsuperscript{174} CEPS Task Force Report, \textit{Corporate Taxation and the European Company Statute} 16 (2008). Further, Daniel Shavio, \textit{Some Observations Concerning Multijurisdictional Tax Competition}, in Daniel Esty and Damien Geradin, eds., \textit{Regulatory Competition and Economic Integration: Comparative Perspectives} 52 (2001) ("A related Tiebout argument would suggest that tax competition permits jurisdictions to specialize in catering to diverse consumer preferences or local needs, such as by collectively offering a choice between high-tax, high-service and low-tax, low-service options.").


\textsuperscript{176} Frits Bolkestein, Member of the European Commission in charge of the Internal Market and Taxation, \textit{The New European Company}, Address to Conference at the University of Leiden, Leiden, the Netherlands, 29 November 2002. ("I concede that work remains to be done in some areas: in particular, I refer to the taxation aspects, which, quite rightly, are of concern to potential users . . . This leaves the SE-Statute without any tax rules. This is a rather unfortunate situation, which I regret very much. Clearly, the lack of appropriate tax rules significantly reduces the practical attractiveness of the European Company Statute. Business representatives emphasize this quite forcefully.").


\textsuperscript{178} See, e.g., Roderik Bouwman and Jan Werbrouck, \textit{International Tax Aspects of the Societas Europaea}, in Dirk van Gervan and Paul Storm, eds., \textit{The European Company} 102 (2006) ("The absence of special tax provisions in the Regulation, coupled with the principle of equal treatment, means an SE is subject to the tax laws of the Member State of which it is considered a resident for tax purposes and, when operating internationally, applicable international regulations, treaties, and the laws of the (Member) States in which it operates. Consequently as a tax resident of the EU, an SE is potentially subject to the tax laws of [30] countries.").

\textsuperscript{179} Interviews #2, 4, 5, 9, 25, 29, 32, 33, 40, 42, 51, 66.

\textsuperscript{180} See, e.g., Roopa Aitken and Chris Morgan, \textit{Societas Europaea: Is Tax an Incentive or a Barrier?}, 15 Eur. Bus. L. Rev. 1343, 1347 (2004) ("Because the introduction of the SE will not eliminate the current tax problems faced by multinational groups, its introduction has fuelled the debate for a more tax efficient method for operating within Europe."); Carla Tavares Da Costa and Alexandra de Meester Bilreiro, \textit{The European Company Statute} 176 (2003) ("The adoption of the European Company . . . has made it more urgent to define the tax framework at the European Union level. TO become an attractive vehicle, it is

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(CCCTB) has been most popular, and most companies in this study favor it. The CCCTB first consolidates a business’s income across all of its European operations, using a uniform set of rules for deductions and other accounting issues. It then assigns the consolidated amount among the locations in which the business has operated according to a standard formula. The CCCTB thus sets out a common definition of what constitutes a taxable profit and allocates that profit between Member States, but it allows each Member State to retain its own rate of taxation. Currently, each country taxes a company’s subsidiaries and branches individually, and companies have no ability to consolidate their overall profits and losses.

IV. Conclusion

The SE does not appear to be generating a new European market based on regulatory competition. Only a handful of companies have transformed themselves into SE’s in order to reincorporate. Some, particularly German SE companies, have adjusted the organization of their boards. The legislation’s drafting, however, limits the gains companies can realize from these uses. Many companies have, instead, chosen the SE for the restructuring possibilities and regulatory efficiencies that it offers, especially if they are regulated at the European level. Others that have decided against the SE have flagged the need for more harmonization of company law and regulation.

The SE, however, has also revealed the challenges the Member States face in creating mechanisms for sharing sovereignty, even as European businesses have ranked among the greatest supporters of European integration. Its approach to creating a transnational market is not enough to ensure that the existing body of European Union tax company legislation is fully applicable to the European Company. The full benefits in establishing a European Company may only be achieved if existing companies can form such a company without any imposition of additional tax pre-incorporation expenses and avoid the outstanding tax obstacles impeding their cross-border operations.”).

181 Bela Balassa, ed., European Economic Integration 247 (1975) (“Although the Treaty of Rome does not contain specific provisions on the harmonization of [business] taxes, Article 100 of the Treaty can be interpreted as a mandate for harmonization.”).


184 See Roopa Aitken and Chris Morgan, Societas Europaea: Is Tax an Incentive or a Barrier?, 15 Eur. Bus. L. Rev. 1343, 1347 (2004) (stating that because it causes Member States to give up a degree of sovereignty, even though it does not require harmonization of the tax rate itself, the CCTB is unlikely to pass soon).

185 See, e.g., Paul Stephan, The Futility of Unification and Harmonization in International Commercial Law, 39 Va. J. Int’l L. 743, 744-45 (1999) (discussing “the impulse to reduce diversity among the legal systems governing commerce”). The most significant achievements of the EU have occurred in the field of business law. (For example the First Directive (information disclosure, contracts, dissolution); Second
both indirect and subtle. The SE was unveiled in the absence of true European company law or company-law tribunals, after an acknowledgment of the political impossibility of creating a fully harmonized body of regional law.

Because the legislation did not subsume national-level laws into a complete regional structure, the results have been selective, and the form has captured the interest only of certain companies. It thus appears to have become a test of what European company law could represent and the sectors and Member States most likely to want it.

The EU’s program to reconcile sovereign regimes into a regional entity, and the ensuing tension between national and regional levels, has measurable effects in the corporate law arena. If companies can document increased revenues from regionalization, or benefits to other stakeholders, they provide support for the overall goal of regionalization and the objectives of the European Union itself.

Directive (capitalization of public companies); Third and Sixth Directives (mergers and divisions of public limited liability companies); Fourth, Seventh, and Eighth Directives (accounts and auditing); Eleventh Directive (company branches and disclosure); and Twelfth Directive (private limited liability companies). European businesses showed interest in a European-level corporation, independent of the laws of the individual Member States, even before the formation of the European Community itself as early as 1910.