Mr Sven Sester
Minister of Finance
Ministry of Finance of Estonia
13, Endla
Tallinn 10122
Estonia

6 November 2015

The Financial Transaction Tax and its impact on investment and growth

Dear Minister,

We, as Presidents of business federations members of BUSINESSEUROPE, have been encouraged, in the last year, by the increased commitment by both the Council and the Commission to place investment and competitiveness at the heart of the EU's agenda. We welcomed the Commission's investment plan and in particular the launch of the Action Plan on Capital Markets Union.

Putting in place a Financial Transaction Tax risks undermining the current growth strategy and negatively impacting the economic performance of the European Union as whole, which still remains very fragile. The Commission's Green Paper on long-term financing of the European Union rightfully emphasizes the need to calibrate the regulatory and supervisory framework to effectively enable the financial sector to support the real economy.

Given that we understand finance ministers of those member states involved in the enhanced cooperation process may wish to once again look to find agreement on this tax at the ECOFIN's November meetings, BUSINESSEUROPE would like to restate its concerns regarding the impact of such a tax:

- The FTT will increase the cost of raising finance for investment in the EU given higher transaction costs and lower market liquidity for equity, corporate bonds and commodities given the fact that derivatives are in the scope. London Economics estimates the FTT (with corporate bonds included in the scope) could, in the long-run, raise the cost of capital for companies by between 44 and 212 basis points, resulting in a 3.6% drop in business investments and a reduction of GDP by 1 percent.

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- EU Member States have rightly recognised the impact on liquidity and the cost of borrowing that a FTT would have if imposed on sovereign bonds and plan to exempt sovereign bond transactions from a FTT. This is a clear recognition of the negative effect the tax would have on funding costs. We have understood that corporate bonds could be exempted from the tax. That exemption remains insufficient to ensure a proper financing of companies, as derivatives remain in the scope and equities are not exempted: this creates a bias in favour of debt financing, which runs contrary to one of the objectives of CMU. Moreover, it could result in a disproportionate impact on SMEs.

- We are very concerned that a FTT may even cover derivatives including commodity derivatives, which are generally traded to mitigate risks. Recent dramatic changes to both energy prices (such as oil, gas and electricity) and the euro exchange rate have highlighted the importance for many businesses of ensuring that they have properly managed their exposure to such risks, including through the use of derivatives. There is evidence, for example, with the experience of the Italian FTT on equity derivatives, that a tax on derivatives could significantly impact the cost of using derivatives for hedging purposes (particularly given the 'cascading' effect that financial markets operators incur in supplying derivative products), raising operating costs for non-financial businesses, shifting derivatives markets outside of the EU and increasing companies' risk exposure.

- As well as resulting in lower growth and less employment, millions of fund holders, pensioners and savers across the EU will ultimately bear a large proportion of the cost of the FTT. Blackrock suggested that the original FTT proposal could mean that a worker who invested €10,000 in a pension fund from the age 40 would pay €15,000 in tax if they invest in an actively managed European equity fund. This is due to the fact that, in the current draft directive, funds are subject to a double taxation: on the management of their assets and on the redemption (sale) of their shares. Similarly, the tax will penalize all forms of dynamic asset-management ensuring an efficient delivery, which will not remain without consequences for the beneficiaries.

- An FTT would impact massively the real economy since a large part will be borne by the industrial and commercial enterprises in the course of their operations including:

  - an increase in the cost of risk covering incurred by Group companies as part of their operational activities. It is the same for cash management;

  - in a context of increased prudential requirements which lead companies to use markets more to fund, such a tax would have many negative effects, particularly with regard to their financing costs and the need to finance their long term investments.

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- We remain particularly concerned that the implementation of the FTT should not distort the European Single Market or infringe the rights and competences of non-participating Member States. We understand that material doubts have been raised regarding the legal certainty of the proposals as a whole, and in particular with regard to derivatives, and there remains the possibility, recognised in an ECJ ruling, that the substance of the proposals may be subject to challenge by one or more Member States, if the EU11 ultimately decide to proceed with a tax. We believe there is a need for further consideration of the implications of the residence and issuance principles given the potential extraterritorial impact of the FTT.

After more than three years of negotiations, the FTT project has failed to unify the European fiscal landscape and has attracted only 11 out of 28 Member States, which in their turn have repeatedly failed to reach a common position on the basic core principles of such tax.

Given the clear evidence of the damage of an FTT to investment, growth and jobs, we - the Presidents of business federations from Member States participating in the enhanced cooperation process - urge finance ministers to reject this damaging proposal and bring an end to the uncertainty it is causing the EU economy.

Yours sincerely,

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