



Brussels, May 6th 2012

BUSINESS CONCERNS ABOUT FINANCIAL TRANSACTIONS TAX

Dear Minister,

At the Spring European Council, European leaders once again reaffirmed their commitment to restoring growth and job creation in Europe, agreeing on the urgency to accelerate efforts to support growth as a matter of priority'.

But words will do little to support business confidence and growth unless they are supported by concrete and coherent actions.

A number of studies have shown the proposed Financial Transactions Tax (FTT) will have a negative impact on growth and jobs by significantly greater than estimated by the Commission's own impact assessment.

Businesses observe four key routes through which the FTT threatens to damage growth and jobs:

1. **The tax will raise the cost of financing for firms, and hence undermine investment.** The tax in particular reduces liquidity and therefore the attractiveness of new issuances. London Economics estimates the tax on bonds alone would increase companies' overall financing costs by between 0.2 and 1.0 percentage point, leading to a fall in corporate investment of at least 1.8%.
2. **The tax will damage European companies' competitiveness including by making essential risk-management activities more difficult.** Higher financing cost, reduced investment and loss of attractiveness make European companies vulnerable and less competitive in global markets. In particular treasury management, intragroup transfers and the hedging of currency, interest-rate and raw-materials risks would all become more expensive. This will penalise essential day-to-day corporate activities and will in particular lead to higher risk exposure due to less hedging.
3. **The FTT will put parts of the European financial services at risk of being off-shored.** Not only will off-shoring further hurt access to finance and damage growth and employment in Europe, but it means financial activities will take place in jurisdictions potentially less well regulated than the FTT area.



- 4. The FTT would significantly undermine the management of public debt,** notably by taxing the transaction of sovereign bonds on secondary markets. Moreover, the tax will not raise the expected receipts for the participating member states, because it will force financial institutions in the FTT area to cease most of their financial market activities which will kill most of the taxation basis.

The Commission's revised proposals for the FTT of 14th of February fail to address these fundamental issues. In particular, the proposals to extend the territorial reach, notwithstanding the outcome of any legal challenges, risk damaging the Single Market and hurt the rights of those Member States not participating in the enhanced cooperation. It will broadly affect international tax cooperation as well as making European equities less attractive. Moreover, we understand that discussion at the Council Working Group on 16th April highlighted the wide variety of questions that remain regarding the broader feasibility of the proposed tax.

Ultimately it would be EU citizens who would pay this tax through both pensions and poorer employment opportunities. Fund managers have estimated that because of the FTT, a worker investing €10,000 in a pension fund from age 40 would pay €15,000 in tax if they invest in an actively managed European equity fund, compared to a more modest, but still significant €2,300 if they invest in a global equity fund.

At the same time, the FTT will do nothing to financial stability which is so important for long-term growth. Where properly developed proposals have been taken forward by the Commission which can increase financial stability, such as the Single Supervisory Mechanism, BUSINESSEUROPE has been a supporter. We have also supported the principle, as set out in the Commission's proposed EU framework for bank resolution and recovery, that informed individuals, businesses and institutions that have willingly accepted financial risks should be first to bear the costs if those risks do not turn out positively.

Europe's insistence on taking forward proposals for an FTT through enhanced co-operation is making investors both here and across the globe question whether policy makers are really serious about putting in place a competitive business environment.

By withdrawing their support for this poorly-advised initiative, European leaders still have time to show they are serious about putting Europe on a strong recovery path.

Yours Faithfully,

Markus J. Beyrer