

Kampagne Steuer gegen Armut, c/o Jesuitenmission
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European Commission
President José Manuel Barroso
Commissioner Algirdas Semeta
Rue de la Loi, 200
Brussels 1049
Belgium

KAMPAGNE
**"STEUER GEGEN
ARMUT -
TRANSAKTIONS-
STEUER"**

19th April 2011

Re: Public Consultation of the European Commission on the Financial Transaction Tax (FTT)

Dear President Barroso,
Dear Commissioner Semeta,

We, the members of the German Campaign "Steuer gegen Armut" (Tax against Poverty), write to you with regard to the public consultation on the Financial Transaction Tax. The Campaign consists of 79 member organisations (trade unions, NGOs, ethical banks etc.), campaigning for a comprehensive FTT.

In our view, the FTT is the best way to discourage excessive short-term financial speculation, having little value for the Common Good but posing high risks to the economy, and to generate the revenues needed to pay for the fight against poverty at home and abroad and for the protection of climate and the environment. Therefore, we are very pleased with the strong political signal expressed by the European Parliament on 8 March in favour of an FTT on EU level, and the agreement of the Heads of State and Governments of the Euro Area on 11 March to explore and develop further an FTT.

We welcome the European Commission enabling a broad and participatory discussion on the FTT. The Campaign would like to take this opportunity to share its views on five core areas of the debate. Please find attached our full input to the consultation. In this note, **we highlight some key issues. We would like to encourage you to ensure that these aspects are taken into consideration:**

1. Advantages of an FTT in comparison to a Financial Activity Tax (FAT)

Financial Activities taxes, as proposed by the IMF study on the FTT, are taxes on the value added of financial institutions, i.e. on their profits and wages. The fundamental difference to the FTT is that an FAT taxes the income of financial institutions, irrespective of which activities this income stems from, whereas the FTT taxes specific activities, i.e. short-term trading on financial assets, in particular of derivatives, irrespective of who carries out these activities. In Europe approximately 50% of all trade in financial assets are high frequency trade, i.e. electronic trade in the realm of nano-seconds. This type of trade carries high risk and constitutes a serious threat to financial stability.

As the FAT focuses on institutions and not on activities, the income of banks which serve the real economy (like small saving banks) would be taxed in the same way as the income of investment banks which make most of their profits from short-term trading. Furthermore, investment banks are more easily able to shift their profits to countries where no FAT applies, as compared to e.g. venture capital banks.

In addition, the potential for revenues from the FTT is much higher than the potential from an FAT.

We believe that the activities of banks should be taxed, to avoid harmful short-term trading and possible damaging effects to the real economy, in particular by destabilizing important prices, e.g. exchange rates.

2. A well-conceived FTT will not lead to a substantial relocation of trading activities

Some critics of the FTT argue that, if an FTT is introduced in the EU, a great number of transactions, especially those of hedge funds, would be transferred to offshore places outside the EU. Many actors are engaged in short-term trading, which is exclusively done on organized derivatives exchanges all around the world. If an FTT at EU level is introduced, they would have to pay the FTT at the European exchanges.

Since **FTT concentrates on high-frequency trade**, funds which do not trade frequently are not really affected, irrespective of where they operate. And high-frequency traders cannot move offshore because their computers need to be located as close as possible to the servers of the exchanges. To the extent that offshore hedge funds trade in over-the-counter markets, they should be forced to clear and settle their trades through so-called Central Counterparty Platforms (CCPs) or Central Security Depositories (CSDs). Such a regulation is already foreseen by the Dodd/Frank Act in the USA as well as the draft directives on OTC trade in the EU.

Moreover, an FTT of 0.01 - 0.05% will not induce any considerable transfer of transactions to outside the EU as this would either be outside the European trading time zone or not be attractive.

Therefore, a comprehensive relocation of trading activities is not likely.

Furthermore, it will be critical to legally construct a taxation system which minimizes the probability of migration. Therefore, it is essential that taxable residents cannot evade the scope of the tax by diverting financial transactions to FTT-free domiciles. Two principles could ensure this: On the one hand, the taxable entity should be the **buyer** (i.e., bank, mutual fund, insurance company or individual investor) of a security. On the other hand, a **seller** of a security would only be subject to taxation if the transaction is being conducted with a dealer who is domiciled in a FTT-free country. This would prevent an evasion of the tax by onshore banks (i.e., the entire EU) dealing with offshore banks.

3. The introduction of an EU-wide FTT does not affect the competitiveness of the European economy

Because of the small tax rate of the FTT, there will be no significant charge on the European non-financial companies and consequently no competitive disadvantages relative to areas which are not subject to the FTT. At a first and superficial glance, financial companies do appear to suffer a competitive disadvantage through an FTT, compared to the financial industry in countries without the tax. However, competitiveness cannot be reduced to the single factor of an FTT.

For instance, before the crisis, the financial industry in Canada was more strictly regulated than in other OECD countries. The industry then continuously complained about being disadvantaged. However, the crisis has shown that stricter regulation in fact turned out to be a competitive advantage, because Canada's financial sector was not that hardly hit by the crisis.

Indeed, the FTT will make it more difficult to achieve ever-growing shares of GDP. The financial crisis, however, has demonstrated that the rising share of the financial sector relative to GDP was part of the bubble. The growth of the financial sector was not effected by sustainable value creation but rather by excessive risk-taking.

Therefore, introducing an FTT would actually increase the stability of financial markets and consequently constitute an economic advantage.

4. The double taxation argument

Some critics of the FTT say that the tax would lead to double taxation of the same financial asset or product during its lifetime (cascade effect), and that this would amount to double taxation.

In fact, if an asset is sold several times, the tax has to be paid every time. But this is not a disadvantage of the tax but its intention. Selling a financial asset is not creating added value. Profits come from using the difference in prices in the course of new business cycles. In that sense, there is no double taxation of the same economic process or the same business.

The effect is that all those who trade (and speculate) often pay more taxes than those who trade only once. In particular, high-frequency trade will be hit by the tax, which results in parts of the business being stopped since it is no more profitable.

Thereby, introducing an FTT means that speculation will be reduced whilst liquidity still remains and financial stability increases.

5. Distribution of revenues and use for Global Public Goods

The FTT is levied by the financial authorities of those countries which introduce the tax. Technically, this is best done at the point of settlement, i.e. the moment when a transfer is booked to the accounts of the seller and buyer. Settlements are highly concentrated in a few institutions, such as the *Continuous Link Settlement Bank* or the *TARGET* system. The settlement systems have to report every transaction electronically to the Central Bank. This allows the electronic identification of the national origin of trading partners, and the distribution of the overall tax income according to the national origin of sellers and buyers.

Civil society has been advocating for many years that the FTT revenue must be used to finance global public goods. As the crisis has burdened industrialised countries with heavy costs and increased public debt, a part of the revenue could also be used to cover the costs of the crisis, as they are narrowing the space for financing development, in particular the MDGs, and environment.

In Germany, an informal coalition of all parties in Parliament already expressed their will to assign FTT revenue partially to development, and French President Sarkozy has declared his intent to channel the tax revenue to development.

Given the growing support for an FTT at the European level and the arguments listed above, we urge you to ensure that the EC's impact assessment puts emphasis also on an FTT at the European level and not only at the global level.

Yours sincerely,



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Coordinator of this letter on behalf of the
German Campaign "Tax against Poverty"



P. Dr. Jörg Alt SJ
Coordinator of the
German Campaign "Tax against Poverty"

Co-Signatories:

1. Arbeitsgruppe Alternative Wirtschaftspolitik
2. Attac Deutschland
3. Bank für Kirche und Caritas e.G.
4. Brot für die Welt
5. Deutsche Kommission Justitia et Pax
6. Deutsche Welthungerhilfe
7. Deutsche Umweltstiftung
8. Deutscher Naturschutzring
9. Germanwatch
10. INKOTA-Netzwerk
11. Kirchlicher Dienst in der Arbeitswelt
12. Jesuitenmission Deutschland
13. Jusos in der SPD
14. Katholische Landjugendbewegung Deutschlands e.V.
15. MISEREOR
16. Missio München
17. Netzwerk Afrika Deutschland
18. Ökosoziales Forum Deutschland
19. Oikocredit International
20. Oswald von Nell-Breuning-Institut für Wirtschafts- und Gesellschaftsethik
21. Solidaritätsdienst-international e.V.
22. Verband Entwicklungspolitik Deutscher Nicht-Regierungsorganisationen (VENRO)
23. WEED
24. Werkstatt Ökonomie e.V.
25. Dr. Claus Meier, Oberkirchenrat, Chief Financial Officer and member of the Church Board, Evangelical Lutheran Church in Bavaria

Attachment: Full input of the Campaign "Tax against Poverty" to the five core areas of this letter