



Commissioner Algirdas Semeta
European Commission
200 rue de la Loi
1049 Brussels
BELGIUM

Brussels, 14 March 2012

Dear Commissioner,

FINANCIAL TRANSACTIONS TAX IMPACT ASSESSMENT

In its 2010 Communication on Smart Regulation, the Commission committed to promoting evidence-based policy making, and providing transparency on the benefits and costs of policy choices. BUSINESSEUROPE wholeheartedly welcomed this long-awaited commitment, noting the importance that impact assessments are used, and seen to be used, as independent tools to inform policy decisions, and not as an instrument to provide ex-post justification for political decisions.

We note your announcement at the ECOFIN on 13th March that the Commission will undertake further analysis of the impact assessment for the Financial Transactions Tax (FTT). We believe this provides the opportunity for the Commission to demonstrate its commitment to rigorous impact assessment by ensuring that independent, external analysis of the original impact assessment is properly taken account of.

Independent impact assessments suggest that the original impact assessment (which showed a negative impact of between -0.53% and -1.76% on GDP, and jobs losses of between 160,000 and 500,000 jobs), actually underestimated the impact of the FTT on growth and jobs.

Independent studies have identified a number of weaknesses and inconsistencies in the original Commission impact assessment, notably:

- **The impact on GDP of the FTT would be much more negative if the Commission's assumption regarding tax revenue from the FTT was applied in a coherent way across the whole impact assessment.** The model assumes a significantly lower burden of the FTT on the economy when it calculates the impact on GDP, than when it calculates the revenue raising estimate.
- **The Commission's assumption that the end of "High-Frequency Trading" would mitigate the economic impact is not supported by evidence and appears to be inconsistent with the modeling in the Impact Assessment.**
- **The Commission's assessment underestimates the impact of the FTT on the cost of capital by companies using retained earnings, given that the return on equity would be lower as a result of the tax, making fewer investment projects profitable.**

In addition, we welcome your comments that the FTT would not be imposed upon any country. But taking forward the FTT in a subset of EU countries, would change (most likely increase) the impact of the FTT in those countries, given that international law principles suggest that the FTT can only apply to transactions where both financial institutions taking part in the transaction are established within the FTT jurisdiction.

The only paper we are aware of which actually suggests that the original impact assessment may have overestimated the negative impact of an FTT is by Griffith-Jones and Persaud. However, the authors provide no evidence to support their key assumption that an FTT would reduce the probability of future crisis by 5%.

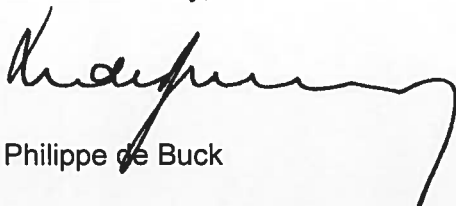
We understand that there have been discussions around how to value the potential economic benefits if this revenue is invested. Any such assessment needs to recognise both that the costs of raising revenue from the FTT are extremely high compared to other forms of taxation, and that only a small proportion of the revenue raised is likely to be spent on growth enhancing investments.

In conclusion, we believe that a thorough analysis of a Financial Transaction Tax would raise the following concerns:

- **The tax would lead to a higher cost of capital for both business investment and public finances, resulting in lower growth**, as the burden of the tax is passed on by banks to final users.
- **The impact on tax revenue would be negligible at best and possibly negative**, as the reduction in other tax receipts derived from decreased GDP could well exceed tax collected through the FTT.
- **A FTT would not address the core sources of financial instability**. As the Commission's impact assessment notes, "regulatory measures more closely linked to the sources of systemic risk might be more appropriate to deal with excessive risk taking".
- **A European-only FTT would shift activity to less regulated jurisdictions**, further exacerbating the negative impact on tax revenue and financial stability. The Commission's original impact assessment assumes that between 70 and 90 % of the trade in derivatives would relocate somewhere else or disappear.

The negative impacts of the FTT would be widespread. It would affect company investment, and as a consequence, growth and jobs. As returns on investment are reduced, workers who make even moderate contributions to pensions during their career risk taking a significant hit on their retirement income.

Yours sincerely,



Philippe de Buck