



Mr Jānis Reirs

Ministry of Finance of the Republic of
Latvia
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LATVIA

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The Financial Transaction Tax and its impact on investment and growth

Dear Minister, *Dear Mr. Reirs,*

BUSINESSEUROPE has in recent months been encouraged, by the increased commitment by both the Council and the Commission, to place investment and competitiveness at the heart of the EU's agenda. In particular we have welcomed the Commission's plan, endorsed by the Council, aimed at increasing EU investment by over €300 billion over the next 3 years.

Putting in place a Financial Transactions Tax, despite clear evidence that such a tax would significantly impact upon the investment and growth performance of ***all Member States, regardless of their participation in the FTT, risks undermining the EU investment strategy.***

BUSINESSEUROPE would like to take advantage of the start of the Latvian Presidency to reinstate its concerns on the FTT:

- The FTT will increase the cost of raising finance for investment in the EU given higher transaction costs and lower market liquidity for corporate bonds and equity. London Economics estimates the FTT 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 1% GDP.
- EU member states have rightly recognised the impact on liquidity and the cost of borrowing that an FTT would have if imposed on sovereign bonds and plan to exempt sovereign bond transactions from an FTT. Europe cannot afford to allow the corporate bond market to become a guinea-pig for such an experiment, ***particularly given the dangers of a disproportionate impact on SMEs.***



- We are particularly concerned that an FTT may even cover derivatives. Recent dramatic changes to both oil prices 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 upon 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 pension fund holders 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 funds.
- ***We remain particularly concerned that the implantation of the FTT should not distort the European Single Market or infringe the rights and competences of non-participating Member States. 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.***

The EU economy remains very fragile, with long-term growth prospects below potential. European leaders need to send a clear message across the globe that they are committed to restoring investment and growth to Europe. Given the clear evidence of the potential damage of an FTT to investment, growth and jobs, we urge you to withdraw the proposal.

Yours sincerely,

Markus J. Beyrer