Letter to **Daily Telegraph** (UK)
13 Feb 2012

The European Commissioner for taxation claims (Article, 9 February) to wish to banish the myths surrounding the European Commission's proposal for a Financial Transactions Tax (FTT) and acknowledges that a proper debate is owed to all stakeholders who will be potentially affected. We, the undersigned, agree that the time is right to debunk the myths surrounding the FTT and ensure that all stakeholders are aware of what is potentially at stake.

The Commission claims that its figures have been systematically misrepresented. Actually, their own figures have been scrutinised by hosts of economic and business analysts and they have been found to be flawed. In fact, some of the most damning analysis comes from Member States. For example, in this last week, the Dutch central bank warned that "the negative impact [of a European FTT] on the economy is a certainty".

We are disappointed that the Commission has not sought to understand the expert analysis, rather than simply and defensively rejecting it. Good analysis matters if it is to be used as the basis for taking fundamental decisions that affect the future prosperity of businesses and citizens of the EU.

The Commission's line of thinking contradicts a number of Member States, including the UK, when it states that arguments that ordinary citizens and businesses would bear the brunt of the tax are not borne out by the facts. As the UK Chancellor noted in last year's Autumn Statement, "It is not a tax on bankers; it is a tax on people's pensions."

It was argued that FTT will bring greater stability in the financial sector. Here again, the Dutch central bank notes "it is questionable that an FTT would be effective in counteracting market volatility – which is one of the frequently cited benefits of an FTT." Mark Hoban MP, Financial Secretary to the Treasury, stated recently "There are regulatory interventions that we are making to enhance stability, but I do not see how simply reducing the volume of transactions will, of itself, create more stable markets."

The Commission has rejected concerns about the effect of the FTT on the City of London as a global financial centre. Curiously the Commission failed to conduct a country by country impact analysis to truly understand the impacts on each Member State. However, on just one measure the effects of FTT on London are clear. The Commission explicitly assumes that 90pc of derivatives could disappear as a result of the implementation of the FTT in the EU. The UK has the largest financial derivatives market in the world, with an average daily turnover in interest rate derivatives of just over $1.4 trillion, equivalent to 45.8pc of the total. It is hard to comprehend how such a reduction of this business would not significantly affect the UK economy.

These instruments are not the 'socially useless' activities that the Commissioner appears to believe; as DG Competition stated this month, derivatives 'are an indispensable tool for risk management and investment purposes'. Derivatives are an insurance against adverse price moves, protecting companies - and so their customers - against unexpected developments, such as sudden changes in the value of currencies or price of commodities. They are used by a range of businesses from importers such as oil companies and exporters such as manufacturers. Additionally, adding a tax on transactions such as interest rate and currency swaps would only increase the cost and reduce the flexibility (and therefore availability) of funding for businesses.

For a proper debate to take place, the starting point has to be an acknowledgement that the Commission has got to do a fundamental reappraisal. The proposed FTT would not achieve the stated aims, and would have a fundamental and negative impact on the European economy and employment across all sectors.

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