EUROPEAN COMMISSION

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Financial Transaction Tax

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Ladies and Gentlemen,

It is a great honour for me to speak to you here today.

And it is a great pleasure to speak on an issue of recent landmark progress within the EU.

I refer, of course, to the Financial Transaction Tax.

This tax – which for decades was dismissed by sceptics as a pipe-dream – is about to become a reality in Europe.

Less than two weeks ago, I proposed the Financial Transaction Tax for 11 Member States.

This proposal is a milestone for two reasons: the tax itself, and the procedure used to advance it.

Allow me to start by explaining the significance of the latter.

Enhanced Cooperation

You may be aware that, in EU decision making, taxation has always been ruled by unanimity.

Any new tax measure that we want to introduce at EU-level must first be agreed by all 27 Member States. Needless to say, this frequently slows down or even suffocates progress.

In September 2011, I tabled a proposal for a common FTT, to be applied throughout our Union. Intense discussions followed, but unanimous agreement proved impossible to reach.

And it was then that we witnessed a major turning-point in EU tax policy.

Up to now, lack of unanimity has ultimately meant the clinical death for a tax file. Even one or two Member States' persistent refusal has stopped all the others from advancing.

However, on this occasion, eleven Member States decided that they would not be stopped by lack of unanimity.

For the first time ever in EU tax policy, and for only the third time in the history of EU legislation, these Member States have chosen to move ahead as a smaller group.

They will advance with the Financial Transaction Tax through a procedure known as "enhanced cooperation", which is set out in the EU Treaties as a last resort mechanism.

So convinced are these Member States of the benefits of a common FTT that they refuse to let others hold them back.

I believe this speaks volumes, both in terms of the recognised merits of the FTT, and also in terms of the direction in which we can expect EU tax policy to go in the future.

FTT at regional level

Returning now to the tax itself, this too is historic.

Ever since James Tobin first conceived the Financial Transaction Tax over 40 years ago, we have listened to critics deny its feasibility.

Some have argued that it could only be applied globally, if at all. Others have claimed it would hamper markets, negatively impact growth and miss its intended target, hitting citizens instead.

We are about to prove them wrong on all counts.

Europe is about to pioneer a regional Financial Transaction Tax which is well-founded, well-designed and robust.

Let me tell you more about it.

The FTT that I have proposed has low rates and a wide scope. It is designed to capture all transactions, all instruments and all actors, without disrupting the functioning of markets.

It will be due on any transaction with an established economic link to the eleven Member States. As such, it ensures strong protection against relocation and avoidance.

The only way to avoid the tax will be to give up all financial trading with those established in the FTT-zone, and forego any financial products that are issued there.

This would be a highly irrational response to a small tax, especially when the participating countries constitute 2/3 of the EU economy.

The proposed FTT is a well-targeted tax, with 85% of the liable transactions taking place purely between financial institutions.

We have carefully ring-fenced the real economy.

Citizens and businesses will not bear the tax through their day-to-day financial activities, as these are outside the scope.

In other words, activities such as mortgage and business lending, credit card transactions and deposits will not be subject to the FTT.

The raising of capital and certain restructuring operations will not be taxed. And the low rates will prevent the real economy from suffering from an increased cost of capital.

In terms of the overall impact of the FTT on our economy, we expect no shocks. In fact, our economic analysis shows a positive growth effect if the revenues are intelligently recycled.

And it certainly won't negatively impact the economies of non-participating countries, as some have suggested in recent days.

What will FTT deliver ?

So what will this FTT deliver?

Why are 11 EU countries so keen to press ahead with it together?

The answer is that the benefits are manifold.

For a start, we expect the FTT to generate 30-35 billion euro a year for the Member States that apply it.

Without burdening ordinary citizens, this is a significant new resource for stabilising public finances, growth-friendly investment or meeting global commitments such as development and climate change.

Secondly, the FTT is the embodiment of fair taxation. Currently the financial sector is under-taxed, both in Europe and worldwide, compared to other sectors.

With a Financial Transaction Tax, we can redress that imbalance. We can ensure that the financial sector makes a fair contribution to the public purse, and to the costs of the crisis which everyone knows, is still not over yet.

Moreover, the FTT should deter the "casino-type" trading that contributed to this crisis. It will support other regulatory measures in encouraging more responsible financial activities, geared towards the real economy.

Finally, for the EU, a common FTT will reduce the fragmentation of our Single Market. This also has advantages for countries outside the EU. One single tax is cheaper and easier for businesses and investors to contend with, than a myriad of national approaches implying high compliance costs and risks of double taxation.

Taking all this into account, it is easy to understand the enthusiasm of our citizens and of the Member States signed up to apply the common FTT.

Global approach in the future

I have referred already to Europe being a pioneer with this tax.

We are ready to lead the way: to show that the FTT can, and should, be applied widely.

I believe that the group of 11 Member States will grow. Several others have already expressed an interest in joining the FTT-zone in the future.

And I also retain hope that, through the EU's example, a global FTT will also be a reality some day.

The Commission has always been supportive of an international approach to the Financial Transaction Tax. It offers an attractive funding solution for our global challenges such as development and climate change.

We have actively pushed for this in the international arena and will continue to do so.

Indeed, I have discussed the issue with the UN Secretary General in New-York last week and I will continue with a number of interlocutors in Washington.

We all know that the United-States remains sceptical about the FTT. But the tax also has its supporters here, which I want to encourage.

And I believe that things can evolve: nowadays every government need new sources of public funding.

And yet none of them wants to increase the burden on ordinary citizens and small businesses which create employment and growth.

Conclusion

Ladies and Gentlemen,

Today, a global FTT may seem a very remote possibility.

But let's not forget that, even 2 years ago, the same could have been said of a harmonised FTT in the EU.

New ground is being broken. A precedent will be set with the regional FTT in 11 Member States.

This is a chance to prove the benefits of a well-designed FTT, and to confound the long-time cynics.

And, once this is done, I have every confidence that others will follow in applying the fair and sensible Financial Transaction Tax.

Thank you for your attention.