ROBIN HOOD TAX MEDIA BRIEF

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AT A GLANCE

Eleven European countries[1] are poised within the next 90 days to agree a **Financial Transactions Tax (FTT)** that will ensure the financial sector makes a bigger contribution to society for the economic damage it has caused.

A tiny tax[2] could raise **as much as €37bn** and would be a heroic victory for **people and planet** above the special interests of the financial sector.

But as we approach the final hurdle, bank lobbyists are in over-drive to water down the proposal.

This media brief looks at:

- Upcoming news hooks
- Civil society demands
- Why taxing derivatives is so important
- Why raising money to fight poverty and climate change is a matter of fairness
- Growing support from leaders, well-known economists, public opinion and celebrities

NEWS HOOKS

- On 19 February, Ministers from France and Germany will meet in Paris to set out their vision for the tax (scope and allocation).
- Early May, Finance Ministers from the 11 participating EU countries are expected to strike an FTT deal, which will be unveiled on 6 May.
- In June, there will be an important pledging conference in Brussels convened by the Global Partnership for Education – the main multilateral fund for education in the world's poorest countries. An FTT could be agreed in time to provide much needed funds to reverse recent cuts in education funding to many poor countries.
- In September, at the UN climate summit convened by UN Secretary-General Ban Ki-moon, the UN-backed Green Climate Fund – now the main vehicle for helping poor countries cope with climate change – will open its doors to financial pledges, again perfectly timed with the agreement of the FTT and its allocation.

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[1] Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia, Spain.

[2] The European Commission proposed a tax of 0.1% on transactions of shares and bonds and 0.01% on derivatives, details here http://ec.europa.eu/taxation_customs/taxation/other_taxes/financial_sector/index_en.htm The German Institute for Economic Research (DIW) calculated that this would raise €37.4bn, *Financial Transaction Tax: Economic and Fiscal Effects of the Implementation of a Financial Transaction Tax in Germany* (July 2013).

CIVIL SOCIETY DEMANDS

International campaigns for a Robin Hood Tax call on leaders to agree:

- That any graduated introduction of the FTT must be **binding**, to stop countries back-tracking when the time comes.
- That **derivatives** must be part of the tax. These trades have grown astronomically and were a key cause of the financial crisis. They would represent at least two-thirds of the expected revenue.
- To commit **a large proportion of the revenue** to help poor people at home and abroad hit by the economic crisis and to combat climate change. The money should come on top of funds already committed for these purposes.

GOOD DESIGN: DERIVATIVES INTO THE MIX

Differences amongst the eleven participating EU states are expected to be overcome by providing a longer lead-in time for certain sectors, such as derivatives, sovereign bonds and currency transactions. The deadlines for these sectors being brought into the tax need to be set in stone now, rather than requiring further agreement down the line. This will stop countries from wriggling out of the FTT when the time comes.

France's Finance Minister Moscovici is already bowing to the financial sector's demands to water down the tax. He wants to punch the tax as full of holes as his own weak national FTT: in the first four months of the French FTT, Moscovici only taxed six million transactions - while exempting almost 40 million (A). Out of every six transactions they exempted five.[3]

France and Germany fundamentally disagree on how to treat the derivatives markets. These markets gained notoriety during the financial crisis as their abuses caused economies to collapse and exacerbated debt problems across Europe.

Trading in these markets is already sky-rocketing above pre-crisis levels.[4] Every three weeks or so, the equivalent of the combined GDP of the entire EU is traded via euro-denominated interest rate derivatives.[5]

All major studies agree that an FTT would lose at least two-thirds of its expected revenue (about €21bn[6]) if derivatives were made exempt. Furthermore, the damage could be even worse, because if derivatives are excluded then they will become the avenue for avoiding the remaining tax on shares and bonds. Exempting them would gut the tax (B).

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[3] See ECKERT C. Rapport d'information sur l'application des mesures fiscales contenues dans la loi de finances. [On line]. 2013. Available on : http://www.assemblee-nationale.fr/14/rap-info/i1328.asp

[4] Between April 2010 and April 2013 the amount of OTC trading of interest rate derivatives in Germany doubled to more than $100bn a day. BIS, *Triennial Central Bank Survey*, (April, 2013), http://www.bis.org/publ/rpfx13ir.pdf

[5] Fifteen trading days at $1.146tn equals $17.19tn, via BIS, *ibid.*

[6] The European Commission estimated that 62% of the expected €34bn in revenue will stem from derivatives, with the German Institute for Economic Research (DIW) arguing that 66% of a €37.4bn total would come from derivatives. See DIW, *ibid.*, and EC, Impact Assessment of the EU-11 FTT (February, 2013) at http://ec.europa.eu/taxation_customs/resources/documents/taxation/swd_2013_28_en.pdf

A QUESTION OF FAIRNESS

Developed nations precipitated the crisis, but poor countries were also hit hard by a crisis they played no part in. It is only fair that those who were hit hard should benefit most from the tax designed to put things right.

- According to Oxfam, the crisis left a $65 billion hole in the budgets of developing countries.[7]
- Promises by rich countries to support poor nations **are crumbling**. European aid to poor countries is stalling, with aid cut or stagnant in 19 EU countries, revealing a **€36 billion funding gap** to reach the UN Millennium Development Goals target by 2015.
- Just 5% of the expected EU 11 FTT revenue[8] (€37bn) could pay for a million extra nurses in Africa.[9]
- Allocating about a quarter of the expected EU-11 FTT revenue (€37bn) to the Green Climate Fund, which still remains empty, would guarantee an annual contribution of €10bn.

GROWING SUPPORT FOR A TRULY ROBIN HOOD TAX

The FTT is popular in part due to its ability to raise revenue for international issues, which would turn it into a truly "Robin Hood" tax.

Well-known economists

More than **1,000 leading economists**, including Joseph Stiglitz and Jeffrey Sachs, as well as Bill Gates and George Soros, have publicly supported an FTT to raise revenue for global and domestic public goods such as health, education and water, and to tackle climate change.

Public opinion

More than 630,000 people have already signed up to the **"1 Million Strong"** petition calling for a broad-based FTT in Europe that raises money for social causes such as fighting poverty at home and across the world, fight youth unemployment and combat climate change.

The FTT is hugely popular, supported by almost two-thirds of the European public and an incredible 80% in Germany.[10]

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[7] Oxfam (2010), 'The impact of the global financial crisis on the budgets of low-income countries', available here: http://www.oxfam.org/en/policy/impact-global-financial-crisis-budgets-low-income-countries

[8] The European Commission proposed a tax of 0.1% on transactions of shares and bonds and 0.01% on derivatives, details here http://ec.europa.eu/taxation_customs/taxation/other_taxes/financial_sector/index_en.htm The German Institute for Economic Research (DIW) calculated that this would raise €37.4bn, *Financial Transaction Tax: Economic and Fiscal Effects of the Implementation of a Financial Transaction Tax in Germany* (July 2013).

[9] At an approximate cost of €1.88bn. A nurse's salary from Ghana, Burkina Faso and Zambia averages out at approximately $2,500 per year. See McCoy, D; Bennett, S; Witter. S; Pond, B; Baker, B; Gow, F; Chand, S; Ensor, T; McPake, B; *Salaries and Incomes of health workers in sub-Saharan Africa;* The Lancet Volume 371.

[10] According to the latest Eurobarometer survey, conducted in November 2013 and available here: http://ec.europa.eu/public_opinion/archives/eb/eb80/eb80_anx_en.pdf

Celebrities
European celebrities Bill Nighy, Andrew Lincoln, Clémence Poesy, Javier Cámara and Heike Makatsch star in a short film that promotes how revenue from the FTT can be used for good causes both domestically and internationally, due for release on Tuesday 18th February.

Leaders
Leaders have already expressed support for a Robin Hood tax, but must be held to account to ensure they deliver. Millions of people in the developing world are counting on them.

In **a recent comment piece** in French paper Les Échos, French Minister of Finance **Pierre Moscovici** and French Delegate Minister for Development Affairs **Pascal Canfin**, said: *"For international solidarity, these additional resources [from an FTT] could finance the fight against major pandemics such as AIDS or malaria and the fight against climate change. An European FTT could even - it is our conviction - be one of the keys to success in the global climate deal expected to be clinched in Paris in 2015. The agreement might not be reached without additional public funding for the most vulnerable countries. Europe can contribute to a more stable, just and sustainable world."*

French President **François Hollande said:** *"Let's introduce this tax across the world and ensure that revenues go towards overseas development. This would be a beautiful example of what I call the globalization of solidarity."*

German Chancellor **Angela Merkel** in the German Bundestag, on 29 January 2014, said: *"One lesson learnt from the financial crisis is still valid: no actor in the financial markets, no financial product, and no financial center must remain without proper regulation. The financial actors have to be held to account by the Financial Transaction Tax."*

In a press conference with Bill Gates in January 2013, German Vice Chancellor **Sigmar Gabriel**, said: *"Many countries, like Germany, have neglected the objective to spend 0.7 per cent of national income for Official Development Assistance by 2015. Therefore, we urgently have to find innovative financing mechanisms for overseas development in Germany and Europe. The Financial Transaction Tax should be one."*

NOTES

- (A) The French FTT only applies to the shares of huge companies (with a market capitalisation in excess of €1bn). It also collects nothing from high-frequency trading (HFT),[11] which the French Minister of Budget, suggests represent 40% of the transactions on the French stock exchange[12] and is viewed by many experts as a socially useless and market-destabilising activity. Trading by so-called 'market-makers'[13] is exempt, despite the fact that 90% of the key speculative transactions are made by market-makers . With the French definition of market-making, the transactions on credit derivatives that led to the bankruptcy of AIG would have been exempt from the tax.[14]
- (B) The German Institute for Economic Research (DIW) estimate that taxing derivatives will earn France approximately €7bn of a total €11bn in FTT revenue, and similarly for Germany.[15] It will take more than a decade of revenue from France's existing FTT to repay French taxpayers for their bailout of DEXIA alone.[16] This is much too long. The expected revenue from taxing derivatives would repay taxpayers in a single year.
- Although FTT revenue is collected at the national level, the eleven participating states can make a clear commitment on international development and climate change spending at the same time that the tax is announced. The Robin Hood Tax coalition is calling for 25% of the revenue to be spent fighting climate change, and 25% fighting poverty.

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[11] Although an element of the tax is designed to capture HFT, it has so many exemptions that so far it has not raised any revenue whatsoever.

[12] Article in Le Monde.fr, 21 October 2013, available at http://www.lemonde.fr/economie/article/2013/10/18/le-gouvernement-et-sa-majorite-s-opposent-sur-la-taxation-des-activites-speculatives_3498684_3234.html

[13] L'Expansion, « Réforme bancaire: Non, Moscovici n'a pas supprimé le trading haute fréquence », available on : http://lexpansion.lexpress.fr/entreprise/non-moscovici-n-a-pas-supprime-le-trading-haute-frequence_365744.html

[14] Parliamentary hearing held on 5 February 2013 at Paris, with Thierry Philipponnat, Secretary General of Finance Watch. Available on : http://www.assemblee-nationale.fr/14/cr-cfiab/12-13/c1213064.asp

[15] http://www2.weed-online.org/uploads/diw_document_english_translation_summary.pdf See page 5, DIW, *Financial Transaction Tax:* Economic and Fiscal Effects of the Implementation of a Financial Transaction Tax in Germany, (July 2013)

[16] Losses to the French taxpayer were estimated at €6.6bn in 2013, by the National Auditor Cour des Comptes. See 'France's losses on Dexia bailout hit €6.6bn', Financial Times, 18th July 2013. Revenues for the French FTT in the first 12 months were €600m according to the Finance Ministry.