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NOTE

from:	General Secretariat of the Council
to:	Delegations
Subject:	European Parliament plenary meeting of 22 May 2012 **Common system for taxing financial transactions**

For the Council, Minister VESTAGER made the speech in Annex I.

Commissioner SEMETA presented the speech in Annex II.

The rapporteur, Ms. PODIMATA (S&D), considered that to have the debate on the same day as the informal European Council was timely and that it formed an integral part of solutions for getting out of the economic crisis. The taxation of financial transactions would guarantee a fairer distribution of the burden of the crisis. She said that although an EU-wide tax was the preferred option, the unanimity requirement within the Council would probably lead to enhanced cooperation. On substance, she did not see much scope for tax evasion or avoidance since the proposal did not provide for any exceptions, systemic risks were limited and the low rate would make relocation of financial institutions more expensive than compliance.

Rapporteurs of associated Committees welcomed the Commission proposal as an important instrument for tackling the crisis, as well as for increasing the EU's own resources and decreasing Member States' contributions to the EU budget. Mr. ENGEL (IMCO) warned however of a possible distortion of the internal market if all Member States did not participate.

Ms. PIETIKAINEN, for EPP, considered that the broad support of citizens for the tax would be an important signal to the Council, provide a welcome increase in EU own resources, and would be an appropriate contribution from the financial sector to combat the crisis as well as a way of removing pressure to introduce other taxes.

Ms. FERREIRA, for S&D, said the tax was a fair contribution from a sector that had been involved in the origins of the crisis and that citizens had already paid more than their share. She advocated broad product coverage and a clear setting of goals for the use of the additional own resources.

Mr. KLINZ, for ALDE, called the Commission proposal creative and warned against punishing pension funds. He favoured EU-wide coverage, and preferably one even going beyond the EU, since a partial implementation would fragment and weaken the EU.

Mr. GIEGOLD, for the Greens, advocated a broad coverage of products and welcomed the "residence principle" as an instrument to avoid distortion of competition.

Mr. STREJCECK, speaking on behalf of the ECR, rejected the idea of the tax for several fundamental reasons. The tax would distort competition, make financial markets more volatile rather than stable, reduce available resources and thus investments, and be part of a long-term strategy for the EU to obtain additional own resources.

Mr. BLOOM, for EFD, feared that the cost would be passed on to customers. He alleged that the tax was an attack on the London-based financial services sector, which was worth 14% of UK's GDP and would relocate. He compared the FTT to a tax on the production of mobile phones in Finland or a fashion tax in Paris and warned of more bank failures.

Ms. MATIAS, for GUE, considered the tax to be a justified contribution that should stop the speculation which was at the heart of the current economic crisis.

Mr. MARTIN (NI) wanted "UK propaganda" to be prevented from taking over continental Europe. The tax revenue would help people suffering from the crisis and stimulate investment.

Subsequent comments from other Members recognised the need to have as broad an application as possible to avoid competitive distortions, but the reality was that probably only enhanced cooperation was possible. The tax was in general considered to be a fair contribution from an under-taxed sector to the resolution of the economic crisis and a stimulant for growth. Questions were however raised by various groups regarding the transfer of the tax to the EU budget as well as on the practical details of how the FTT would operate.

Members opposing the tax (mainly UK Members of ECR and EFD and some ALDE Members) put forward arguments such as the relocation of financial institutions, the slowing down of financial markets and investments, the passing on of the burden to customers, the distortion of the internal market and competition, and the negative experience with a similar tax in Sweden in the eighties as reasons for rejecting the Commission's proposal.

Commissioner SEMETA welcomed the European Parliament's support and announced that an orientation debate would take place in ECOFIN on 22 June. A number of technical provisions were still under consideration and he committed himself to continuing to work for EU-wide implementation. He considered that the introduction of the tax would help to rebuild the relationship between the financial sector and its customers.

Minister VESTAGER expressed her thanks for the valuable input from the debate and referred to other ongoing work on issues such as project bonds, a revision of capital requirements and greater independence for credit rating agencies. She confirmed that several technical issues on the financial transaction tax were still under discussion but that besides this proposal there were open options which could be examined. The June European Council would probably discuss the issue.

Ms. PODIMATA concluded by playing down the possibility of relocation and the negative effects referred to by Members opposing the tax. She said she was against exemptions which might create loopholes, but provisional exemptions might be acceptable as a compromise. She again emphasised the importance of sending a strong signal to the Council.

The draft resolution was adopted the same day with 487 votes in favour, 152 votes against and 46 abstentions. While the resolution leaves open the possibility of enhanced cooperation if nothing else is possible, it also recognises that introducing the tax in a very limited number of Member States could lead to the single market being undermined and that measures would need to be taken to prevent this. The most substantive exemption proposed is that for pension funds. Furthermore, the resolution does not demand that revenues from the tax be transferred to the EU budget, but notes that if this option were chosen, national contributions to the EU budget would be reduced.

CHECK AGAINST DELIVERY

Mr President, on behalf of the Danish Presidency I would like to thank Parliament for its continued interest in this important issue of taxation of the financial sector in the follow-up to the crisis. I am aware of Parliament's keen and long-standing interest in this matter.

Today we will discuss a possible common solution for taxation of financial transactions at EU level. The subject was highlighted in a resolution adopted in March 2010 on 'financial transaction taxes – making them work', as well as in a subsequent resolution in February 2011, which looked at innovative financing at global and European level. There have been many other resolutions on the wider issues of the financial crisis that have addressed this subject, and today we are debating a report by Ms Podimata on the Commission proposal for a common system for taxing financial transactions within the EU.

Members of this House will also be aware that the Council has been taking the issue of a financial transaction tax (FTT) very seriously. The Council fully agrees with Parliament on the need to ensure a fair contribution from the financial sector in the light of the huge costs and risks inflicted on Member States' public finances by the financial crisis.

Before the Commission presented its proposal on an FTT, various options for further taxing of the financial sector were discussed extensively in the Council High Level Working Party on Taxation, as well as at ministerial level in the Economic and Financial Affairs (Ecofin) Council. Broadly speaking, the Council discussions have reflected different views from Member States as to which tax instrument should be given priority.

At the end of last year, the Commission submitted to the Council a proposal for a directive on an FTT. The Polish Presidency announced a political discussion and a technical analysis of the proposal. This work was subsequently taken over by the Danish Presidency.

Given the importance of the issue and the interest in it, the Danish Presidency has engaged in an intense programme of work. We have accommodated the wish expressed by some Member States for a speedy process. There have been extra meetings at a technical level, as well as political-level discussions both at the Ecofin Council in mid-March and at the informal Ecofin meeting in Denmark at the end of March. These discussions have enabled us to make progress, and I expect we will have the issue on the agenda at the June Ecofin meeting.

The Presidency concluded the first technical examination of this matter in March, and, at the time, identified a number of issues that will require further attention, some of which are also of concern to Parliament. Among these are the risks of reallocation of financial activity outside the EU, and tax avoidance issues, if the EU were to move forward with its own FTT. The design of the tax should, to the greatest possible extent, accommodate such concerns.

Another question is whether such a tax should allow for possible exemptions – for pension funds, etc. That would naturally impact on its revenue potential and would lead to other competition-related challenges.

Then there is the impact of the FTT on growth and jobs, on banks', companies' and households' borrowing costs, and on the functioning of financial markets in general. Not all aspects and possible effects of the tax are sufficiently understood, nor is there agreement on answers to all the questions that could be raised. It is clear that there are challenges to be overcome if the FTT is to be made workable.

Despite the comprehensive work that has been done and the good progress achieved to date, honourable Members will be well aware that not all Member States are able to support the Commission's proposal. I note that adoption of the proposal requires unanimity. At the Ecofin Council it has been decided that we should follow a two-track approach: while discussion on the basis of the Commission's FTT proposal would continue, exploring room for possible compromise, we would look, at the same time and in the light of the Member States' various points of view, at alternatives with regard to both the substantive and the procedural aspects of an FTT and with regard to other tax instruments.

This approach is designed to facilitate progress on the matter. One alternative, for instance, could be a financial activity tax applied by some Member States. Another could be a transaction tax that builds on some elements of stamp duty. While work along these lines must continue, there is also a wish among Member States in the Council to clarify matters and to reach a conclusion on this issue.

I am looking forward to hearing your views, which will provide useful input for the Danish Presidency as it seeks to take forward the work in the Council. The Presidency will submit a report on this issue for the June Ecofin Council. This will give ministers an opportunity to discuss a way forward and will provide guidance, as to future options, for the incoming Cypriot Presidency.

I would like to use this opportunity to thank Parliament and the rapporteur for their constructive cooperation on the ongoing work in the EU to further this discussion and to strengthen financial regulation in the light of the crisis. One of the main priorities of the Danish Presidency is to strengthen financial regulation so that future crises can be avoided. I sense that this work is accorded high priority by all the European institutions, including Parliament, and all the parties involved. I thank you for your attention.

ANNEX II

CHECK AGAINST DELIVERY

Mr President, I wish first to thank the European Parliament, and in particular Anni Podimata, for the excellent work on the financial transaction tax.

This is an extremely important file for me because I truly believe in all that an EU FTT has to offer. It will create a fairer tax system in which the financial sector makes a just contribution to public finances. It will act as a market-based instrument which incentivises steady financial activity and deters high-risk speculation, and of course the FTT will deliver substantial new revenues without asking any more of the ordinary citizens. This money can be channelled into growth-promoting measures, used to support growth-friendly tax reforms, or help to finance global challenges. Used as an own resource as proposed by the Commission, this would result in a net decrease in Member States' GMI contributions to the EU budget.

I would now like to address four main issues related to our debate.

First, the Commission welcomes the idea of exploring how to widen the net of our transactions. In this context elements inspired by the issuance principle should certainly be discussed. We believe, however, that this approach should be limited to instruments with a clear link to EU territory.

Secondly, the Commission is not opposed to making the legal enforceability of a transaction conditional on the payment of the tax. However, the Commission does not see a reason to act at EU level. Member States should decide how to achieve this.

Thirdly, the Commission would not support the exemption of UCITS and pension funds. We have defined a broad-based approach for tax neutrality, to avoid distortions of competition and to encourage long-term 'conservative' investments. The impact of the tax on pension funds should not be overstated.

Fourthly, although a step-by-step approach could be considered if necessary, I do not believe this should be modelled on the UK stamp duty. That tax has too limited a scope and leaves most transactions, and notably those of professional dealers, untaxed. With such an approach we would not meet our policy objectives.

To conclude, I really appreciate the strong support for this proposal that we have seen from the European Parliament up to now. I hope that I can rely on your continued support in making this tax a reality in Europe.