The French FTT

- Why an FTT :

France has been committed to the promotion of a financial transaction tax (FTT) benefitting development for several years. In 2003, President Chirac commissioned a group of experts in public finance led by Mr Jean-Pierre Landau to produce a report dedicated to the new financial contributions at the international level. Amongst other options, the Landau report[1] focused on the financial transaction tax – already explored during the 1970's by James Tobin – as a way to finance international development. The Landau report relied on the idea that "globalization creates tremendous prosperity and that there are strong moral and social justifications to allocate part of that wealth to the fight against poverty and inequality". International finance being one of the sectors that most benefited from globalization over the past decades, a small tax on financial transactions naturally appeared as one of the most promising and morally justified contributions to finance sustainable development.

In 2011, during the French presidency of the G20, President Sarkozy carried on the mobilization for the FTT by asking Mr Bill Gates to produce a new report dedicated to innovative financing[2]. The Gates report demonstrated the feasibility of an international FTT and estimated the potential revenues at about 48 billion US dollars on a G20-wide basis. Following the recommendations made in this report as well as the proposal presented by the European Commission, France finally decided to introduce a small tax on financial transactions at the national level in August 2012 and allocate 10% of its revenues to development.

President Hollande recently committed to increase the part of the FTT revenues dedicated to development from 10 to 15% in 2014.

- How it works

The tax applies to transactions of shares of French companies with a market capitalization of more than 1 billion Euros (0.2%) as well as to high frequency trading operations and credit default swaps (0.02%).

[1] *Les nouvelles contributions financières internationales, 2004.*
[2] *Innovation with impact: financing 21st century development, 2011.*

Between August 2012 and August 2013, the French FTT allowed to raise a total of 648 million Euros, **60 million** of which were allocated to a special fund called the **Solidarity for Development Fund**, managed by the French Development Agency. Following the example of the French solidarity tax on air tickets, the revenues of the FTT are directly transferred to the Solidarity for Development Fund according to a decree establishing an exception to the principle of non-allocation of fiscal resources. This decree allows to secure a stable source of revenues for development each year.

- <u>How it benefits development financing</u>

In 2013, a total of 60 million Euros were raised for development thanks to the French FTT. These new resources helped support the financial commitments of France to the **Global Fund** and **GAVI**. In addition to that, thanks to the FTT, France was able to launch a new initiative called **I3S (Solidarity - Health (Santé) - Sahel)** dedicated to the access to health services for children under 5 years old in six countries of the Sahel region (Mauritania, Senegal, Mali, Burkina Faso, Niger and Chad). Eventually, the resources from the FTT were used to launch a new initiative led by the **African Development Bank** called **RWSSI (rural water supply and sanitation services)**.

- <u>Next steps : the European level</u>

In June 2012, the European Commission acknowledged that the 27 European partners failed to reach an agreement on the proposal of directive on the taxation of financial transactions. Henceforth, France and Germany, together with a group of willing European partners, decided to carry on the work in an "**enhanced cooperation" format**. Today, **eleven European countries** (Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain) take part in this project which was approved by the economic and finance council in January 2013. The European parliament also gave its go ahead in December 2012.

A new **draft common system** was presented by the European Commission in February 2013. It is currently being discussed by the 11 participating States. Originally scheduled for early 2014, the introduction of the European FTT will take place once the consensus emerges on some of its modalities.

France is determined to facilitate the introduction of the European FTT in 2014 and promote the allocation of part of its revenues to development and climate change.