

NOTE

G20 Defers Decision on FTT

Kavaljit Singh writes :

THE G20 FINANCE MINISTERS and central bankers have put off an immediate decision to weigh up a global financial transaction tax (FTT) proposal.

The two-day Ministerial Meeting (14-15 October) in Paris took place against the backdrop of huge protests in US and Europe, galvanized by the Occupy Wall Street movement. At the Paris meeting, G20 finance ministers discussed myriad policy and implementation issues concerning world economy and financial markets. As anticipated, eurozone sovereign debt crisis dominated the discussions and the communiqué pressed Europe to act decisively on resolving the crisis.

With the strong support of France and Germany, the prospects of an FTT looked brighter before the Paris meeting. Within civil society circles, there was considerable optimism that French President (and G20 chair) Nicolas Sarkozy would be able to pursue other G20 member-countries on the merits of the proposed FTT during the Cannes Summit.

The FTT also received backing from the European Commission which recently announced the adoption of an EU-wide transaction tax in all 27 member-states of the European Union from 2014 onwards.

Surprisingly, the communique issued at the Paris meeting makes no reference to the importance and urgency of a global FTT. Most likely, the issue of FTT would be deliberated at the G20 Mexico Summit in 2012. By purposely not mentioning it in the communique, the opponents (particularly Canada and US) have managed to influence other G20 nations to delay the discussions on the proposed tax for almost a year, thereby weakening the political momentum generated on this important issue in the past few years.

In an unusual hard-hitting statement issued last week, German chancellor Angela Merkel criticized G20 nations which are opposed to the proposal of a financial transactions tax. "It can't be that those outside the eurozone, who have pressed us time and again to take comprehensive action on the debt crisis, are at the same time working together to resist the introduction of a financial transaction tax," said Ms Merkel. "I don't think this [opposition] is acceptable... We must ensure that financial market actors share in the costs of fighting the crisis. I will push for this until it happens, at least in Europe, even better worldwide," she added.

Paradoxically, India remains opposed to a global FTT despite the fact that it levies a securities transaction tax in the financial markets. At the Paris meeting, a senior Finance Ministry official argued that India opposes the proposed tax on the grounds that it would put an

additional burden on the domestic banking system. In the same vein, China opposes the tax because it may add more burdens on domestic banks.

On the other hand, South Africa strongly supported the idea of an FTT during the Paris meeting. In a joint statement on exploring the possibilities of raising additional funds to fight climate change, South Africa's Finance Minister Pravin Gordhan and French Finance Minister Francois Baroin stated, "We strongly support other non-carbon related sources, such as a financial transaction tax." The joint letter was circulated among the official delegates and media at the G20 meeting.

At the BRICS Finance Ministers press conference recently held during the autumn meetings of the IMF/World Bank (22 September 2011) Mr Gordhan strongly supported the need for a global FTT. "The issue of financial transactions taxes is an important one. Given the fiscal challenges that many countries (particularly developing ones) face today, the issues of development aid and climate financing - both mitigation and adaptation - are serious challenges. South Africa does have that tax on share transactions and we will certainly want to consider financial transactions taxes generally ...We look forward to the Gates report on innovative finance and its discussion. This is something that the French Presidency of the G20 has very timely put on the agenda and hopefully we will begin to make some progress in terms of mobilizing these funds," he said.

Similarly Brazil (an important member of the G20 and BRICS countries) also supports the idea of an FTT. But India's strong resistance to the FTT proposal seriously undermines the entire objective of India, Brazil and South Africa to carve out a common strategy.

These developments have come at a time when the trilateral India-Brazil-South Africa (IBSA) Dialogue Forum aimed at promoting international cooperation among these countries was taking place in Pretoria on 18 October 2011. □□□