

Introduction

- a) **The principle of innovative sources of financing is widely supported and a group of pioneering countries have undertaken to implement an air-ticket solidarity contribution.**
- The principle of innovative sources of financing is now receiving support from a large part of the international community, given that 79 countries (see the attached list) backed the declaration of 14 September 2005 which encourages further work on an international solidarity contribution. The signatories include several European countries (Germany, United Kingdom, Spain, Estonia, Austria, Sweden, Luxembourg) and major emerging countries (Brazil, India). Developing countries have high expectations of this initiative: 28 of the 47 African countries supported the declaration of 14 September 2005, and it was favourably received by five others.
 - At the European level, the European Commission highlighted all the advantages of this mechanism - including the ease with which it can be implemented - in its recent staff working paper of 1 September 2005. The new German government supports the principle of innovative sources of financing for development and, along with Spain, is part of the group of six working on this issue (Algeria, Brazil, Chile, France, Germany, Spain). The United Kingdom will allocate some of the revenue from its existing air passenger duty to health development projects, mainly programmes to buy HIV/AIDS, tuberculosis and malaria drugs. Other European countries have given encouraging signs. Norway in particular has announced that it is considering the introduction of an air-ticket solidarity contribution.
 - Lastly, President Lagos of Chile announced in September that his country plans to levy a solidarity contribution of \$2 on all international flight from 2006.
- b) **Progress report on the French initiative: details were given on revenues (contribution implementation conditions) and expenditure (allocation of revenues).**
- Revenues: France will start applying this air-ticket contribution on 1 July 2006. The law passed by Parliament on 22 December 2005 sets out the following rate caps for all flights departing from the French territory: €1 in economy class and € 10 in first and business class for domestic and intra-European flights (European Economic Area), €4 and €40 on other flights, depending upon the travel class. The actual tax rates will be laid down in early 2006 by government decree. These capped rates are expected to generate revenue of up to €200 million per year.
 - Expenditure: France has proposed that some of the revenue from the air-ticket contribution be used to fight pandemics. The objective could be to facilitate access to HIV/AIDS treatment by assuring the long-term production of anti-retroviral (ARV) drugs.

c) Objectives of the campaign to raise support: broadening the geographical base of the air-ticket contribution and convincing other participating countries to earmark some of their revenues for pandemics.

- Revenues: easy to implement, fair and with almost no economic impact, the air-ticket solidarity contribution will make it possible to raise large funds on a regular basis while factoring in the specific characteristics of the participating countries.

France has opted for a progressive air-ticket contribution mechanism with minimum impact on air transport and the tourist industry since very low rates are applied to segments with the largest number of passengers and to segments in which sensitivity of demand to prices is highest (economy class, domestic and intra-European flights).

Moreover, this contribution of just a few euros, applied regardless of the nationality of the airline company, does not affect competition. Passengers in transit are exempted to avoid initiatives to reroute traffic away from airports in participating countries.

- Expenditure: the introduction of an air-ticket contribution in addition to traditional ODA will provide stable and predictable resources to help cover the recurrent costs of health programmes conducted by the developing countries.

The international community has made ambitious commitments as regards health and access to treatment in the developing countries. Despite all efforts, the results continue to fall far short of expectations: ARV treatment is available to only about 1 million of the 6.5 million people who need it immediately.

Poor countries should be able to benefit from treatment in satisfactory volumes at affordable prices. Yet, to provide such treatment, pharmaceutical companies need to have guaranteed, solvent markets. Thus France proposes that some of the revenue generated by the international air-ticket solidarity contribution be used to fund the purchases of medical products. The idea is to create an international facility for drug purchases managed jointly by contributing countries and relying, for example, on the support of the Global Fund to fight AIDS, Tuberculosis and Malaria, of the WHO, or of the World Bank.

d) Presentation of the Ministerial Conference of 28 February - 1 March 2006

- This event aims to broaden the international consensus on the need to arrange innovative sources of financing for development to achieve the Millennium Development Goals (MDGs). Focus will be on the air-ticket solidarity contribution and the fight against pandemics. This conference will also provide an opportunity to discuss other innovative development financing mechanisms.
- The Ministerial Conference of 28 February - 1 March 2006 is another step in our campaign of conviction. On this occasion, France would like to build on the momentum gathered on 14 September 2005 in New York and broaden the group of countries levying an air-traffic solidarity contribution. This conference will allow us to work out a roadmap for monitoring innovative financing in the major multilateral forums in the months and years ahead.

**APPENDIX: List of 79 countries supporting
the Declaration of 14 September 2005
on innovative financing for development**

Algeria, Andorra, Argentina, Armenia, Austria, Azerbaijan, Bahrain, Bangladesh, Benin, Bolivia, Bosnia-Herzegovina, Burkina-Faso, Burundi, Brazil, Cambodia, Cameroon, Cap Verde, Central African Republic, Chad, Chile, Comoros, Congo, Costa Rica, Côte-d'Ivoire, Croatia, Djibouti, DRC, East Timor, Estonia, Ethiopia, Equator, Equatorial Guinea, France, Gabon, Germany, Grenade, Guinea, Guinea Bissau, Guyana, Haiti, Honduras, India, Jordan, Kuwait, Laos, Lebanon, Luxembourg, Macedonia, Madagascar, Mali, Mauritius, Mauritania, Moldavia, Monaco, Morocco, Mozambique, Namibia, Nicaragua, Niger, Peru, Qatar, United Kingdom, Rumania, Sao-Tome, Senegal, Spain, Sudan, Sweden, Syria, Togo, Tunisia, Turkey, Thailand, Ukraine, United Arab Emirates, Uruguay, Vietnam, Zambia, Zimbabwe.

Why introduce international solidarity levies?

1) To generate more revenue for developing countries

Official Development Assistance (ODA) is essential to provide the poorest countries with the resources they need to exploit their economic potential and to join the global economy. The additional resources needed to achieve the Millennium Development Goals (MDGs) have been estimated at \$50 billion per year. International solidarity levies would generate additional revenue to supplement traditional ODA.

- Growth is essential to alleviate poverty. Many countries, particularly the most heavily populated, have made considerable progress towards eliminating poverty through strong economic growth over the past 15 years. International trade is thus seen to be a **powerful engine of development**. All the big economic success stories of the past 50 years have been underpinned by exports. There are no examples of countries that have managed to pull themselves out of underdevelopment without entering and tapping into the world market, without attracting investment, without creating a favourable environment for the private sector and without improving governance.
- However, many obstacles prevent countries locked in **poverty traps** from taking advantage of such opportunities. Such countries are hobbled by geographical isolation, recurring natural disasters and weak infrastructures. Extreme poverty is also in itself an obstacle to growth. We now know that poverty cannot be defined by income alone. It is a state of extreme vulnerability due to a lack of physical, financial and human capital. As a result, even when opportunities arise - as through market liberalisation - poor households and producers are unable to take advantage. There are critical thresholds for geographical isolation, health and education standards and vulnerability to natural disasters below which economic progress is impossible.
- The role of aid is to end the mutually self-reinforcing cause-and-effect relationship between poverty and growth by enabling poor countries to **break through those critical thresholds**, even when their domestic resources are insufficient. The quality of infrastructures and the level of human development (health and education) are essential. They determine a country's capacity to attract and spur investment, including private investment, without which sustained growth is impossible. It is therefore crucial to increase aid volumes, particularly by developing innovative additional sources of funding.

2) To generate more stable and more predictable revenue in order to meet the needs of the developing countries

For human development purposes, the quality of aid is just as important as its quantity. ODA is currently approved as part of annual budgets or less commonly multi-annual budgets (but never more than three years), and thus fails to cover all needs of the developing countries. There is no stable, predictable instrument for funding the MDGs. International solidarity levies could play this role.

- For many observers, the answer to the challenges of poverty is simple: developed countries must honour their commitments to increase ODA. Ambitious efforts have already been made on this score (France's ODA effort, expected to amount to 0.47% of GNI in 2005, will be raised to 0.5% in 2007 and 0.7% in 2012, while the European Union has made a similar collective commitment out to 2015) and must be continued and extended. However, **to supplement** the increase in traditional aid, developing countries need a predictable, stable source of funding, which the annual framework that generally governs the budgets of developed countries cannot guarantee.
- ODA fluctuates considerably over time. On average, ODA volatility is four times higher than the GNP of the developing countries. This volatility stems mainly from budget procedures in donor countries, changes in priorities and policy-making or implementation delays. In most cases, it cannot be linked to objective and identifiable causes. It cannot therefore be anticipated. This aid is not only **volatile**, it is also and above all, **unpredictable**.
- The consequences are extremely **harmful** for poor countries. Volatility aggravates internal and external imbalances if spending reflects expected aid payments that do not materialise. The unpredictability of aid also blunts its effectiveness. It hampers investment and the programmes most needed for development. Some programmes may be discontinued while others become more expensive due to frequent disruptions. These uncertainties particularly affect the programmes which have the biggest need for long-term stability and continuity and which make the biggest and most direct contribution to alleviating poverty and achieving the MDGs (health and education).
- These observations shed a new light on the capacity of poor countries to absorb and effectively manage a growing volume of aid. Some of this capacity is **endogenous**: if aid were more stable, larger amounts could be absorbed and managed more effectively. Making aid more predictable is therefore a sine qua non for an overall increase in aid volumes.

International solidarity levies offer a way of safeguarding the poverty-reduction system from shifts in policy and international cooperation. These solidarity levies would finance the **recurring costs** of poor countries' human development programmes, which must be continued over the long term (e.g. training of doctors, wages of teachers, purchase of medical drugs, etc.).

3) These levies would be implemented nationally and coordinated internationally

- In the current context, no international authority has the power to levy taxes. Therefore, an international tax is necessarily an act of cooperation between governments. An international tax could be defined as a series of identical or similar national taxes, implemented by governments within a jointly agreed framework that would also cover the use of the revenue raised by each country. This **cooperative arrangement** would need to be negotiated and legally formalised.
- Allocating the revenue from an international solidarity levy to specific purposes is both necessary and useful. This would establish a direct link between the contributors and beneficiaries of the aid, making the tax **more legitimate** and more acceptable. The mechanism would also permit the allocation of stable, predictable resources to programmes with a particular need for continuous funding. International solidarity levies would be used to finance policies that traditional ODA cannot cover because it is too irregular.
- An international solidarity levy will be more likely to increase total development funding if allocated to specific unmet needs, thus revealing previously implicit preferences, and if allocated and managed with sufficient **transparency and integrity** to rule out any suspicion and criticism. The use of the revenue from international solidarity levies must not duplicate existing institutions. However, within the framework of the current institutional architecture, it seems appropriate to give countries applying the international levy a say in the use of its revenue.

4) An instrument for regulating globalisation that transcends the North/South divide

- Eradicating extreme poverty is an ethical, political and economic imperative for rich and poor countries alike. To achieve this goal, we must move beyond the North/South divide and take a **partnership approach**. International solidarity levies would therefore be applied by developed, emerging and developing countries, at rates reflecting the contributory capacity (i.e. the wealth) of each participating country.
- International solidarity levies will help make globalisation **more equitable**. In the 20th century, the industrialised nations established rules to govern nascent capitalism. Today's globalisation requires new regulation and redistribution mechanisms. International solidarity levies are one such mechanism. They would make it possible to redistribute some of the wealth generated by globalisation that escapes from traditional economic and financial channels.

The international air-ticket solidarity contribution: A simple, equitable and economically neutral tool

- **Easy implementation:** the air-ticket solidarity contribution can be introduced easily by raising existing airport taxes and charges; collection costs are minimal and national tax sovereignty is not affected.
- **A limited economic impact:** the air-ticket solidarity contribution will have very little impact on air transport, which is structurally very dynamic. It will not affect competition between air carriers or between the major airports. One of its advantages is that it can be implemented without waiting for universal participation by all countries.
- **A flexible and fair mechanism:** the progressive nature of the air-ticket contribution is in keeping with the determination to improve distribution of the benefits of globalization. Internationally, differentiation between rates make it possible to consider the specific characteristics of all countries implementing this contribution, especially their level of development.

1) A mechanism that is easy to implement and fully respects national tax sovereignty

- Implementation of an air-ticket solidarity contribution for all passengers departing from an airport located in a participating country **does not raise legal problems**. International air transport is governed by the Convention on International Civil Aviation (Chicago Convention) and by bilateral agreements and treaties. None of these treaties prohibit the creation of a flat air-ticket contribution on either international or domestic flights. Moreover, this type of contribution already exists in many countries, including the United Kingdom, Denmark and Malta, as a means to finance the State's general budget. European regulations and WTO agreements also authorise the introduction of this type of flat contribution provided it is not applied in a discriminatory way.
- From a practical point of view, the air-ticket solidarity contribution is very **easy to introduce**. As with airport security and safety taxes and charges, airline companies will be responsible for collecting this contribution. It can therefore be added very easily to the ticket price and paid when a ticket is purchased, regardless of where it is issued. As countries already levying similar levies have shown, **collection costs are low** (0.1% in the case of the United Kingdom).
- Each participating State will adopt an air-ticket solidarity contribution in accordance with its own laws and constitutional requirements, which means that its tax sovereignty will not be reduced in any way. Each participant will be responsible for establishing the contribution rates and conditions. The participating countries will voluntarily coordinate the allocation of the proceeds.

- In France, the solidarity contribution will take the form of an **increase in the civil aviation tax for airline passengers**. Rate caps are differentiated according to the flight destination and travel class (the actual rates will be set by decree in early 2006). For domestic flights or flights to an airport within the European Economic Area (EU + Iceland, Liechtenstein and Norway), the capped rate will be €1 per passenger in economy class and €10 when a passenger gets free services to which other passengers do not have free access (i.e. when they travel in first or business class). On other flights, rates will be four times higher depending upon travel class.
- With these rate caps, revenue from this contribution - which will be collected by the civil aviation accountant already responsible for the civil aviation tax - could amount to about €200 million per year.
- The law introducing the air-ticket solidarity contribution was adopted by Parliament on 22 December 2005. The contribution will enter into force on 1 July 2006 so airlines can prepare its introduction (tickets are sometimes purchased up to six months prior to date of the flight).

2) A virtually neutral contribution from an economic standpoint

- **Air transport is one of the industries that benefits most from globalization** with an average annual growth of 5%. This makes it legitimate for the air transport sector to contribute to solidarity efforts being made for those left behind by globalization, whose benefits are far from equally distributed.
- Some airline companies suffered temporary difficulties in the wake of 11 September 2001. However, the recent increase in the profits of several airline companies despite rising oil prices shows that a contribution of just a few euros will have very little impact on air transport and profitability of these companies.
- The air-ticket contribution will not trigger any **distortion in competition** between airline companies because it will be based on territorial aspects rather than nationality. All airline companies, regardless of nationality, will have to levy the solidarity contribution when one of their airplanes departs from an airport located in a participating country.
- Even with a limited number of participating countries, the air-ticket contribution **does not result in any rerouting of traffic**. Exemption of passengers on connecting flights ensures that airports located in participating countries will not be penalized. In theory, passengers in border areas could attempt to evade the contribution by travelling to airports located in countries that do not participate in this mechanism. This is however highly unlikely since it would be considerably **more expensive** than paying the solidarity contribution.
- Finally, countries generating large revenues from **tourism** will not be penalized. The air-ticket contribution is **very low** compared to the average total cost of a holiday (several hundreds of euros). The best proof of this is that Malta, a major tourist destination, decided last summer to double its air-ticket tax to € 46 per ticket.

- The law passed by the French Parliament exempts passengers on connecting flights , i.e. all those with less than 12 hours between the scheduled arrival time at a French airport and the scheduled departure time from the same airport system to an airport that is not their initial place of departure. Thus, a passenger arriving at Paris Roissy Charles de Gaulle Airport from London and departing a few hours later from Paris Orly Airport will not pay the contribution. Likewise, a passenger who is stuck in France for several hours because of a delayed flight will not have to pay this contribution either.

3) A flexible and fair mechanism

- Basing the contribution on air tickets is consistent with the intention to redistribute some of the benefits of globalization. An air-ticket contribution is progressive since higher rates are applied to passengers travelling in first or business class.
- At international level, the air-ticket contribution will be implemented by countries of both the North and the South. However, rates can be differentiated **according to the level of development of the participating countries**. For instance, Chile will levy a contribution of €4 on international flights only, half of which will be allocated to the promotion of tourism and half to development.
- Countries with a larger surface area will not be penalized since different rates can be applied to domestic and international flights, and there may not even be a contribution on domestic flights (as in Chile).

- The law passed by the French Parliament sets a rate cap for domestic and intra-European flights that is four times as low as the cap on international flights since such flights are used most often and their intermodal competition with trains is strongest. Moreover, rate caps applied to first and business class are ten times higher than those applied to economy class. This reflects the difference in ticket prices between travel classes and keeps the mechanism progressive.

An international air-ticket solidarity contribution: one response to the public health challenges facing developing countries

- **A significant contribution:** the French air-ticket solidarity contribution alone could generate up to **€200million in additional resources for developing countries**.
- **A collective project:** use of the revenue would be **coordinated with other countries** with an air-ticket solidarity contribution.
- **A public health priority:** France proposes that some of the revenue be allocated to **purchasing HIV/AIDS drugs** and fighting other pandemics.
- **A long-term vision:** the goal of the airline-ticket contribution is to generate stable, predictable revenue for funding **development programmes that require continuous funding, such as anti-retroviral (ARV) treatment**. This innovative source of revenue is intended to **supplement** traditional official development aid (ODA).

1) The actions taken so far to eradicate pandemics in developing countries fall short of what is needed

- In recent years, the international community has made ambitious commitments on health and access to treatment in developing countries. At Gleneagles in July 2005, the G8 agreed to “*develop and implement a package for HIV prevention, treatment and care, with the aim of as close as possible to universal access to treatment for all those who need it by 2010*”, and the entire international community made the commitment during the September 2005 United Nations summit.
- Despite the efforts and achievements of international organisations (such as the Global Fund to fight AIDS, the World Bank, etc.) and bilateral donors, results still fall far short of expectations:
 - Only around 1 million people have access to ARV treatment (June 2005), whereas **6.5 million have an immediate need for ARV drugs**.
 - Every year 6 million people die from AIDS, tuberculosis and malaria (3 million from AIDS alone), **the equivalent of 30 tsunamis a year**. In areas with the highest prevalence, particularly in Africa, these diseases are tearing whole societies apart. The AIDS pandemic **could spread out of control**.
- Transmissible diseases **concern both rich and poor countries**, even though the latter are more vulnerable. It is therefore crucial to move beyond the North/South divide, which the international solidarity contribution is designed to do.

2) Improving access to treatment in poor countries means reducing the cost and increasing the production of medical drugs.

- Improving health systems in the South is necessary (increasing the number of doctors, upgrading health infrastructures, etc.), but insufficient in itself. Poor countries need quality drugs in adequate quantities at affordable prices. **However, the pharmaceutical majors and generic laboratories will only manufacture drugs that meet those conditions if they have guaranteed, solvent markets.**
- Programmes that directly or indirectly fund the supply of ARV drugs are a key way of supporting markets for pharmaceutical companies. **France therefore proposes that some of the revenue generated by the air-ticket contribution be allocated to such programmes, which are currently underfunded:** while €6 billion has been spent on combating HIV/AIDS this year, \$14 billion will be needed in 2006, and more than \$20 billion per year after 2008, according to UNAIDS estimates.

3) France proposes that part of the proceeds of the international air-ticket solidarity contribution be used to fund purchases of drugs in order to reduce the cost and spur production of antiretroviral.

- The idea is to create an international facility for drug purchases in order to improve access to treatment for the developing countries. The facility would **support, not duplicate existing bodies, such as the Global Fund to fight AIDS, Tuberculosis and Malaria, the WHO, or the World Bank.** It would be managed jointly by the countries applying the airline ticket contribution in coordination with specialised institutions, the beneficiary countries and concerned countries, and all the parties involved in the fight against HIV/AIDS.
- **Funding by the international air-ticket solidarity contribution will make the facility more effective:**
 - The pharmaceutical industry, assured of continuous funding, will have an incentive to step up production and to lower the price of drugs;
 - Developing countries will at last be able to fund **life-long anti-retroviral treatment, which is absolutely vital.** Currently, the Global Fund's programmes only last five years, which makes some countries in the South reluctant to introduce policies on access to treatment for fear that funding will suddenly stop.
- Revenue of €200 million would **give around 1.3 million people access to ARV treatment.**