



A solidarity contribution on airplane tickets SOME Q & AS

New York - September 14, 2005.

Brazil, Chile, France, Germany and Spain (recently joined by Algeria) have been working for a year on concrete proposals for innovative financing mechanisms which would help to finance the MDGs (Millennium Development Goals).

As a first step, France proposes to create a pilot scheme which would serve as a showcase of the feasibility of innovative financing mechanisms while, at the same time, contributing to meet urgent financing needs (such as the fight against HIV/AIDS).

The scheme would be based on a solidarity contribution levied on airplane tickets. Brazil, Chile and Germany have expressed their support.

A simple mechanism, easy to implement from a legal and practical standpoint.

*** Why plane tickets?**

As one of the main driving forces behind globalization, passenger air transport is a fast growing activity. While the industry may meet with temporary cyclical difficulties, traffic volume has increased by 7.4% since April 2004 and is currently projected to grow annually by an average 5% worldwide over the next decade.

In both developed and developing countries, airline passengers seldom belong to the poorest segments of the population. A contribution on plane tickets would therefore be progressive, a characteristic which could be reinforced if higher rates were to be set for business and first class passengers.

*** When would the contribution be paid?**

Legally, when boarding an aircraft departing from an airport located in a participating country. In practice, airline companies would be responsible for collecting the contribution which would be added to the fees and charges already part of the plane ticket final price.

*** Are there any legal impediments or obstacles?**

International air transport is regulated by the Chicago Convention as well as bilateral treaties and agreements. None of those treaties prohibits the creation of a flat contribution on air tickets, whether on domestic or



international flights. As a matter of fact, such levies already exist in a number of countries (including UK, Denmark, and Malta) for the financing of the general government budget.

European regulations and WTO agreements also allow for such a flat contribution provided it is non discriminatory.

* Would the contribution raise practical difficulties?

No, since it could easily be added to the price and paid when the ticket is purchased (just as safety airport fees). As shown in countries already implementing such a levy, collecting costs are minimal.

A contribution very close to economic neutrality.

* Impact on the airline industry.

Price elasticity of demand is generally considered as small, especially for high contributing passengers (business and first) and if the rate is set at a low level. Strong projected growth in overall traffic volume suggests the impact on demand could be easily absorbed. In a worst case scenario, it could be equivalent to less than a year in traffic volume growth.

* Would the contribution distort competition?

No. The mechanism is based on territoriality, not nationality. All airline companies, whatever their nationality, would have to levy the contribution if departing from an airport located in a participating country.

* Is there a risk of evasion?

Passengers could theoretically try to evade the contribution by moving to another airport located in a non participating country. This is however extremely unlikely since the contribution would be set with a low rate and the cost of evasion would be much higher than paying the contribution.

* What about transit passengers?

It is proposed that they be exempted. This way, the contribution would be neutral as to the choice of the route between departure and final destination. Exemption would also ensure neutrality between companies whether they operate direct routes or not: hubs located in participating countries would not be penalized as compared to others in non participating countries. Exemption of transit passengers does not raise any legal or practical difficulty.

Equity and diversity between participating countries.

* Is there room for a specific treatment of developing countries?



Yes. Rate could be differentiated according to the level of development of participating countries.

* Would large countries be penalized?

Rates could be differentiated between domestic and international flights (as in the UK) with the possibility of a zero rate on domestic flights.

* Would countries deriving important revenues from tourism be penalized?

The contribution would be very small as compared to the cost of a tourism package (several hundred euros). Malta a very important destination for tourism - levies a tax on departing passengers at the level of 23 / ticket (which should be doubled in the near future).

Getting new, significant, stable and predictable ressources.

* How much revenue would the contribution bring?

Everything will depend, of course, on the number of participating countries. As a purely illustrative example, a 5 contribution on all plane tickets worldwide with a 20 additional surcharge on business and first class would yield 10 billion, i.e. approximately one-sixth of the total current level of official development assistance (ODA).

* Is the scheme a way for developed countries not to meet their commitments for an increase in ODA?

On the contrary. The European Union has recently committed itself to bring its ODA to 0.56% of GNI in 2010 and 0.7% in 2015. France is already committed to 0.7% in 2012. These are extremely ambitious commitments which, together, will bring in 2010 more than 30 billion in additional ODA flows.

A nationally implemented and internationally coordinated mechanism.

* Is universal participation necessary ?

No. Obviously, broad based participation would increase the revenue potential and the overall development impact of the mechanism. But it is not a precondition. Since the contribution is neutral as to its economic impact on participating countries and its competitive effect on the industry, it can be efficiently implemented by a group of like minded countries.

* Does the scheme limit national sovereignty on tax matters?

No. The contribution would be created by each participating country according to its own consitutional and legislative process. Some voluntary coordination could take place between participating countries as to the rate, modalities and



PRESIDENCE DE LA REPUBLIQUE

allocation of revenues. If necessary, this coordination could be formalized through some kind of international agreement.

* Would the contribution lead to the creation of a new international bureaucracy ?

No. Revenues should be spent through existing national and international procedures and institutions. If participating countries so wish, they could agree to pool part of those revenues and allocate them to joint programs. This would make sense whenever stability and predictability in disbursements are seen as key conditions of efficiency, as is the case in many human development programs. France will propose to allocate part of the proceeds of the contribution to the fight against HIV / AIDS, specifically to finance, on a long term basis, the purchase of ARV (anti-retroviral) drugs.

|