BROOKINGS
Global Health Financing Initiative
SNAPSHOT SERIES

Airline Solidarity Contribution

Background

In the search for additional funds for global health initiatives, a global tax has theoretical appeal. Many health issues have cross-border impacts, including recent examples such as avian flu and HIV/AIDS and traditional examples such as malaria, tuberculosis, smallpox, and polio. Additionally, the effectiveness and strength of a nation's health surveillance system also has international implications as diseases are tracked, drugs regulated and research shared across borders.

A global tax would help to address inadequate funding for such problems and enable all countries to share responsibility for solutions. The practical problem with a global tax is that all or most countries would have to agree to a uniform tax, or they would have to give up sovereignty to an international body that would impose the tax. Thus, despite their possible benefits, global taxes have never received global support.

This snapshot examines the airline tax in detail and presents some of the risks in levying the tax.

What is the "airline solidarity contribution" and how does it work?

Since 2004, a group of countries led by France has considered implementing an additional tax, called the airline solidarity contribution, to existing airline taxes in order to generate resources for global health. The additional airline tax is not a global tax in the strict sense of having a single agreed-upon tax and a global authority that has the power to levy it and allocate proceeds. Rather, it is a domestic tax that participating countries have agreed to coordinate and allocate to support UNITAID, an International Drug Purchase Facility for AIDS, tuberculosis, and malaria.

On July 1, 2006, France introduced this levy on passengers departing from French airports, including domestic flights. As shown in the table to the right, a unit tax (a fixed amount, not a percentage) is added to the price of a ticket, with the amount dependent on destination and class of service. Basing the rate on class of service is intended to have the rich pay more. A round trip within France would cost an extra €2 in economy class and €20 in first class. The new intra-Europe solidarity levy represents a 26 percent increase for economy class and a 255 percent increase for first class. For other destinations, the increases are 57 and 568 percent, respectively. Though the increased tax is not trivial, the French authorities emphasize that it is small relative to the total cost of a trip or a

French Civil Aviation Taxes, 2006

		Solidarity Levy	
Destination	Civil Aviation Tax	Economy Class	Business and First Class
Intra-Europe	€3.92	€1	€10
Other	€7.04	€4	€40

holiday. Total revenue from this new levy will approach €180 million per year, with 90 percent allocated to UNITAID and 10 percent going to the International Finance Facility for Immunization, or IFFIm.

France designed the tax to limit its impact on the competitiveness of the airline industry and on France as a destination. An estimated 70 percent of passengers pay the lowest rate of €1. The levy is imposed on passengers, not carriers, so competition between airline companies is not distorted. Connections made in France should be minimally affected, as passengers transiting for less than 24 hours are not charged the tax. Because the levy is an add-on to an existing tax, additional collection costs for the airlines and government are limited to the complexity introduced by differentiating passengers by class (destinations were already taken into account).

What are strengths and weaknesses of such a tax?

The airline solidarity contribution is not perfect, but it is an inventive attempt to gain the benefits of a global tax. An airline tax can be introduced using preexisting airport tax systems, as the French example illustrates, with relatively low implementation costs and possibly limited negative effects on the industry. The airline tax does not affect the sovereignty of countries, given that each national government can make its own decisions on the amount of the levy and which passengers must pay it. The tax can be largely "exported," for example, if developing countries tax only international first- and business-class passengers. Globally, air traffic has grown historically at about 8 percent a year, so it can become a consistent and growing source of revenue for global health.

An argument against any such tax is that it will reduce economic activity and incomes, though imperceptibly. In any event, elected leaders have determined that the benefits outweigh the costs and that this is an appropriate vehicle to redistribute consumption from airline passengers to poor people suffering from AIDS, tuberculosis, and malaria.

What are the risks?

Some countries already rely heavily on airline and airport taxes; adding another increment could reduce a country's competitiveness at the margin. For example, a businesswoman making a connection through Paris to New York will soon realize that staying overnight to enjoy a day in Paris adds a tax of €40, which would not be paid in Rome or London. Price-conscious tourists with destination options will also watch such costs closely. Time will tell how much the levy's effect on competitiveness will matter.

Earmarking the proceeds of this domestic tax to UNITAID, which countries commit to when they join, may allow the agency to mimic to a degree an international tax and spending agency, although there is no real experience yet on how binding the agreements will be in practice. Because the unit tax will have to be adjusted to keep up with inflation, many countries will have regular opportunities to reexamine past commitments in light of the experience and their evolving fiscal situation.

Present status and expected future directions

As of April 2007, the airline solidarity contribution is in effect in eight countries (Chile, Congo, Cote d'Ivoire, France, Madagascar, Mauritius, Niger, and South Korea.), with most limiting the tax to international passengers. These countries generate an estimated €22 million annually, in addition to France's contribution. Another 20 countries are developing the tax. In addition, Norway has allocated part of a tax on jet fuel, Spain contributes out of its budget, and the United Kingdom has made a 20-year commitment from its budget. Poor countries as well as rich countries are contributing.