

Innovative financing mechanisms for South East Asia

POLICY BRIEF 2: GLOBAL OR REGIONAL TAXES

Description

A global or regional tax is a tax that a group of countries each agree to collect nationally, but with the resulting funds pooled at regional or international level for redistribution. They are usually a very small tax but on a high volume of sales or transactions.

Possible sources include airline ticket sales, internet traffic or tobacco products. Under the airlines tax example, countries pass a law to levy a small fee on each purchase of an airline ticket made in their country. Passengers pay the tax when they buy their ticket, in addition to existing airport taxes, and airlines are responsible for collecting and declaring the tax. Countries can set the amount levied, depending on:

- Class of ticket (e.g. France has a €1 tax on a domestic economy ticket, and a €10 tax on a domestic first class ticket)
- Whether the flight is domestic or international (e.g. Niger has a US\$1.20 tax on a domestic economy ticket, and a US\$4.70 tax on an international economy ticket)
- Length of flight

Another potential source is a tax on financial transactions, e.g. a Currency Transactions Tax (CTT or 'Tobin Tax') on foreign exchange transactions, or a Financial Transactions Tax (FTT) on the sale of shares/bonds/derivatives.

Status

Examples of successfully implemented international or regional taxes are rare. The European Union is currently considering the introduction of an FTT, and a tobacco tax (the Global Solidarity Tobacco Levy) is currently under discussion as an innovative financing tool for health.

There is one clearly successful example: the air ticket levy was first implemented in France in 2006, with funds raised going to UNITAID, an independent not-for-profit group hosted by the WHO, which uses these revenues to fund AIDS, TB and malaria-related product development and purchase.¹ Nine countries now participate in the UNITAID airline levy – Chile, France, Madagascar, Mauritius, Niger and the Republic of Korea. Three other countries – Benin, Burkina Faso and Côte d'Ivoire – are in the process of implementing it.

Two possible options are applicable to SEA vaccine financing:

- 1) Persuade UNITAID to extend its remit beyond HIV/AIDS, TB and malaria to other vaccines of interest to SEA (more SEA countries might need to be in UNITAID to achieve this goal)
- 2) Establish an ASEAN airline levy to fund SEA-specific health or vaccine goals

¹ UNITAID has 29 member countries, but the Republic of Korea is the only current Asian member

Volume of potential revenue

Existing schemes

Between 2007 and 2011, UNITAID’s airline ticket levy raised an average US\$208m per annum, with 94% originating from France. The Republic of Korea provided US\$7m to UNITAID in 2011.

Indonesia, Thailand, Singapore, Malaysia, Philippines and Viet Nam collectively have about 1.6 times the number of air passengers as France.² Assuming similar take-up rates, an airline ticket levy covering these countries would raise around US\$333m per year. These sums are likely to increase substantially, given the forecast of 6.7% annual growth in aviation in the Asia Pacific region for the next 20 years.

Proposed schemes

- A very low rate tax on internet traffic has been estimated to raise about US\$3bn per year.ⁱ
- The Taskforce on Innovative International Financing for Health Systems noted that a global CTT has the potential to raise up to US\$33bn per year.ⁱⁱ
- The European Parliament estimates an FTT could raise €200bn per year at EU level and US\$650bn at global level.

Pros & Cons

| Pros | Cons |
|---|--|
| <ul style="list-style-type: none"> • High potential revenue, low transaction costs • Once set up, funding is predictable and stable • For the airline levy: individual countries can decide what the levy will look like in their country (size of fee; domestic or international etc.) • Airline levy has good sustainability with no adverse effect on volumes of air traffic reported by those who have implemented it • Airline levy has a diverse source of funds, tapping into the Asian tourist market (as both foreign tourists and national residents pay) • If option is to secure a UNITAID extension, then no new organisation needed | <ul style="list-style-type: none"> • Taxes may be politically unpopular (particularly during recession/slowdown), and must be legislated • Regional collaboration can be difficult to achieve, and poor track record • An FTT (or similar) may distort markets and move transactions outside the region • For ‘Option 1’ of the airline levy, it may be difficult and slow to persuade UNITAID to extend their remit • ‘Option 2’ of the airline levy may compete with the existing UNITAID model (e.g. some beneficiaries of UNITAID are in SE Asia) • An ASEAN air levy will need a new organisation to manage it, but this is likely to be quite small (UNITAID’s operating costs are only 3.6% of total revenue) |

ⁱ Consultative Expert Working Group on Research and Development: Financing and Coordination (WHO), “Research and Development to Meet Health Needs in Developing Countries: Strengthening Global Financing and Coordination”, 2012, http://www.who.int/phi/CEWG_Report_5_April_2012.pdf.

ⁱⁱ Taskforce on Innovative International Financing for Health Systems, “Raising and Channeling Funds” (International Health Partnership, 2009), 56, 75., http://www.internationalhealthpartnership.net/CMS_files/userfiles/090817%20WORKING_GROUP_2%281%29.pdf.

² Based on ICAO 2006 data