

Special High-level Meeting of the Economic and Social Council with the Bretton Woods Institutions, the World Trade Organisation and the United Nations Conference on Trade and Development
Statement submitted by the following Non-governmental Organisation in Consultative Status with the UN Economic and Social Council: **International Cooperation for Development and Solidarity (CIDSE)**

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INNOVATIVE SOURCES FOR FINANCING SUSTAINABLE DEVELOPMENT

In preparing for the Doha review conference on Financing for Development, in late 2008, it is clear that greater effort is needed to achieve international development goals including the Millennium Development Goals. While the implementation of aid commitments is the first and most necessary step to fulfil these commitments, new global challenges need joint global responses. CIDSE has been monitoring and promoting innovative sources for financing sustainable development for several years. Since the Monterrey Conference on Financing for Development in 2002 this issue has gained increasing attention and the world has witnessed promising developments like the establishment of the *Leading Group on Solidarity Levies to Fund Development*. While the main focus of these discussions is on raising financial resources, **CIDSE emphasises the need for special attention to be paid to proposals that also address a just redistribution of the profits of globalisation and the benefits and costs of financing global public goods by international taxes.**

A. Currency and Financial Transaction Taxes

CIDSE is convinced of the potential of the Spahn model of a two tier **Currency Transactions Tax (CTT)** to realise a more equitable distribution of wealth and to contribute to a more stable financial climate while at the same time raising development revenue. Additionally it contributes to a shift of the tax burden from wages and consumption to capital making the overall tax system more equitable.

Since Monterrey, proposals for a CTT have been further developed and gained momentum (for example, Belgian legislation on a CTT). Today its implementation is mainly a question of political will. A CTT with a very low rate could be introduced by a single country or currency zone while the second tier with a much higher rate to counteract speculative attacks could be introduced independently.

Recent publications and debates in the Leading Group on Solidarity Levies suggest a “Currency Transaction for Development Levy (CTDL)” with a very low rate of half a basis point (0.005%) and taxation based on all trade in a particular currency wherever they take place to minimise market distortions or chances for avoidance. **The time has come for a country or currency to introduce a CTT or CTDL at a low rate as a pilot initiative to gain experience on its implementation while maintaining a long-term perspective for a broader implementation of a CTT.**

CIDSE also welcomes discussions on a general **Financial Transaction Tax (FTT)** in Austria. With the fast growing derivatives market, a tax levied on all financial transactions (spot as well as derivatives) going beyond currency transactions to include stock, bonds, etc. and related derivatives (interest rate contracts, futures, options) would broaden the tax base and could yield significant revenue while keeping the tax rate low. This tax might contribute to the stability of financial markets as it would be more heavily felt on short term transactions.

A general taxation of financial asset transactions in all major economies would only be the final stage in the process of implementing a FTT following a step by step implementation of a tax levied only on spot and derivatives transactions in some major EU economies with further extension at a later stage.

CIDSE considers that the Financial Transaction Tax has considerable potential and is worthy of international attention and further research on issues of practical implementation.

B. Environmental Taxes

Environmental taxes bring a “double dividend” by raising revenues as well as having a regulatory effect. They help to reduce environmental damage and to internalise costs according to “the polluter pays” principle, thus gaining importance in the debate on climate change.

A **tax on CO₂ emissions** could potentially reduce the most important cause of global warming. A number of European states have introduced carbon taxes domestically. The issue is back on the agenda of many countries and at the international level in the context of mitigation of climate change, although mainly concentrating on traffic congestion. Introducing a CO₂ tax at a rather low rate (Cooper, 2002 estimated that a

carbon tax at approximately 21 USD/ ton or 5 US cent/ gallon could yield revenue of 60-130 billion USD per year) would not be able to stop worldwide growth of carbon fuel use, but it might be the beginning of a phased-in tax that would rise steadily over a medium-term. CIDSE considers that the tax could effect consumption and raise revenue for adaptation and mitigation measures to promote sustainable development. It would be essential to include all contributors of CO₂ emissions without exemption. In order to have a substantial effect income generated from such a tax should not be counted as ODA, since it would serve primarily to finance a global public good.

To avoid the regressive effect this tax could have on poorer nations, which might be more dependent on carbon fuels and be in a weaker position to use environmentally friendly technology, lower rates for developing countries are suggested. Part of the revenue could be directed to adaptation measures or necessary investments for environmental friendly technologies. In the long run, by making renewable resources cheaper and curbing environmental damage due to global warming, such taxes could be beneficial for poorer countries.

CIDSE calls for strong efforts to be made towards international agreements on a comprehensive tax on CO₂ emissions including all sectors responsible for considerable emissions.

Taxation of air transport is on top of the agenda in the international debate, especially in the form of an aviation or kerosene tax. An aviation or kerosene tax, in particular, would reduce the adverse impact of the aviation industry, the fastest-growing emitter of greenhouse gases, on the environment whilst also generating revenue. Although slightly regressive it would mainly affect mass tourism and therefore not cause serious social problems.

A tax on air transport could have the following benefits:

1. Increasing the incentives for air transport companies to become more fuel-efficient.
2. Using revenues generated mainly for sustainable development
3. Providing a fairer choice between modes of transport for consumers. A tax would bring the aviation industry in line with rail and road transport which are already taxed.

As part of the Leading Group on Solidarity levies to fund development, an air ticket levy was introduced voluntarily by a number of countries at a low rate. To CIDSE's disappointment, the levy was not intended to have any impact on the aviation industry. It is currently used to finance a fund for drugs against tuberculosis, AIDS and malaria via the newly established structure of UNITAID. CIDSE welcomes the efforts of countries who are part of the Leading Group. They are contributing to build up experience in joint action to raise and administer finance for development on an equal basis between North and South including state as well as civil society representatives in its structure. It proves that first steps towards international taxes can be taken unilaterally or by a leading coalition of countries. **CIDSE calls on countries to participate in large numbers in the Leading Group's initiative for an air ticket levy to fund international development. Revenues generated should be additional to ODA. Further improvements are also needed for a stronger focus on the regulatory effect of the levy as well as on cost efficiency, effectiveness and use of funds for sustainable health care measures beyond the distribution of drugs**

Modalities for allocation of resources raised from Innovative Mechanisms

Allocation of resources raised from any innovative mechanism should respect principles of country ownership and be free of any form of onerous conditionality. **CIDSE stresses the requirement for all resources generated by innovative mechanisms to be allocated to comprehensive programmes for sustainable development meeting the needs and priorities of the beneficiary countries.** Binding mechanisms set up through multilateral agreements or treaties are needed to guarantee long term commitments and predictability.

CIDSE calls for an institutional framework with an adequate governance structure that functions in a multilateral setting and guarantees transparency, accountability and equal rights and participation of all stakeholders, that would determine how funding would be utilised and administered. The UN should preserve its role as a catalyst to discuss, obtain support for and help implement some of these initiatives and could play a key role in its governance.