

To the High Representative of the Union for Foreign Affairs and Security Policy, and Vice President of the European Commission, and the Commissioner for International Cooperation & Development.

10 March 2015

Dear Ms Mogherini and Mr Mimica,

As we approach the final stages of the negotiations on the post-2015 development framework, we would like to draw your attention to the tax regime applied to goods and services provided to developing country governments as part of ODA projects. Donor countries have traditionally asked that their development projects be exempted from taxes including import tariffs, value added tax and local income tax. Some have already taken steps in the direction of giving up these exemptions.

At a meeting in December 2014 of the OECD Task Force on Tax and Development, the Director of the OECD Development Co-operation Directorate called on us to review our policy on these tax exemptions. We believe that the time has come to do so. From the standpoint of policy coherence, it seems illogical to ask developing countries to raise their domestic revenues – and review the large number of tax exemptions they currently grant – while at the same time continuing to ask for exemptions ourselves.

We therefore believe that the time is ripe for development partners, not least the EU and its member states, to consider giving up such exemptions in full or in part, for Government-to-Government aid. Giving up exemptions with respect to import tax and VAT would seem a logical way to start. The right to claim exemptions should be retained for humanitarian aid.

AVT15/BZ114371

Research shows that there are administrative gains to eliminating tax exemptions for government-to-government aid, in particular with respect to value added tax. Furthermore, a change of policy would be easy to implement. We believe that such a change in policy should be EU-wide to ensure maximum impact. The upcoming third International Conference on Financing for Development in Addis Ababa would be an ideal opportunity to announce such a step by the EU.

Important work on a regulatory framework was done by the International Tax Dialogue Steering Group in 2007. This would provide a solid basis for any decision making on this matter. We hope this proposal can be discussed as soon as possible in the Council with a view to assessing how it may be best reflected in the EU position for the third International Conference on Financing for Development in Addis Ababa, in July.

Yours sincerely,

Mogens Jensen
Minister for Trade and Development Cooperation of Denmark

Lilianne Ploumen
Minister for Foreign Trade and Development Cooperation of the Netherlands

Isabella Lövin
Minister for International Development Cooperation of Sweden

Mr. Konrad Pawlik
Undersecretary of State for Development Cooperation, Polish Diaspora and Eastern Policy of Poland

AVT15/BZ114371