GENERAL AGREEMENT ON
TARIFFS AND TRADE

ADMINISTRATIVE AND FINANCIAL QUESTIONS

GATT Contributions to the International Trade Centre UNCTAD/GATT

Note by the Director-General

Introduction

1. At its meeting in October 1981, the Committee on Budget, Finance and Administration, on examining the Second Performance Report on the Centre's Programme Budget for the Biennium 1980-1981, expressed its concern that GATT had to bear a disproportionate share of the burden of exchange risks resulting from the fact that the contribution of the United Nations to the Centre was in US dollars, whereas the provision for such contributions in GATT budgets was in Swiss francs (L/5196).

2. With regard to the Centre's Proposed Programme Budget for the 1982-1983 Biennium, the Committee expressed its reservations with regard to the exchange rate of US$1/SwF 1.71 and the inflation rate of 5 per cent for each year of the biennium. It considered both to be unrealistic even though it was recognized that the rates applied were those given in the United Nations guidelines.

3. In response to the Committee's request, the GATT secretariat has been examining with the secretariats of the Centre and the United Nations ways and means of resolving the problem of future exchange rates and inflation rates to be applied to Centre budgets, including the possible revision of the rates applied to the 1982-1983 budget. A preliminary progress report is submitted herewith.

Background

4. Until 1972 GATT budgets were expressed in US dollars and contributions were assessed in that currency. At that time, in view of the effect that the continued currency fluctuations were having on budgetary requirements, the CONTRACTING PARTIES decided to express GATT budgets and contributions in Swiss francs, with effect from 1 January 1973 (document L/3747). This was regarded as the simplest and most logical method of protecting GATT budgets from currency instability, particularly in view of the fact that the great majority of GATT's expenditures (about 90 per cent) were in Swiss francs. The International Trade Centre UNCTAD/GATT, however, continues to present its budgets in US dollars, following United Nations Rules and practices, even though about 90 per cent of Centre expenditures are also made in Swiss francs.
5. GATT's contributions to the International Trade Centre UNCTAD/GATT are made in accordance with the Decision taken by the CONTRACTING PARTIES on 22 November 1967 (document SR.24/14) and Resolution 2297 (XXII) adopted by the General Assembly of the United Nations on 12 December 1967, effective 1 January 1968, which provide for the operation of the Centre jointly by UNCTAD and GATT on a continuing basis and in equal partnership. No particular currency for payment of contributions is specified in the agreement.

6. Provisions in GATT budgets for contributions to the Centre are made in Swiss francs using the US dollar/Swiss franc rate of exchange that has been used as a basis for the Centre's estimates.

Rates of exchange and currency instability

7. The theoretical effects of changes of the exchange rate on a Centre budget in which estimated Swiss franc requirements of SwF 17.1 million have been valued at US$10 million at the rate of US$1/SwF 1.71 would be as follows:

(a) change of rate from US$1/SwF 1.71 to US$1/SwF 2.00:
   - Swiss franc requirements remain unchanged at SwF 17.1 million;
   - US dollar requirements decrease to US$8.55 million (SwF 17.1 million at US$1/SwF 2.00);

(b) change of rate from US$1/SwF 1.71 to US$1/SwF 1.50:
   - Swiss franc requirements remain unchanged at SwF 17.1 million;
   - US dollar requirements increase to US$11.4 million (SwF 17.1 million at US$1/SwF 1.50).

8. If the average exchange rate at which payments of contributions to the Centre are made is equal to the new budgetary rate, no additional cost accrues to GATT in Swiss franc terms. If the average payment rate is higher than the budget rate, additional expenditure will accrue to GATT since more Swiss francs will be needed to pay the same US dollar amount. Conversely, savings will accrue if the average payment rate is lower. For the United Nations, on the contrary, the contribution to the Centre is decreased if the US dollar/Swiss franc rate increases, as is shown in case (a) in paragraph 7 above. Conversely, a decrease in the exchange rate increases the amount payable by the United Nations in US dollars (case (b)).
9. In practice these effects of exchange rate changes are mitigated by two factors:

- the Centre's requirements in respect of contributions to the United Nations Joint Staff Pension Fund are US dollar requirements; an increase in the exchange rate (i.e. from US$l/SwF 1.71 to US$l/SwF 2.00 results in an increase in the Centre's Swiss franc requirements and vice versa if the Centre needs to buy US dollars for this purpose;

- the compensation provided by the post adjustment system in case of currency fluctuation does not exactly match the degree of fluctuation (this is because post adjustment is only applied to 90 per cent of net salary); an increase in the exchange rate results in an increase in both Swiss franc and US dollar requirements and vice versa.

Possible solutions regarding currency instability

10. In recent years the whole question of the budgetary and financial effects of currency instability and inflation has been the subject of intensive study within the United Nations system. One of the most recent studies on currency instability has been that of the Consultative Committee on Administrative Questions (CCAQ) carried out in 1979. Among the possible alternatives to the assessment of additional appropriations or the absorption of increased costs within the budget, the possibility of expressing the budget in the currency in which most expenditures are made, or in a mix of several currencies when appropriate, has received special attention. In fact GATT, which as has been stated above, changed from a US dollar to a Swiss franc budget as from 1 January 1973, has been the sole Geneva-based organization to adopt this measure.

11. A solution which would be particularly appropriate to the payment of GATT's contributions to the International Trade Centre UNCTAD/GATT would be to make payment of these contributions at the rate used for computing the budget estimates, e.g. US$l/SwF 1.71 for 1982, regardless of the United Nations accounting exchange rate or the market rate operating at the time of payment. As a very large part of the Centre's expenditures

---


2/ CO-ORDINATION/R.1005 (ACC); A/9008/Add.16 (ACABQ); A/9773 (UN); GB.206/PFA/3/7 (ILO).

3/ CCAQ/FB/R.118
are made in Swiss francs, no adverse effects should be felt in real terms particularly as the Centre receives US dollars from the United Nations to pay US dollar expenses.

12. The first reaction of the United Nations to this proposal, however, has been negative and, in addition, the possible absorption of additional costs within the budget is regarded as running contrary to the United Nations practice which has been endorsed by the General Assembly. The United Nations pointed out that it had been required to provide supplementary appropriations in previous biennia to take account of currency exchange fluctuations and urged the continuation of the present arrangements.

13. If this initial position is maintained by the United Nations, it is essential that GATT participate in the process of setting an appropriate budgetary rate to be used by the Centre. In this way, if the average rate of the payments made by GATT in respect of contributions to the Centre does not exceed the budgetary rate selected, no excess expenditure will accrue to the GATT budget.

Inflation

14. The United Nations has indicated that the inflation rates for the 1982–1983 biennium budget will be reviewed by the General Assembly towards the end of its current Session and that it is not possible to make an exception to the accepted practice only in the case of the Centre. If the General Assembly decides to increase the rate of inflation for 1982, GATT will be able to review the situation ex post facto only.

15. As for the effects of currency instability, the United Nations did not envisage the absorption of additional cost due to inflation within the budget and urged that the present arrangements be continued.

Possible solutions with regard to the effects of inflation

16. If the United Nations persist in this attitude, GATT would appear to have the following possibilities:

- not to accept the United Nations decision as final and to initiate further discussions with a view to finding a mutually acceptable solution; or either

- to accept the continuation of the present practice whereby revised budget estimates requiring the provision of additional funds are presented by the Centre after the original budget has been approved and for which financing is provided from the GATT budget or from the GATT Working Capital Fund; or
- to accept the United Nations practice, but making a unilateral additional provision in the GATT budget to cover possible additional requirements resulting from inflation.

Conclusion

17. As the preliminary reaction of the United Nations indicates that it cannot envisage at this time a change in the overall policy with respect to rates of exchange and inflation rates used for budgetary purposes, and taking into account that the rates to be applied to the Centre's 1982-1983 budget may be modified by the General Assembly before 31 December 1981, it will be necessary for the GATT Committee on Budget, Finance and Administration to re-examine this question early in 1982.