



**United Nations
Environment Programme**



UNEP



**Food and Agriculture Organization
of the United Nations**

Distr.: General
13 July 2006

Original: English

**Rotterdam Convention on the Prior
Informed Consent Procedure for Certain
Hazardous Chemicals and Pesticides in
International Trade**

Conference of the Parties

Third meeting

Geneva, 9–13 October 2006

Item 6 (f) of the provisional agenda*

**Issues arising out of previous meetings
of the Conference of the Parties:**

**Study on the advantages and disadvantages of using
the euro, the Swiss franc or the United States dollar
as the currency of the accounts and budget
of the Convention**

**Study of the advantages and disadvantages of using the euro, the
Swiss franc or the United States dollar as the currency of the
accounts and budget of the Convention**

Note by the Secretariat

1. At its first meeting, the Conference of the Parties, in decision RC-1/4, the Conference of the Parties established financial rules for the Conference of the Parties, its subsidiary bodies and the Convention Secretariat.
2. Also at its first meeting, the Conference of the Parties, in paragraph 23 of decision RC-1/17, requested the head(s) of the Convention secretariat, in the light of the decision on the location of the secretariat and the experience of other international agreements and institutions, and within available resources, to undertake a study of the advantages and disadvantages of using the euro, the Swiss franc or the United States dollar as the currency of the accounts and budget of the Convention for consideration by the Conference of the Parties at its third meeting.
3. The aforementioned study is annexed to the present note as annex I.
4. The Conference of the Parties may wish:
 - (a) To take note of the study and the proposed options;

* UNEP/FAO/RC/COP.3/1.

- (b) To decide to increase the special contingency reserve established by the Conference of the Parties at its second meeting (decision RC-2/7) by \$200,000 in order to minimize the risk of overexpenditure resulting from currency fluctuations given that the Convention carries out its financial transactions in three currencies;
- (c) To provide guidance to the Secretariat on further action, if any.

Annex I

Study on advantages and disadvantages of using the euro, the Swiss franc or the United States dollar as the currency of the accounts and budget of the Convention

I. Introduction

1. Paragraph 17 of the financial rules for the Conference of the Parties, its subsidiary bodies and the Convention Secretariat¹ reads as follows:

“All contributions shall be paid in United States dollars or the equivalent in a convertible currency into a bank account to be designated the Trustee, in consultation with the head(s) of the Convention secretariat.”
2. Paragraph 19 reads:

“Contributions not immediately required shall be invested at the discretion of the Trustee, in consultation with the head(s) of the Convention secretariat. The resulting income shall be credited to the relevant fund or funds referred to in paragraphs 7, 9 and 10.”
3. Currently, the contributions from Parties to the Rotterdam Convention are assessed in dollars. The host country agreements with the Governments of Italy and Switzerland provide for a fixed host country contribution, determined in euros. Voluntary contributions from Parties and other countries may be in the currency of their choice. However, all incoming contributions, whether assessed or voluntary in nature, are received in a dollar account.
4. Currently, the operational budgets under the General Trust Fund and the Voluntary Trust Fund of the Rotterdam Convention are set up in dollars only.
5. The core budget expenditures denominated in Swiss francs and euros include General Service staff salaries, most general administrative expenses, supplies and equipment, joint facilities management costs and travel agents' bills (though daily subsistence allowance is denominated in dollars). Professional staff salaries are adjusted for Swiss franc/dollar or euro/dollar fluctuations by the monthly post adjustment factor. Expenditure on consultants and experts is denominated in euros, Swiss francs and dollars. Expenditures in Swiss francs increase in years when meetings of the Conference of Parties or its subsidiary bodies are held in Switzerland. In other words, while a significant proportion of expenditure is denominated in Swiss francs and euros, some dollar expenditures remain.
6. In summary, the Secretariat, in accordance with the financial rules of the Conference of the Parties and relevant decisions of the Conference of the Parties, in particular with paragraph 17 of decision RC-1/4, currently receives its income from assessed contributions and voluntary contributions in dollars whereas its expenditures are in euros, Swiss francs and in dollars. Consequently, fluctuations between these three currencies directly impact the availability of actual resources for the functioning of the Secretariat and for provision of services.

II. Report

7. The following report contains an analysis, including findings and recommendations, pertaining to the study of appropriate foreign exchange management for the Rotterdam Convention.
8. A full set of historic foreign exchange rates for EUR/USD and EUR/CHF for 2005 was taken into consideration.
9. The analysis and findings are based on financial information provided by the FAO/UNEP Joint Secretariat to the Rotterdam Convention, and the analytical work was carried out by the Finance Division of FAO. The financial data for the analysis are based on the operational budget of the Rotterdam Convention for 2005 (in dollars) and on the contributions to the voluntary Trust Fund, and the scale of contributions to the Trust Fund for the Implementation of the Rotterdam Convention for the year 2005 as approved by the Conference of the Parties at its first meeting in decision RC-1/17. In view

¹ Decision RC-1/4, annex. Reproduced in appendix II to the annex to the present note.

of the very similar income and expenditure patterns in 2005 and 2006, the detailed analysis has been carried out for 2005 only.

A. Analysis of currency exposure

1. Scenario 1: Natural currency exposure

10. Table 1 below shows the natural currency exposure based on the difference between the income and expenditures in each currency for 2005. A positive figure for total natural exposure implies a long position (a need to sell a certain currency) and a negative figure a need to purchase a certain amount of that currency. This scenario reflects the case where the income would be kept in the currency received (either euros, dollars or Swiss francs), and the expenditure is reported in the currency in which the payments are made.

Table 1. Natural currency exposure

Natural currency exposure	EUR	USD	CHF
Income 2005	1,309,720.00	1,863,087.00	303,600.00
Expenditure 2005	938,714.00	1,419,247.00	1,485,045.00
Total natural exposure	371,006.00	443,840.00	-1,181,445.00

11. It should be noted that the largest currency exposure is in Swiss francs (CHF) of which approximately 50 per cent are versus the dollar (USD) and the euro (EUR). Under the natural exposure scenario, the Secretariat would have to sell dollars and euros in order to buy Swiss francs to cover the expenses which are incurred in Swiss francs.

12. Given the close link between the Swiss and the European economies, a close correlation between the euro and the Swiss franc has been observed over the last few years. A EUR/CHF exposure is therefore less risky than a USD/CHF or EUR/USD position.

13. The relationships between the dollar, the Swiss franc and the euro using the United Nations official monthly exchange rates for the period May 2001–May 2006 are shown in tables 1 and 2 of appendix I below.

2. Scenario 2: Real currency exposure

14. The financial resources available to the Secretariat of the Rotterdam Convention are managed by the Food and Agriculture Organization of the United Nations (FAO) and the United Nations Environment Programme (UNEP) as two trust fund projects, one for assessed contributions and one for voluntary contributions. As per present standard procedures at FAO and UNEP, trust fund projects are managed only in dollars. All income is therefore converted into dollars at receipt and expenditures made in any currency of the country of payment are accounted for in dollars at the time the expenditure is made.

15. Given the above administrative and financial procedures, the real currency exposure of the Rotterdam Convention changes considerably. The real exposure is shown in table 2 below. All income in any currency has been converted at the official United Nations rate of February 2005 into dollars.

Table 2: Real currency exposure

Real exposure	EUR	USD	CHF
Income 2005	-	3,832,179.18	-
Expenditure 2005	938,714.00	1,419,247.00	1,485,045.00
Real currency exposure	938,714.00	2,412,932.18	-1,485,045.00

16. Applying the current administrative and financial procedures at FAO and UNEP to manage all transactions in dollars, it can be seen that the real currency exposure increases sharply compared to the natural currency exposure of the initial project.

B. Summary risk profile

17. Based on the above analysis, a summary risk profile has been established, using the following scenarios (A and B) :

18. Scenario A: Using three currencies (EUR, USD and CHF) for the accounts and budget. On receipt of the contributions (February 2005), the currency exposure is fully hedged and eliminated. The full amount of euros and Swiss francs necessary to cover the expenditures in the currency in which they occur are converted at the beginning of the financial year. Expenditures are then charged against the relevant currency of expenditure (EUR, USD or CHF). This requires three separate accounts in the relevant currencies, together with a financial system that operates in multiple currencies, and a financial report and budget in three currencies.

19. Scenario B: Using one currency (USD) for the accounts and budget. No hedging transactions are made during the complete financial year. Expenditures in euros or Swiss francs in the amount actually required are converted on a monthly basis at official United Nations rates.

20. Before examining the relative advantages and disadvantages of the two approaches it is important to determine how much foreign exchange risk arises from the income and expenditure activity.

Summary risk profile

Scenario A: Purchase of currency

EUR	at Feb. 2005 rate	938,714	-1,226,899.20
CHF	at Feb. 2005 rate	1,485,045	-1,258,512.71
Total cost			-2,485,411.91

Shortfall versus initially planned income

-72,479.73

Scenario B: Purchase of currency

EUR	monthly average amount and rate		-1,177,652.00
CHF	monthly average amount and rate		-1,203,592.00
Total cost			-2,381,244.00

Gain/difference versus hedging in February

104,167.91

Gain/difference versus initial planned income

31,688.18

III. Findings

21. Based on the income and expenditure data for the year 2005, the risk associated with the transactions was approximated. It turned out that in the absence of any hedging transactions (scenario B) the actually available financial resources of the Rotterdam Convention increased by about \$100,000. While interesting, the historical gains or losses of financial resources are of only limited use, in particular because they do not enable one to predict the risk of currency fluctuations in future years. From tables 1 and 2 in appendix I below it is evident that foreign exchange rate movements (over 10 per cent in any given year) can strongly affect the viability of the budgeted resources of the Rotterdam Convention.

22. Best practice would suggest that the currency exposure should be hedged or covered as early as possible; in the case of budgeted activity, that means usually at the time the budget is established. Doing so ensures that the programme of work and budget of the Rotterdam Convention can be completed under all possible currency rate scenarios, without having to rely on stable exchange rates between the euro, the Swiss franc and the dollar.

IV. Issues for consideration by the Conference of the Parties

23. The Conference of the Parties is invited to consider the possible options identified below, and, as appropriate, adopt a decision on the currency or currencies to be used, taking into consideration the possible implications for the financial rules.

24. The Conference of the Parties may wish to consider the following options outlined by the Secretariat.

A. Retain the status quo: the Rotterdam Convention fully bears the currency risk from its operations

Points to consider:

25. In view of the relatively small size of operations and currency transactions, the estimated maximum risk, the maximum loss in a given year, should not exceed \$100,000–\$150,000. Over an extended period losses could be offset by gains.

B. Retain the status quo and establish a contingency fund within the general budget

26. The single and only usage of that fund would be to bear any negative budget impact attributable to currency fluctuations. In the case of gains arising out of currency movements, those gains would remain in or replenish the contingency fund for possible future losses.

Points to consider:

27. The main advantage and aim of creating such a fund would be to secure the immediate availability of resources in currency risk situations. The suggested initial size of such a fund would be \$200,000.

C. Opening of separate bank accounts in the three currencies used by the Rotterdam Convention (USD/CHF/EUR) with a micromanagement project based on the currency exposure, including possible hedging of currency exposure

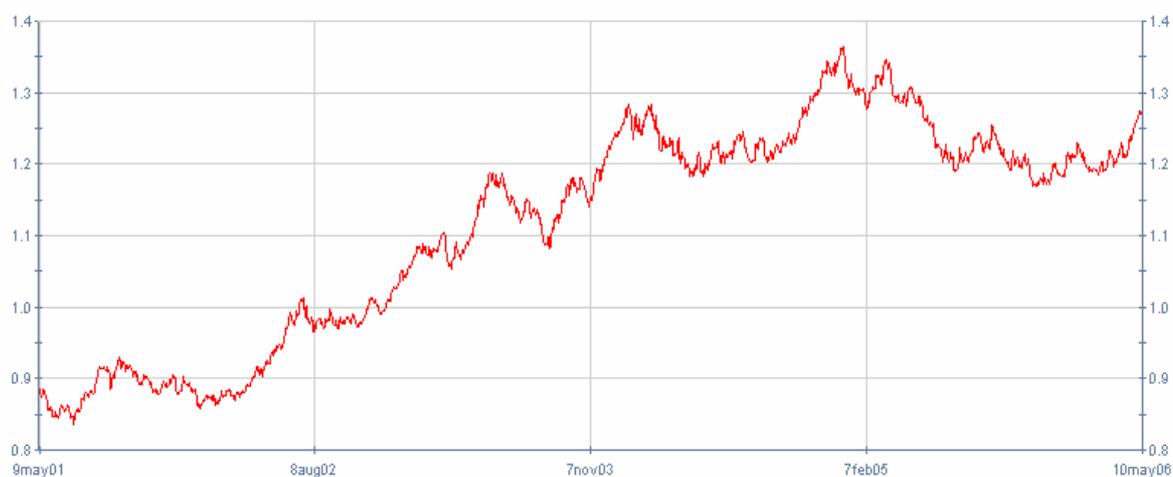
Points to consider :

28. It should be noted that the transaction cost of hedging the existing currency exposure might be relatively high given the small size of operations. Additional administrative costs might well offset the benefit of such an approach. FAO and UNEP under current policies and procedures are not in a position to allow multicurrency management of projects as major investment would be needed to upgrade and improve current systems, policies and procedures.

Appendix I. Euro, Swiss franc and dollar currency movements May 2001–May 2006

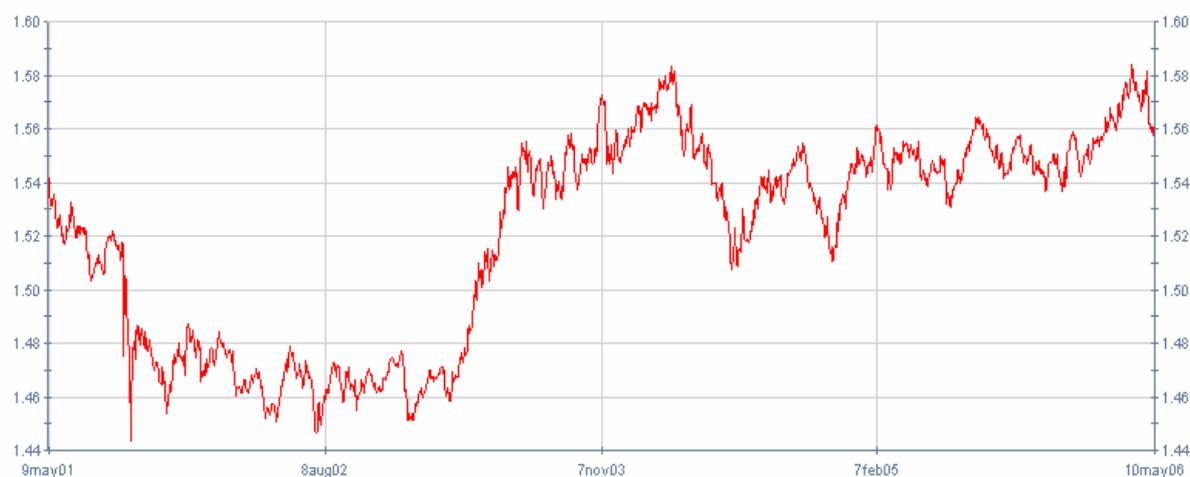
29. Table 1 below shows the currency movements of the euro against the dollar since May 2001.

Table 1. EUR/USD over the five years May 2001–May 2006



30. Table 2 shows the currency movements of the euro against the Swiss franc since May 2001.

Table 2. EUR/CHF over the five years May 2001–May 2006



Appendix II. Decision RC-1/4: Financial rules for the Conference of the Parties, its subsidiary bodies and the Convention secretariat

The Conference of the Parties,

Recalling paragraph 4 of article 18 of the Rotterdam Convention,

Adopts the financial rules set out in the annex to the present decision for its operation and that of any subsidiary bodies.

Annex

Financial rules

A. Scope

1. The present rules shall govern the financial administration of the Conference of the Parties to the Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade, its subsidiary bodies and the Convention secretariat. In respect of matters not specifically provided for by the present rules, the Financial Regulations and Rules of the United Nations shall apply.

B. Financial period

2. The financial period shall be a biennium consisting of two consecutive calendar years.

C. Budget

3. The head(s) of the Convention secretariat shall prepare the budget proposal for the following biennium in US dollars and showing projected income and expenditures for each year of the biennium concerned as well as show the actual income and expenditures for each year of the previous biennia. This information shall be dispatched to all Parties to the Convention at least 90 days before the opening of the meeting of the Conference of the Parties at which the budget is to be adopted.

4. The Conference of the Parties shall consider the budget proposal and adopt an operational budget by consensus authorizing expenditures, other than those referred to in paragraphs 9 and 10, prior to the commencement of the financial period that it covers.

5. Adoption of the operational budget by the Conference of the Parties shall constitute authority to the head(s) of the Convention secretariat to incur obligations and make payments for the purposes for which the appropriations were approved and up to the amounts so approved, provided always that, unless specifically authorized by the Conference of the Parties, commitments are covered by related income.

6. The head(s) of the Convention secretariat may make transfers within each of the main appropriation lines of the approved operational budget. The head(s) of the Convention secretariat may also make transfers between such appropriation lines up to limits that the Conference of the Parties may set as appropriate.

D. Funds

7. A general trust fund for the Convention shall be established. It shall be managed by the head(s) of the Convention secretariat. The fund is to provide financial support to the work of the Convention secretariat. Contributions made pursuant to paragraph 12 (a) shall be credited to this fund. Contributions made to offset operational budget expenditures that are made, pursuant to paragraph 12 (b) by the Government hosting the Convention secretariat or pursuant to paragraph 12 (c) by the United Nations Environment Programme and the Food and Agriculture Organization of the United Nations, shall also be credited to this fund. All budget expenditures that are made pursuant to paragraph 5 above shall be charged to the General Trust Fund.

8. Within the General Trust Fund there shall be maintained a working capital reserve at a level to be determined from time to time by the Conference of the Parties by consensus. The purpose of the working capital reserve shall be to ensure continuity of operations in the event of a temporary shortfall of cash. Drawdowns from the working capital reserve shall be restored from contributions as soon as possible.

9. A special trust fund shall be established. It shall be managed by the head(s) of the Convention secretariat. This fund shall receive contributions pursuant to paragraphs 12 (b) and (c) that have been earmarked to support, in particular:

- (a) Facilitation and promotion of technical assistance, training and capacity-building in accordance with article 16;
- (b) Appropriate participation of representatives of developing country Parties, in particular Least Developed country Parties amongst them, and of Parties with economies in transition in the meetings of the Conference of the Parties and its subsidiary bodies;
- (c) Other appropriate purposes consistent with the objectives of the Convention.

10. Other trust funds earmarked in accordance with paragraph 15 for purposes other than those referred to in paragraph 9 may be set up provided that their purposes are consistent with the objectives of the Convention and that the Conference of the Parties has approved their establishment.

11. In the event that the Conference of the Parties decides to terminate a Trust Fund established pursuant to the present rules, it shall so advise the Trustee of the Fund (“the Trustee”) at least six months before the date of termination so decided. The Conference of the Parties shall decide, in consultation with the Trustee, on the distribution of any uncommitted balances after all liquidation expenses have been met.

E. Contributions

12. The resources of the Conference of the Parties shall comprise:

- (a) Contributions made each year by parties on the basis of an indicative scale adopted by consensus by the Conference of the Parties, and based on such a scale of assessments of the United Nations as may be adopted from time to time by the General Assembly, adjusted so as to ensure that no party contributes less than 0.01 per cent of the total, that no one contribution exceeds 22 per cent of the total and that no contribution from a least developed country party exceeds 0.01 per cent of the total;
- (b) Contributions made by parties in addition to those made pursuant to paragraph (a), including those made by the Government(s) hosting the Convention secretariat;
- (c) Contributions from States not parties to the Convention, as well as governmental, intergovernmental and non-governmental organizations, and other sources;
- (d) The uncommitted balance of appropriations from previous financial periods;
- (e) Miscellaneous income.

13. The Conference of the Parties shall, in adopting the indicative scale of contributions referred to in paragraph 12 (a), make adjustments to take account of contributions of parties which are not members of the United Nations, as well as those regional economic integration organizations that are parties.

14. In respect of contributions made pursuant to paragraph 12 (a):

- (a) Contributions for each calendar year are expected on 1 January of that year;
- (b) Each party shall, as far in advance as possible of the date expected for the contribution, inform the head(s) of the Convention secretariat of the contribution it intends to make and of the projected timing of that contribution.

15. Contributions made pursuant to paragraph 12 (b) and (c) shall be used in accordance with such terms and conditions, consistent with the objectives of the Convention and the Financial Regulations and Rules of the United Nations, as may be agreed between the head(s) of the Convention secretariat and the contributor.

16. Contributions made pursuant to paragraph 12 (a) from States and regional economic integration organizations that become parties to the Convention after the beginning of a financial period shall be made pro rata temporis for the balance of that financial period. Consequential adjustments shall be made at the end of each financial period for other parties, unless the Conference of the Parties decides otherwise.

17. All contributions shall be paid in United States dollars or the equivalent in a convertible currency into a bank account to be designated the Trustee, in consultation with the head(s) of the Convention secretariat.

18. The head(s) of the Convention secretariat shall acknowledge promptly the receipt of all pledges and contributions and shall inform the Parties, twice a year, of the status of pledges and payments of contributions.

19. Contributions not immediately required shall be invested at the discretion of the Trustee, in consultation with the head(s) of the Convention secretariat. The resulting income shall be credited to the relevant fund or funds referred to in paragraphs 7, 9 and 10.

F. Accounts and audit

20. The accounts and financial management of all funds governed by the present rules shall be subject to the internal and external audit process of the United Nations.

21. An interim statement of accounts for the first year of the financial period shall be provided to the Conference of the Parties during the second year of the period, and a final audited statement of accounts for the full financial period shall be provided to the Conference of the Parties as soon as possible after the accounts for the financial period are closed.

G. Administrative support costs

22. The Conference of the Parties shall reimburse the Trustee for the services provided to the Conference of the Parties, its subsidiary bodies and the Convention secretariat from the funds referred to in paragraphs 7, 9 and 10 under such terms as may from time to time be agreed upon between the United Nations Environment Programme and the Food and Agriculture Organization of the United Nations, and approved by the Conference of the Parties in accordance with article 19, paragraph 3, of the Convention or, in the absence of such agreement, in accordance with the general policy of the United Nations.

H. Amendments

23. Any amendment to the present rules shall be adopted by the Conference of the Parties by consensus.
