

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/2799

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## REPORT BY THE CHAIRMAN OF THE COMMITTEE ON BUDGET, FINANCE AND ADMINISTRATION

1. As decided by the CONTRACTING PARTIES (documents L/2694, paragraphs 25 and 26, C/M/37, paragraph 7 and L/2728) the Committee on Budget, Finance and Administration met on 10 May 1967 at the Palais des Nations to consider the following questions:

- (a) the inclusion in future budgets of an item for unforeseen expenditure;
- (b) the level of the Working Capital Fund, the Resolution governing the use of this Fund and the procedures for reimbursement.

2. The Committee had before it a comprehensive analysis of the subjects prepared by the secretariat (document L/2752) together with information concerning the liquidity position over the last four years and a prognostication for 1968 (document INT(67)58).

3. At the opening of the meeting one member, later joined by some others, suggested that in considering GATT's liquidity problems of the past few years the CONTRACTING PARTIES should not forget that these had resulted at least in part from the fact that the Working Capital Fund had been charged with supplementary expenditure caused by ad hoc decisions taken by the CONTRACTING PARTIES after the budgets had been approved to such an extent that its effectiveness in fulfilling its main function of covering shortfalls of contributions had been endangered. The Committee agreed that measures should be taken to avoid such excessive drawings in the future (see paragraph 7(d) below). It was also suggested that the CONTRACTING PARTIES should arrange their programme planning in such a way as to avoid the need for post hoc decisions tending to raise expenditure after budgets had been approved.

### Budget item for unforeseen expenditure

4. As regards the budget item for unforeseen expenditure the Committee unanimously decided to recommend that the Director-General's proposal to include in future budgets a credit of \$50,000 for unforeseen expenditure be accepted. The credit would primarily serve to defray extra costs formerly charged to the Working Capital Fund under 5(b) of the Resolution governing the use of this Fund. The credit would not be available for extraordinary expenditure so far charged to the Working Capital Fund under 5(c) of the Resolution, i.e. new activities, except in rare cases where the amounts were small. Whenever possible no direct charge would be made to the item and transfers from it would be made to the budget items under which the unforeseen expenditure had arisen. In all cases transfers from the item for unforeseen expenditure, or direct charges to it would be subject to approval by the CONTRACTING PARTIES or the Council.

5. While by its very nature it is difficult to describe exactly to what use the item would be put the Committee noted that such occurrences as special meetings, special studies, unforeseen missions, unforeseen price and wage increases, breakdown and/or damage of equipment, and other contingencies of this kind could be financed from the item.

#### Working Capital Fund

6. Most members agreed that on the basis of experience in the more recent past a compelling case had been made for an increase in the level of the Working Capital Fund. They were convinced that a serious problem existed and that, if this problem was not solved in one way or another, GATT might well face liquidity difficulties in the future comparable to those which had complicated its financial management in the recent past.

7. In order to improve the overall liquidity position the following possibilities were discussed:

- (a) an increase in the principal of the Working Capital Fund either immediately or later. In order to achieve such an increase three possible alternatives were put forward:
  - (i) immediate increase by way of assessment of further advances on contracting parties;
  - (ii) phased increase by way of assessment of further advances on contracting parties or transfer from savings, e.g. 1 per cent each year, subject to approval every year by the CONTRACTING PARTIES, until a level had been reached which could be regarded as an acceptable upper limit (say 16 or 17 per cent of the budget as compared with roughly 12 per cent at present);
  - (iii) increase by transferring savings on the item for unforeseen expenditure, or year-end surpluses, in accordance with paragraph 26 of L/2752;
- (b) revision of the guidance so far given to the secretariat to realize long-term investments in both General Fund and Working Capital Fund only without loss. It was noted that the book value of these investments in the General Fund now approximates \$36,500 and those in the Working Capital Fund \$90,800; whereas their present market value is estimated at being in the vicinity of \$32,000 and \$81,000 respectively. Hence to the extent these investments were liquidated GATT's liquidity position would be improved but the CONTRACTING PARTIES would be assessed to the extent of the discrepancy between book and market value;

- (c) withdrawals from the Working Capital Fund made during the first six months of the year to be included in the next year's budget instead of the next year's but one;
- (d) amendment of the Resolution governing the use of the Working Capital Fund in order to achieve a more restricted use of the Working Capital Fund particularly in regard to withdrawals made under 5(c) of this Resolution.

8. After lengthy discussion of the possibilities mentioned above the Committee decided to defer its final recommendations to the CONTRACTING PARTIES on the Working Capital Fund until its autumn session. Meanwhile the secretariat would prepare a further paper for the consideration of the Committee in October on a revision of the 1956 Resolution governing the use of the Working Capital Fund bearing in mind the recommendations made by the Ad Hoc Committee of Experts to Examine the Finances of the United Nations and the Specialized Agencies.

9. As it was generally agreed that a liquidity problem existed, the hope was expressed that members would come to the next meeting fully prepared and with instructions to deal with the question in order to formulate timely recommendations to the CONTRACTING PARTIES at the next session.