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SUMMARY RECORD OF THE FOURTH MEETING

held at IMO Headquarters, 4 Albert Embankment, London SE1 7SR
on Tuesday, 30 June 2009 at 2.30 p.m.

Chairman:	Mr. J. FRANSON (Sweden)
Vice-Chairman:	Mr. D. NTULI (South Africa)
Secretary-General:	Mr. E. E. MITROPOULOS

A list of participants is given in document C 102/INF.1.

N.B. Corrections to the summary record should be submitted in writing, preferably on a copy of the summary record, to the Conference Division, IMO Secretariat, 4 Albert Embankment, London SE1 7SR not later than 11 December 2009.

Corrections to all summary records of the session will be issued in a consolidated corrigendum.

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AGENDA ITEM 6 – VOLUNTARY IMO MEMBER STATE AUDIT SCHEME (C 102/6, C 102/6/1, C 102/6/2, C 102/6/3) (continued)

Mr. ABUMELHAH (Saudi Arabia) said that, with assistance from the Arab Academy for Science, Technology and Maritime Transport, based in Alexandria (Egypt), his country had trained a number of experts to help it comply with the audit scheme's requirements. Saudi Arabia did not consider that the scheme should be made mandatory without a thorough examination of the resource implications.

Mr. SUPRIYONO (Indonesia) thanked the Organization for the assistance which had enabled six Indonesian officials to receive training relating to the audit scheme. His government was currently conducting a major legal and administrative reorganization of its maritime sector, including new harbour master and port authority bodies, following the adoption of Shipping Law No.17 in May 2008. Together with the relevant Australian authorities, his country was drafting new guidance on safety standards for non-convention vessels, which was expected to come into effect at the end of 2009.

Mr. BILLIAR (Ukraine, observer) thanked the Secretariat and the delegations of the Netherlands and Denmark for the documentation under review, which provided not only sound analysis and proposals but also useful advice for countries which were considering audit. He welcomed in particular the offer made by the Netherlands, in paragraph 23, to provide technical assistance to Member States that volunteered for an IMO audit, adding that Ukraine also appreciated the point raised by Denmark in document C 102/6/3 concerning possible translation costs during audits. Finally, he thanked the Russian Federation delegation for its help provided in the margins of the current meeting, and Italy for its potentially very useful offer to all Member States to host training at its IMSSEA facility.

Mr. BRUCE (Marshall Islands, observer) recalled that his country had been one of the first to undergo audit and had always supported the scheme. Looking ahead, he said that although the Marshall Islands still favoured eventual introduction of a mandatory IMO scheme, it shared the concerns of other countries about the scheme's future financing. In principle, the Marshall Islands favoured the gradual phase-in of a mandatory scheme and thus considered that it was too early to make a specific commitment. He heartily supported the offer by Italy to use the facilities of IMSSEA as a permanent auditor training centre for the IMO audit scheme.

Mr. PARENTÉ (Vanuatu, observer) said that, notwithstanding the Secretary-General's observation in document C 102/6/1 concerning the decline in the number of Member States offering themselves for audit, Vanuatu was very encouraged to note that one third of the SOLAS Contracting Governments, representing 85 per cent of global tonnage, had so far volunteered for IMO audit. However, making the audit mandatory would not necessarily help the remaining SOLAS Contracting Governments to come forward. For various reasons, including the potential costs, they, and the small island developing States in particular, needed to be given more time to consider. Vanuatu therefore could not support institutionalization of the audit scheme for the time being.

Mr. FINLEY (Cook Islands, observer) said that the audit scheme had been extraordinarily successful in attracting the participation of countries representing such a great proportion of world tonnage: counting India and Malta which were awaiting audit, the total was 92 per cent. The tonnage component was a standard measure of participation in all the important maritime treaties as a prerequisite to entry into force, and tonnage was the basis on which IMO contributions were calculated. He was therefore surprised that some delegations had sought to play down the significance of its use as a key indicator of the audit scheme's achievement. The Cook Islands would undergo IMO audit when it was ready, regardless whether the scheme was mandatory or voluntary. The first step to achieving that readiness would be to attain full ISO accreditation, followed by a "dummy run" and then perhaps also appraisal by a non-IMO auditor. That might then be followed by a phase involving assistance of the kind offered by the Netherlands. It was hoped that the whole process could be completed within the next biennium. Successfully undergoing IMO audit was a key consideration in the context of the Cook Islands' aspirations of achieving involvement in the Organization's affairs at the highest level.

Mr. ALI (Kenya) shared the concerns expressed by the Bahamas, China, Egypt, India and others concerning the financial implications of a mandatory scheme. The most important consideration in undergoing audit was the preparatory phase. This was where IMO could be most helpful in providing assistance.

Mr. HARO (Ecuador, observer) said his country would be undergoing IMO audit in October 2009. Whether the audit was voluntary or institutionalized as mandatory later, the key factor was effective technical cooperation with IMO leading to detailed proposals for correcting shortcomings in a country's institutions and making the seas safer.

The SECRETARY-GENERAL drew attention to paragraph 35 of document C 102/6/1, which set out his position, namely that the safety and environmental benefits that would accrue in moving from a voluntary to a mandatory scheme far outweighed the resulting financial burdens. Recalling the history of the IMO audit scheme, he said that its origins lay in a recommendation emanating from a conference held by the Japanese Government in 2002 which had encouraged IMO to develop an audit scheme in association with its work to enhance maritime safety, security and environmental protection. Following consideration of that recommendation by the Council and joint work by the MSC and the MEPC, the twenty-third session of the IMO Assembly had adopted resolution A.946(23) entitled "Voluntary IMO Member State Audit Scheme". The first operative paragraph of that resolution referred to "development of a Voluntary IMO Member State Audit Scheme in such a manner as not to exclude the possibility in the future of it becoming mandatory". The scheme was thus already six years old. As he had often observed, it was not intended to expose weaknesses among Members, but rather as an opportunity for cooperation among them.

Turning to the comments just made by representatives, he said that the audit scheme covered flag, coastal and port States, and that the ships of those States that bore the greater part of the scheme's costs stood to benefit from the higher standards achieved through the scheme's implementation in coastal and port scenarios. It would not impress the global community to know that financial considerations prevented implementation of enhanced standards of safety, security and environmental protection in such port and coastal areas.

In response to the representative of Nigeria, he said that the Secretariat had estimated the annual cost of mandatory implementation to be £838,000. While he agreed with certain speakers that it would not be appropriate to have a staff member actively involved in the auditing process, he himself would insist that a staff member participated as observer. He drew attention to paragraph 19 of document C 102/6/1, which proposed the option of having audit professionals seconded by Member States either as part of or as complement to the core resource requirement. That would certainly be an acceptable means of reducing costs.

With regard to concerns expressed about the impact of the current financial crisis, he said it was hardly appropriate to evoke current problems when his proposed time frame for implementation of an institutionalized scheme was so extended, involving a number of milestones and preparatory work up to 2014. In reply to the United Kingdom's question about the timing of financial decision-making for institutionalization, he suggested that the financial aspects should continue to be examined in parallel with the five-year timetable proposed on page 9 of the document under review, pointing out that the decisions would be made only towards the end of that process.

He disagreed with the comment by the representative of South Africa that the scheme was gaining momentum. In fact, as the table on page 2 of the same document showed, interest was declining. It was precisely their concern at that decline which had prompted Members, during the previous Council session, to ask him to prepare the analysis contained in document C 102/6/1.

Regarding comments on the need to train more auditors, he pointed out that three regional courses had been held already in 2009. Moreover, the Secretariat had proposed that the ITCP for the coming biennium should contain an allocation for a global programme to support effective and wide implementation of the audit scheme.

Turning to the comments suggesting that countries should be asked to state what had prevented them from volunteering for or participating in the IMO audit process, he recalled that, in response to a request by Council Members, a questionnaire to that effect had been distributed by means of Circular letter No.2920. Only 12 Member States had replied.

Mr. CHRYSOSTOMOU (Cyprus), referring to table 3 in document C 102/6/1 containing a suggested timetable for an institutionalized audit scheme, said that the Council would risk coming into conflict with the IMO Convention if it approved the action whereby the MSC and the MEPC should "instruct FSI to consider ways of making the Code and auditing mandatory, including provision for auditing". The words "instruct FSI to consider" should thus be deleted, and the matter of how and by whom the action was to be done should be left to those two committees to decide for themselves. Finally, he noted that it might not be possible under a future mandatory scheme for States like Cyprus to continue paying the salary of its auditor, as was done currently in a cost-sharing arrangement with the audited Member State.

Mr. KLUYEV (Russian Federation) objected to the addition of the words "in principle" to paragraph 36.3 of document C 102/6/1, as it did not accurately reflect the discussions or the summing up. He said that table 3 required further work to take into account the Council's discussions, which should also be mentioned in paragraph 36.3.

The CHAIRMAN said that the addition of "in principle" to paragraph 36.3 and the request to the Secretary-General to present a time frame in the draft Assembly resolution in paragraph 36.4 would ensure that the Council's discussions would be taken into account during drafting. Turning to the question raised by Cyprus, he confirmed that it had always been an accepted principle that conventions came within the parenthood of the committees. If Cyprus' comments regarding the Sub-Committee on Flag State Implementation (FSI) were to be taken into account by the Secretary-General and the Secretariat for future work, would Cyprus be happy to accept the wording in 36.3?

Mr. CHRYSOSTOMOU (Cyprus) asked for clarification on whether the wording meant that the Secretary-General would present the final draft at the Council's extraordinary session and would include instructions for the FSI. He was reluctant to see any table prescribing how committees should deal with their own conventions.

The CHAIRMAN clarified that the words "in principle" meant that there was a time frame but not a recipe for how it would be done.

Mr. NTULI (South Africa) agreed with the chairman's summing up and said that Council Members should feel comforted that the MSC had at least adopted a procedure for finance and capacity-building.

The CHAIRMAN invited the Council to note the information provided in documents C 102/6 and C 102/6/1, as well as that provided orally by the Secretary-General and the delegations of the Netherlands (in document C 102/6/2) and Denmark (in document C 102/6/3).

With regard to document C 102/6, reporting on progress made in the implementation of the scheme, he invited the Council to encourage Member States that had not yet volunteered for audits to do so as and when they were ready and as early as possible; to invite Member States to nominate auditors to enable the Secretary-General to select audit teams from among them to conduct the audit of volunteering Member States; and to invite Member States to nominate qualified auditors to participate in the regional training courses convened by the Organization, in order to ensure uniform training for the effective implementation of the scheme.

He invited the Council to note the ongoing training of auditors, through the ITCP, on the audit scheme; the progress made in the conduct of audits and the anticipated delivery of audits scheduled for the rest of the year; the issue by the Secretariat of audit summary reports; and that the next consolidated audit summary report would be issued as a document to the twenty-sixth regular session of the Assembly; and the assistance provided to date under the ITCP to assist in the conduct of audits and the participation of observer auditors.

Finally, he invited the Council to encourage Member States requiring assistance to participate in the audit scheme, to seek it within the framework of the ITCP, as applicable, and to note documents C 102/6/2 and C 102/6/3, introduced, respectively, by the Netherlands and Denmark, providing information on the experiences of those two States with regard to the audit scheme.

With regard to document C 102/6/1, containing the Secretary-General's analysis, as requested by the 101st session of the Council, for the further development of the audit scheme, he invited the Council to agree to a phased-in introduction of the Organization's audit scheme through institutionalization; to consent, in principle, that such an institutionalization should proceed through the introduction of appropriate requirements in the relevant mandatory IMO instruments; to approve, in principle, the time frame and schedule of activities outlined in table 3 of document C 102/6/1, as amended to delete references to the FSI Sub-Committee; to request the Secretary-General to prepare a draft Assembly resolution delineating the way forward, together with a proposed time frame and schedule for the further development of the scheme, for consideration and approval by the twenty-fifth extraordinary session of the Council, for submission to the twenty-sixth regular session of the Assembly for adoption; to welcome the Netherlands' offer of technical assistance through the sharing of its knowledge, expertise and experiences with Member States that have volunteered and those considering to volunteer for audit, as well as its offer of financial assistance to those Member States that, owing to plausible financial constraints, were currently not prepared to volunteer for audit; and to welcome the offers of assistance from Italy and Egypt regarding the use of training facilities, for the purposes of the scheme, which could be provided, respectively, by the International Maritime Safety, Security and Environment Academy (IMSSEA) in Genoa; and the Arab Academy for Science, Technology and Maritime Transport (AASTMT) in Cairo.

AGENDA ITEM 7 – TECHNICAL CO-OPERATION FUND – BIENNIAL ALLOCATION TO SUPPORT THE ITCP PROGRAMME FOR 2010-2011 (C 102/7)

The SECRETARY-GENERAL said that document C 102/7 referred the Council to related documents TC 59/5 and Corr.1, which contained proposals for the biennial allocation of funds from the Technical Co-operation Fund (TC Fund) to support the Integrated Technical Co-operation Programme (ITCP) for the 2010-2011 biennium. The Technical Co-operation Committee (TCC) had considered those proposals at its fifty-ninth session and its recommendations were reported in document C 102/12/Add.1. The proposals conformed to the rules of operation of the Fund, and addressed the regional and thematic priorities of the planning document for IMO's technical cooperation activities, the ITCP, which the TCC had also approved. The ITCP for 2010-2011 comprised seven regional and seven global programmes, at an estimated total value of $22.4 million, and the TCC had approved an allocation from the TC Fund of $14 million, which would cover 62 per cent of the total funding required for full ITCP implementation.

He recalled that the TC Fund derived its core income from the Printing Fund, in accordance with the provisions of resolution A.986(24). That enabled the financing of the ITCP for the forthcoming 2010-2011 biennium from available monies in the TC Fund. In accordance with the Assembly's decisions and his proposals on the TCC's work programme and budget for the next biennium, those monies amounted to a transfer of £7.16 million from the predicted surplus of the Printing Fund and from the anticipated Trading Fund that might be established by the Assembly at its twenty-sixth session.

He noted that the TC Fund, since its establishment in 1996, had provided approximately $47 million towards the implementation of the ITCP and its activities, for the benefit of maritime and port administrations in developing regions and the maritime community as a whole, which was a worthy achievement. The ever-increasing requests for capacity-building and assistance in the implementation of new IMO measures demonstrated the confidence the maritime sector placed on IMO, in particular the Organization's ability to provide technical cooperation assistance as required in order to support recipient countries to raise standards of compliance with international norms and regulations.

The fact that in 2005 a highest-ever volume of expenditure of £6.19 million had been reached was particularly relevant when considering the long-term sustainability of the ITCP. On the basis of a 100 per cent delivery of ITCP, the 2010-2011 forecasts estimated that reserves would decline to a projected £4.2 million by December 2011, which was primarily the result of the increasing reliance on the TC Fund as a pivotal mechanism for delivering the core activities of the ITCP. While donor funds might be ring-fenced for use against a specific discipline or region, the TC Fund was characterized by its ability to address the full range of activities targeted under the ITCP, without restriction, thus providing the necessary flexibility to meet emerging demands throughout the course of a biennium. Bearing in mind the significant decline in TC Fund reserves, from £6.8 million in December 2003 to £2.6 million in December 2005, the Secretariat had taken steps to secure economies in delivery costs through the use of regional partnerships and cost-sharing arrangements with donors, where feasible. Savings had also been made through in-kind support, such as provision of seminar facilities and of consultants on a no-fee basis. As a result, by December 2008 the TC Fund reserves had increased to a more robust £4.8 million.

In the last biennium the TC Fund had covered 59 per cent of ITCP requirements, and he invited the Council to approve a biennial allocation from the TC Fund of $14 million to support 62 per cent of the ITCP for the next biennium, in the hope that such a significant level of contribution from IMO would encourage donors and regional partners to place stronger emphasis on the maritime sector within their own development aid strategies, so as to enable the international community to meet the growing capacity-building demand from developing countries in order to enhance their compliance with international instruments and standards.

Document C 102/7 provided the rationale for the TC Fund allocation and was structured in three sections. Part 1 presented the financial cash-flow projections to the end of the 2010-2011 biennium, Part 2 summarized the programme allocation for 2010-2011 in accordance with the regional and global elements of the ITCP and Part 3 outlined the constituent programmes together with their related thematic priorities and objectives.

The breakdown by ITCP regional and global programmes was reflected in table 4, showing the proposed allocations as a percentage of the respective ITCP requirements. The higher volume of the total attributed to Africa was in direct correlation with the priority accorded to the region by the United Nations General Assembly, together with IMO's continuing recognition of Africa as a priority region, the latter having been reaffirmed through resolution A.986(24). That funding also covered the cost of the three IMO regional presence offices, which served east and southern Africa, west and central Africa (anglophone) and west and central Africa (francophone). It also supported the development of SAR infrastructure and the consolidation of MRCC/MRSC facilities. As the Council was aware, meeting the special needs of Africa was also one of the key objectives of the United Nations Millennium Declaration and the Millennium Development Goals.

In conclusion and taking into account the TCC's decisions at its last session, he recommended that the Council approve the proposal contained in document TC 59/5 for a biennial allocation of $14 million from the TC Fund to support 62 per cent of the ITCP for the next biennium. In accordance with the rules of operation of the TC Fund, he also sought the Council's authorization for the use of unprogrammed funds, so as to take advantage of partnership opportunities that might arise in the next biennium and also address any unprogrammed technical assistance needs.

He urged all stakeholders to assume their shared responsibility for ensuring the successful delivery of the ITCP by placing the maritime sector high in their national priority plans in order to increase the cash contributions and the supplementary in-kind support provided for the new programme for 2010-2011.

Mr. BELL (Bahamas) suggested that staff costs associated with technical cooperation should be included in the TC budget, in order to give greater transparency and allow a more complete view of the costs of technical cooperation. That would ensure that the TC Fund did not simply continue to increase every year but was used for the positive benefit of the Organization.

Mr. AZUH (Nigeria) thanked the Secretary-General for an excellent presentation and wholeheartedly supported the proposal to allocate $14 million from the TC Fund to cover 62 per cent of the funding requirement of ITCP. Turning to the suggestion of the Bahamas, he wondered why TCD staff should be singled out to be treated differently from their colleagues in the other divisions. It was his view that such a move would adversely affect the ITCP and capacity-building in developing countries. He emphasized that the Organization should not do anything that could affect the capacity of the developing countries.

Mr. ANASTASAKOS (Greece) commended the Secretary-General for his report and affirmed Greece's commitment to the objectives of the TC Fund. He informed the Council that Greece was finalizing the necessary internal consultation procedures to make a voluntary donation to the TC Fund from interest earnings under the contributions incentive scheme for the period 1998-2005, in accordance with resolution A.993(25).

Mr. FARIS (United States) asked whether the information provided in table 5 on the last page of document C 102/8, concerning the proposed budget for the TC Fund, was consistent with the action requested under the current agenda item, i.e. that the Council should take action as appropriate on the recommendations of TC 59. Did the estimated budget figure of £10 million correspond to the Trading Fund’s contribution to the $14 million allocation being discussed under agenda item 7? As to the suggestion of the Bahamas, he observed that the idea was similar to the proposed restructuring of the Trading Fund under international public sector accounting standards, where posts, expenses and revenue were being aligned within the Trading Fund as being separate and distinct from the other activities of the Organization. He requested that the Council be given an opportunity to consider whether that model might be applicable to the TC Fund in order to ascertain if the Bahamas’ suggestion had merit.

Mr. OLIMBO (Italy) expressed his support for the proposed allocation from the TC Fund. He concurred with the views expressed by Nigeria on the Bahamas’ suggestion and said that as part of the IMO system the TCD staff should not be treated differently, especially as such a move could adversely affect the ITCP.

Mr. de GRACIA (Panama) proposed that discussion of the Bahamas’ suggestion, which would have an impact on the budget, should be postponed until after discussion of item 8.

Mr. VASSALLO (Malta) congratulated Mr. Olimbo on assuming the chairmanship of the TCC. He expressed his full support for the TCC and highlighted the fact that many exemplary technical cooperation programmes were not always brought to the Council’s attention but deserved commendation, for example that between the United States Coastguard and Malta to organize search and rescue courses, which had benefited southern Mediterranean, Arab and African States.

Mr. NTULI (South Africa) joined previous speakers in giving his full support to the proposed allocation to support the ITCP and in commending the efforts of the TCC, the Secretariat and the Secretary-General towards enhancing technical cooperation.

Mr. AZUMA (Ghana, observer), adding his support for the proposed allocation, said that it would in particular help strengthen capacity-building efforts in the African subregion and in other developing countries. He made reference to Assembly resolution A.986(24) and, in particular, the instructions given to the Secretary-General by that resolution.

Mr. BRADY (Jamaica) also expressed his support for the proposed allocation and said that Council Members had to be creative and innovative to overcome funding problems. He shared the views of Nigeria and Italy that it was unwise to do anything that might impinge on funding allocations to the technical cooperation programme for developing countries.

Mr. LEGROUX (France) referred to the Bahamas’ suggestion that staff costs associated with technical cooperation should be included in the technical cooperation budget. He was sceptical about the idea as it was difficult to compare the TC Fund with the Printing Fund or Trading Fund, since the Printing Fund and the Trading Fund concerned activities of a commercial nature which were not key IMO activities per se. Technical cooperation, however, was a part of IMO’s mission, and was necessary to assist Member States to meet IMO’s standards. He was surprised at the Bahamas’ suggestion. He supported the appropriation of $14 million for the ITCP over the biennium as proposed by the Secretary-General.

Mr. MRUGALSKI (Chile) thanked the Technical Co-operation Division for efficient handling of resources which facilitated good progress in all areas of technical cooperation needed by Member States, including training and capacity-building. He was pleased to note that the funds allocated would enable Latin American countries to comply with all the activities initially planned by ROCRAM. He supported the allocation proposed by the Secretary-General, which would assist developing countries. With regard to the suggestion made by the representative of the Bahamas, he supported the views expressed by Nigeria and Jamaica, as he did not agree that TC funds should be used for other purposes.

Mr. ALI (Kenya) commended the Secretary-General and the Secretariat on a comprehensive presentation. He fully supported the allocation of $14 million from the TC Fund to facilitate the implementation of the priority elements of the approved ITCP. He expressed appreciation for the inclusion of the implementation of the Djibouti Code of Conduct in the proposed ITCP for 2010-2011, which would go a long way to ensuring the suppression of piracy and armed robbery against ships and to enhancing the safety of navigation in the Gulf of Aden and the western Indian Ocean areas.

Mr. ABUMELHAH (Saudi Arabia) commended the Secretary-General on the document under review. His country had benefited from the ITCP on many occasions and had also contributed to the TC Fund and he supported the Secretary-General's proposal.

The SECRETARY-GENERAL, replying to the question by the representative of the United States, confirmed that the estimate of £10 million shown in document C 102/8, annex 8, page 2, table 5 represented the Trading Fund's contribution to the $14 million allocation under agenda item 7, and corresponded to his proposal made to the TC Committee, which had been endorsed by that committee the previous week. The necessary appropriations had been made in the budget, which would be considered under agenda item 8. He referred to document C 102/8, page 34, paragraph 16.4, which read, "The requirement of £10 m for the next biennium is expected to be met by available funds totalling £14.1 m comprising: the 2009 year-end balance of the TCF forecast at £6.6 m; the allocation of the in-year surplus of the Printing/Trading Funds estimated at £7.1 m; and miscellaneous income of £0.4 m."

He noted that the representative of the United States had said that the Bahamas' suggestion should be given consideration and asked whether the proposal was that the staff in the Technical Co-operation Division should be financially supported by the TC Fund.

Mr. BELL (Bahamas) replied that the suggestion was not aimed at having the staff of TCD financially supported from the TC Fund, Rather, the intention was to try to achieve greater clarity regarding the cost of technical cooperation. He said that not all of the money for technical cooperation came from the TC Fund and some came from contributions, but it should be possible to see exactly how the money went out. A proportion of it went to the staff of the Technical Co-operation Division, and it would be helpful to make that clear. He was encouraged that some Members had found his suggestion interesting and hoped the matter would be given further consideration at a later stage.

The SECRETARY-GENERAL said that, in light of that clarification, he reserved the right to return to the issue at the appropriate time since, if the suggestion were to gain ground, he would have serious concerns about the implications for the staff.

Mr. OLIMBO (Italy), speaking in his capacity as chairman-elect of the Technical Co-operation Committee, said he shared the concerns expressed by the Secretary-General about the implications which the Bahamas' suggestion might have for the staff of the Technical Co-operation Division. Technical cooperation had been established many years previously in order to assist countries to build up their human and institutional capacities for uniform and effective compliance with the Organization's regulatory framework. That was the main goal, and IMO should stick with that goal.

The CHAIRMAN invited the Council to note the information set out in document C 102/7 and that provided orally by the Secretary-General. In particular, he invited the Council to endorse the proposals contained in document TC 59/5 and its corrigendum, taking into account the views and recommendations of TC 59; to approve the use of the TC Fund for the proposed activities under the ITCP for 2010-2011; and the biennial allocation of $14 million from the TC Fund for that purpose; and to authorize the Secretary-General to use the unprogrammed funds of the TC Fund, during the next biennium, should demands or partnership opportunities arise.

It was so decided.

AGENDA ITEM 8 – RESULTS-BASED BUDGET FOR THE TWENTY-SIXTH FINANCIAL PERIOD 2010-2011 (C 102/8 and Add.1, and C 102/8/1)

The SECRETARY-GENERAL, introducing document C 102/8 and its addendum, said that each new biennium presented new challenges and opportunities for IMO and that the 2010-2011 biennium was likely to present more challenges than most. The effects of the global economic slowdown on the demand for shipping, and the challenges of delivering a real reduction in greenhouse gas emissions from shipping operations, addressing ongoing issues such as safety, security, piracy and efficiency in maritime traffic, and continuing to provide credible technical cooperation services, would stretch the Organization's resources and resourcefulness to the extreme. Notwithstanding the prevailing difficult trading position for many economies and the industry, and the financial instability experienced worldwide since the second half of 2008, shipping continued to transport more than 90 per cent of world trade in the most economical way; it must therefore be regulated at the global level to ensure safe, secure and efficient shipping on clean oceans. IMO must keep abreast of technological, social and other developments to ensure that its regulations continued to meet the highest practicable standards.

He was introducing the Organization's first results-based budget against the background of the financial crises in the world economy. In addition to serving the principal aims of the Organization, the budget also took into account the global efforts aimed towards the attainment of the Millennium Development Goals and the ongoing United Nations system reform initiatives. In drafting the proposal, he had also had to take into account, as explained in paragraphs 4.1-4.10 of the document, five key issues: (1) the shift from a work programme-based budget to a results-based budget, which was a component part of results-based management; (2) the need to comply, as from 1 January 2010, with the International Public Sector Accounting Standards (IPSAS); (3) the establishment of a trading fund; (4) the development of a long-term strategy to reduce the costs of international meetings as a follow-up to the relevant recommendation of the Joint Inspection Unit; and (5) the movement towards a climate-neutral United Nations.

Changes in the Organization's overall costs were driven by external factors, such as movements in pay and price factors in the United Kingdom economy (the average earnings index and the retail price index), currency exchange rate fluctuations, and decisions made by the International Civil Service Commission and the United Nations General Assembly. Those changes were reflected in the assumptions made in the calculation of the 2010-2011 budget proposal, which were shown in table 1 of the document under review.

The approach to the first IMO results-based budget was explained in detail in annex 1 to the document. The Strategic Plan and strategic directions for the period 2008-2013 had included three broad strategic objectives and 13 key strategic directions to enable IMO to achieve its mission objectives. To provide a logical framework for the results-based budget, the approved strategic directions had been re-cast as strategic results, thereby identifying the Organization's target results, as shown in annex 1, appendix 1 of the document. The current High-level Action Plan, approved in resolution A.990(25) for the current biennium, revised as appropriate in the light of items completed in the current biennium or anticipated to be completed in the next, had been used as the basis for the 2010-2011 budget.

The results-based budget provided a direct link between input/resources and planned output/results. The related budget structure for the forthcoming biennium had therefore changed and was now based on strategic results rather than current programmes. The planned allocation of resources to each strategic result, as derived from the Strategic Plan, was summarized in table 2 and chart 2 of the document. As shown in the diagrams, almost 80 per cent of the resources were allocated to strategic results 1-5. The detailed allocation of resources, in reference to high-level actions, was presented in annex 2. The preliminary distribution of resources between strategic results and high-level actions might need to be adjusted following the Assembly's adoption of the High-level Action Plan for 2010-2011 at its forthcoming twenty-sixth regular session. In addition, the current planning cycle would need to be revisited by the Council to ensure that the draft High-level Action Plan provided the appropriate basis for the preparation of future budget proposals.

In order to provide additional clarity, the strategic results had been categorized into four broad strands of activity: Intergovernmental decision-making; Services to Member States; Organizational outreach and events; and Internal management and support. The resource distribution to the four categories was shown in table 3 and chart 3 of the document. The resources allocated to the provision of intergovernmental decision-making services represented half of the budget, as should be expected given the Organization's intergovernmental character and committee decision-making structure.

Table 4 and chart 4 presented the allocation of resources for each strategic result in terms of main cost group. Fixed staff costs alone accounted for nearly three-quarters (74%) of the total proposed budget, and the total personnel costs made up 80 per cent of the total budget when variable "Other personnel cost" items (such as overtime, temporary assistance, consultants and temporary interpreters and translators to meet peak demands) were included. The remaining 20 per cent was allocated to non-personnel items, which included official mission travel (1%) and other operating expenses (19%).

As in previous years, in developing the budget account had been taken of the need for efficiency, effectiveness and prudent financial management when assessing the various work demands, while recognizing the budgetary constraints faced by Member States and the need for restraint in assessment levels. Accordingly, he had taken into account some prospective process changes, restructuring and rationalizing operations and redeploying staff as far as practicable, to meet changing demands. Following the review of the challenges and new demands over the forthcoming biennium and subsequent years, he had proposed a budget increase of some £8.2 million (14.9%) compared with the current biennium, reflecting a two-tier assessment of the Organization's financial needs for 2010-2011: a baseline cost increase of 16 per cent (approximately £8.8 million) as a consequence of the external pay and price increases in the United Kingdom economy and knock-on effects of the United Nations common system remuneration adjustments; and a 1.1 per cent (£0.6 million) reduction in programme/volume changes resulting from the new challenges and initiatives facing the Organization that he had already outlined. Detailed analyses of the cost changes were set out in paragraphs 8.1-8.6, and overall year-on-year cost estimates were attached as annex 3.

The programme and volume changes in staff costs shown in table 5 were partly attributable to the biennialization effect of the new posts approved for the current biennium but budgeted for in 2009 only, and partly to the proposed establishment of the Trading Fund. Staff costs in the regular budget had been reduced by £0.8 million by repositioning all the posts associated with commercial activities under the Trading Fund. Table 5 also showed the unavoidable pay and price changes affecting staff costs, which were estimated at £7.2 million. More than 70 per cent (£5.2 million) was the result of the cost-of-living adjustments made by the International Civil Service Commission for the current biennium (£3.0 million) and the appreciation of the United States dollar (£2.2 million), as indicated in table 6. Those two knock-on effects alone accounted for a 9.6 per cent increase. The composition of the proposed budgetary increase was shown in simplified diagrammatic form in the executive summary.

Since the preparation of the budget proposals, the pound sterling had strengthened against the United States dollar. Document C 102/8/Add.1 provided information on the impact of the fluctuation in exchange rates on the levels of the budget and the assessment. For example, application of the United Nations operational exchange rate adopted for June 2009 – $1.5924 to the pound sterling – had resulted in a reduction in the proposed regular budget increase by 1.9 per cent to 13 per cent (from 14.9%) and in the assessment by 2.1 per cent to 19.9 per cent (from 22%). A stronger pound had resulted in lower budget and assessment increases over the previous biennium (while increasing the contribution of Member States that operated in United States dollars currency); a weaker pound led to larger budget and assessment increases (while reducing contributions in United States dollars).

The unavoidable increases resulting from the cost-of-living adjustments and the depreciation of the pound sterling represented a significant sum. In order to ease the burden to the extent possible, he had resolved either to reposition staff resources through adjusted responsibilities or to defer taking any action to meet new demands that required additional posts, for example in relation to matters arising from IMO instruments, the GESAMP office and climate change, and also to defer the introduction of an ombudsman, which had been recommended by the JIU in its review of the Organization. The resulting revision to the staff complement was provided in annex 4.

The increase in the estimated cost for official mission travel of £63,800, shown in table 5, mainly reflected the provision, set at approximately 10 per cent of the mission budget, necessary to purchase offsets under the move towards a climate-neutral United Nations.

In respect of other personnel costs, which were shown in table 7, some increases were unavoidable, such as in fees for external interpreters and translators. However, the provision of short-term assistance (which included overtime work, temporary assistance and consultancy) would be reduced to the minimum possible through the rigorous pursuit of efficiency gains by the Administration.

Operating provisions were described in paragraphs 8.11-8.15 and table 8. The programme/volume reduction of 1.7 per cent in headquarters accommodation was attributable to the transfer to the Trading Fund of the costs relating to commercial activities rather than their reimbursement to the regular budget and being accounted for as an income. The proposed budget increase under the heading of "Office consumables/services" mainly related to the SAP hosting and maintenance costs of £1.3 million for the next biennium – an increase that was largely offset by the reduction in the capital costs to be incurred under the Headquarters Capital Fund and by obviating the need for increased fixed staff costs. In relation to capital investment and long-term staff liability, he was proposing an allocation of £0.4 million for the Headquarters Capital Fund and approximately £1.2 million for the Termination Benefit Fund.

Section 9 of the document provided information on the costs of planned international meetings and possible measures to reduce overall costs in response to the JIU recommendation in that area. The resources allocated for “Intergovernmental decision-making” were estimated at £31.4 million on the basis of 41.4 meeting-weeks, representing an increase of three weeks compared with the 2008-2009 biennium. The proposed programme of meeting-weeks for the next biennium was detailed in annex 6 of the document. As the resources for “Intergovernmental decision-making” accounted for almost half of the estimated total regular budget, any initiatives taken to change or improve the current arrangements could lead to a significant budget reduction.

As shown in chart 5A, the total cost of providing the meeting programme comprised approximately £24 million in personnel costs and a further £7.4 million in other operating expenses. Table 10 and chart 5B showed that much of the total (44%, £14.1 million) related to the Organization’s five committees, followed by the subcommittees (27%, £8.5 million) and the governing bodies (18%, £5.5 million). Other meetings (such as various intersessional meetings, working groups, GESAMP (Electronic Highway System, Ballast water), the Model Audit Scheme, drafting groups, correspondence groups, etc.), which were not included in the proposed meeting-weeks, also had significant cost implications (6%, £1.9 million) because of the staff work-time and other logistical support needed, even though those meetings were held without interpretation and translation and used documentation in the original language only.

The areas in which the possibility of cost-saving measures might be explored were indicated in table 11 and chart 6, which showed the proportions of fixed costs (85%) and variable/marginal costs (15%). The fixed costs in personnel reflected the costs based on the approved staff complement; the variable personnel costs were related to personnel other than staff posts (such as interpreters, external translation, temporary assistance, consultancy and overtime). In the event that a decision was made not to proceed with a particular meeting, savings would be realized only in the variable costs. The costs of technical support accounted for 35 per cent (£11 million) of the total intergovernmental decision-making resource requirement; linguistic and logistical supports accounted for 65 per cent (£20.5 million). Unless a strategy was adopted to reduce the fixed costs, therefore, any reduction through short- and medium-term measures, including even a reduction in meeting weeks, would have only a limited effect. Setting a long-term target for a gradual reduction in the overall fixed-costs base in “Intergovernmental decision-making” to complement the short- and medium-term cost-reduction options for international meetings was being considered by the *Ad Hoc* Council Working Group on the Organization’s Strategic Plan.

As indicated in table 12, the overall increase in the assessment for the 2010-2011 biennium was estimated to be £10.97 million (22.0%, reduced to 19.9% following the recent US dollar/pound sterling exchange rate changes) higher than in the current biennium, representing year-on-year increases of 18.4 per cent for 2010 and 1.8 per cent for 2011. The level was dependent on the proposed expenditure level but was also affected by: the lapse factor related to staff turnover (as explained in paragraph 10.1 of the document), which was aimed at achieving efficiency savings; the extent of any offsetting income, including reimbursements; and the scope of optional transfers from available sources. The percentage increase in assessment above the proposed increase in expenditure (£8.17 million, 14.9%, since adjusted to 13%) was mainly due to the one-off effect of establishing the Trading Fund and the reduction in the nominal amount of interest income earned because of the current financial market. The diagram in the executive summary showed, in simplified form, a breakdown of the assessment increase.

The Organization’s main Funds also played an important part in delivering the Organization’s objectives. As explained to the Council at previous sessions, the proposed Trading Fund would support the commercial activities of the Organization and account for all associated revenue and expenses, including administrative backstopping costs, thereby revealing the true performance of the business operation and enhancing transparency in compliance with IPSAS. The proposed terms of reference for the Trading Fund were set out in an appendix to the draft Assembly resolution attached as annex 7. The Council was requested to approve the terms of reference and the related resolution for submission to the twenty-sixth regular session of the Assembly. The expenditure needed to undertake the revenue-generating activities in the 2010-2011 biennium under the Trading Fund was estimated at approximately £11.6 million, with revenue projected at £19.8 million. When compared with the equivalent components in the Printing Fund and the regular budget for the current biennium, the Trading Fund for the next biennium represented increases in expenditure of some £2.22 million, as indicated in table 13, and in revenue of £2.25 million (table 14). The former was due partly to pay/price changes (approximately £0.5 million), partly to programme/volume changes (approximately £1.7 million) resulting from the establishment of the Trading Fund and partly to the projected increase in sales. The budget changes arising from the introduction of the Trading Fund were shown in detail in paragraph 12.2.

The Trading Fund surplus to be presented in future in compliance with IPSAS would not be 100 per cent cash surplus, transferable in accordance with the distribution formula contained in resolution A.991(25) (namely, not less than 75 per cent to the Technical Co-operation Fund, 15 per cent to the Headquarters Capital Fund, 8.5 per cent to the Termination Benefit Fund and 1.5 per cent to the Training and Development Fund), as was the case under the current United Nations System Accounting Standards (UNSAS). Instead, under IPSAS the prospective surplus would vary significantly depending on the level of inventories added and consumed/expensed in the year. He was therefore proposing a cash approach as part of the terms of reference for the Trading Fund (paragraph 4 of the appendix to annex 7), to recognize the distributable in-year surplus of the Trading Fund and ensure that the major share continued to go to the Technical Co-operation Fund. Under the current policy of distributing 100 per cent in-year surplus, no reserve was left to offset the IPSAS-compliant liability for Trading Fund staff (in respect of accrued annual leave, repatriation benefits and ASHI costs, all of which were estimated at £1.5 million). To build up funds to meet this liability, he had therefore also proposed in the terms of reference that a revised distribution formula be established under the Trading Fund, which retained the 75 per cent allocation to the Technical Co-operation Fund. Of the remaining 25 per cent, 10 per cent would be distributed to the Headquarters Capital Fund (a reduction from the current 15%); 1.5 per cent would be distributed to the Training and Development Fund (no change); and the rest (13.5%) would be kept as reserves until sufficient funds were built up to cover the liability. The current distribution of 8.5 per cent of the in-year surplus to the Termination Benefit Fund would cease.

The overall resource requirements under the Headquarters Capital Fund were estimated to reduce by approximately £0.9 million (21.1%) to some £3.4 million compared with those in the current biennium, as indicated in table 18. The reduction was mainly due to the slightly smaller payment to the United Kingdom Government as the Organization’s share of the cost of the headquarters refurbishment (£1.6 million as opposed to £1.75 million), and to scaling down in IT/IS/SAP investment. The former represented almost half the expenditure estimate for the next biennium; the latter (£761,400) was based on the Organizational reform, introduced previously under agenda item 4. A total of £4.2 million was expected to be available: a forecast balance of the Headquarters Capital Fund of £2.5 million at the end of 2009; transfers from the regular budget line item of £0.4 million; allocation of the final in-year surplus of the Printing/Trading Funds of £1.2 million; and miscellaneous income of £0.1 million.

The total resource requirement under the Termination Benefit Fund was estimated to increase by £258,000 (17.6%) over the current biennium, as indicated in table 19, which reflected increases of £178,500 (12.2%) in the termination and repatriation expenditure calculated on the basis of the Organization's staff age profile, and 5.4 per cent for the provision of after-service health insurance (ASHI). The Fund balance at the end of the next biennium was expected to be £2.02 million, far short of the Organization's long-term liability in respect of repatriation costs, accrued annual leave and ASHI costs. To begin to address the liability for regular budget staff, in addition to an ASHI line item reflected in the proposed regular budget of £1.23 million, he had proposed that 50 per cent of any unobligated cash surplus in the General Fund should be transferred to the Termination Benefit Fund, unless otherwise decided by the Council from time to time, until sufficient funds were built up to fully discharge the prevailing liability.

With respect to the Training and Development Fund, the expenditure for 2010-2011 was estimated at £240,000, as shown in table 20, an increase of £48,000 (26.7%) over the current biennium. The increase was largely driven by the training and development requirements identified by respective line managers during performance management of their staff, as indicated during the Council's consideration of agenda item 5(a).

The Technical Co-operation Fund had become the Organization's major financial resource base for successful implementation of the ITCP. The expenditure estimates were set out in the biennial budget proposals to be submitted to the Assembly to comply with IPSAS in the preparation of the Organization's consolidated financial statement, including budget-expenditure variation analyses. Tables 21 and 22 showed the allocation, by region, of funds totalling $14 million (£10 million) financed by the Technical Co-operation Fund to implement the ITCP for the 2010-2011 biennium, which the Technical Co-operation Committee had approved at its fifty-ninth session held the previous week and as indicated under agenda item 7. As noted in paragraph 17, the ITCP was also financed from several extrabudgetary sources, and both streams of funding were becoming increasingly important for the successful implementation of IMO's technical instruments by Member States. In the ITCP plan for the coming biennium of $22.44 million, just approved by the Technical Co-operation Committee, approximately $8.4 million (38%) needed to be financed from donor/trust funds, as set out in table 23. While the global economic situation might have an effect on the Organization's extrabudgetary resource position in the future, the total prospective extrabudgetary funds available for the next biennium were projected to be some $14 million, and would be used not only for the ITCP but also for non-ITCP projects, including the costs for some project staff and associate professional officers.

Before concluding, he re-emphasized the fact that the scope of the Organization's work and the new challenges ahead must be matched by a fully funded, realistic budget, which had a clear correspondence with the Strategic Plan and the High-level Action Plan, which the Assembly approved, and which the Council, on the basis of the advice of the committees, reviewed from time to time. The budget before the Council had been prepared bearing in mind the need for the Organization to respond efficiently and effectively to current challenges, trends and developments. He further wished to re-emphasize that the proposed 14.9 per cent biennial budget increase, which had been adjusted to 13 per cent, reflected mostly non-discretionary pay and price changes, in particular the two knock-on effects mentioned previously – sterling depreciation and the Professional salary adjustments, which alone accounted for a 9.6 per cent increase, and over which he had no control. If that factor was excluded from the proposed budget increase, the budget proposal showed a 3.5 per cent increase in the regular budget and an 8.3 per cent increase in the assessment level, which compared favourably with the increases approved for the current biennium. As indicated in document C 102/8/Add.1, should there be any substantial change in the sterling/dollar exchange rate before the twenty-fifth extraordinary session of the Council in November 2009, the budget estimates would be adjusted accordingly.

His remarks and the action requested of the Council in paragraph 19 were set in the context of the inevitable demands IMO was expected to face in the next biennium. Every possible effort had been made to present the leanest possible budget, since it was essential to place before the Assembly a budget that would not only provide the necessary resources for the Organization to deliver the programme of work decided on by Member States but that also reflected the current difficult financial circumstances. Nevertheless, he would welcome any proposals for possible economies, such as those submitted by the Bahamas in document C 102/8/1, so that appropriate action could be taken to accommodate them within the current proposals.

He paid tribute to colleagues in the Secretariat who had assisted in the drafting of the budget: the Directors and senior managers in all Divisions and, in particular, those in the Administrative Division under the leadership of Mr. Winbow. The latter, Mr. Kim, Mr. Maw Tun, and Ms Richards, together with Mr. Barchue and Mr. Espinoza of the Secretary-General's Office, had worked hard to prepare a detailed, clear and transparent budget, which the Council was invited to consider for approval and submission to the Assembly.

Mr. BELL (Bahamas) said that, while he recognized the great efforts made in preparing a commendably clear results-based budget and the fact that some of the increases were beyond the control of the Secretary-General, many Member States would be unable to afford the huge assessment increase proposed. There were two possible approaches to identifying potential budget reductions, both of which should be used: the Secretary-General could be asked to make cuts wherever possible; or Member States themselves could suggest where savings should be sought. Savings could be made in external and/or internal expenditures. Since the main outgoings related to technical cooperation, most Member States would balk at reductions in external expenditures. The Bahamas had therefore looked at ways in which internal expenditure might be reduced and, in document C 102/8/1, it had set out three proposals. First, there should be a cap on the total number of meeting-weeks for the biennium, which should apply to intersessional meetings as well as to the regular meetings of committees and subcommittees. Should any additional meetings be requested, one of those already planned should be cancelled. Such a procedure would force careful consideration of priorities. The limit proposed was 50 weeks: 41.4 for regular meetings and 8.6 for intersessional meetings. The second proposal was that all meetings should be fully costed, including all staff costs and overheads as indicated in the document. Such costings would in due course permit comparisons of the various types of meetings but, in the meantime, all meetings should be treated in the same way, *i.e.* an intersessional meeting should be regarded as involving the same use of resources as a regular meeting. Thirdly, consideration should be given to modifying the reporting of meetings with a specific view to reducing costs. For example, it was proposed that the final report should be prepared as soon as possible after rather than during the meeting. The advantages would include proper reporting of the final half-day's discussions, additional discussion time during the meeting itself, thereby reducing costs for late meetings, and a reduction in the costs involved in generating and translating the report overnight. There were obviously many other possibilities for cost reductions, and it was to be hoped that Member States would come forward with other proposals.

The CHAIRMAN requested Member States to ensure that any proposals to amend the proposed budget were concrete and constructive.

The meeting rose at 5.30 p.m.