

FORMULA FOR ASSESSMENT OF CONTRIBUTIONS TO THE BUDGET OF THE COMMISSION

Prepared by the Secretariat

1. At PrepCon III, held in Manila in November 2002, WG.I focused its discussions on the size and scope of the budget of the Commission. Amongst other matters, WG.I considered the likely costs of a Commission secretariat to deliver core functions and science, the costs associated with the various options for providing additional Commission services and the possible mechanisms for funding the participation of developing states consistent with article 30, paragraph 3, of the Convention. At the end of PrepCon III, WG.I agreed that, at PrepCon IV, it should focus its discussions on:

- (a) the development of a formula for financing the Commission's budget;
- (b) the development of financial regulations for the Commission, including regulations to govern the administration of the special fund established under article 30, paragraph 3, of the Convention;
- (c) finalizing the provisional draft budget for the first year of operation of the Commission.

3. In accordance with that plan of work, the interim secretariat provided WG.I with a working paper setting out the various options for a scheme for the assessment of contributions to the budget of the Commission (WCPFC/PrepCon/13). Following its discussions at PrepCon IV, WG.I requested the Interim Secretariat to prepare a revision of the working paper for further consideration at PrepCon V, taking into account the discussions that had taken place. The Working Group also emphasized the need, in determining a contributions formula, to take into account the ability to pay of potential members, in particular small island developing States. The need to avoid a disproportionate burden on any one member was also highlighted, especially in light of the need to ensure stability in the budget and an adequate and reliable flow of resources into the Commission.

4. The present document responds to the request of WG.I by providing revised options for the budget funding formula taking into account the discussions on this matter at PrepCon IV. In particular, the proposed contributions formula has been revised to take into account updated information relating to catch in the Convention Area by species, vessel flag and location. In addition, a revised methodology for the calculation of the "national wealth" component is proposed.

I. CONTRIBUTIONS FORMULA

5. The Convention, in article 18, paragraph 2, already gives guidance as to the nature of the scheme of contributions to the budget. It provides as follows:

“... due consideration shall be given to each member being assessed an equal basic fee, a fee based on national wealth, reflecting the state of development of the member concerned and its ability to pay, and a variable fee. The variable fee shall be based, inter alia, on the total catch taken within exclusive economic zones and in areas beyond national jurisdiction in the Convention Area of such species as may be specified by the Commission, provided that a discount factor shall be applied to the catch taken in the exclusive economic zone of a member of the Commission which is a developing State or territory by vessels flying the flag of that member.”

6. Discussions to date within MHLC and PrepCon have indicated general agreement that the scheme should be based on the considerations set out in the Convention, and the present document has been prepared on that basis. The key issues that need to be considered by WG.I are (a) the methodology for calculating each of the three components of the contributions formula, and (b) the relative weighting to be applied to each component. These factors are considered further below.

A. Base fee

7. The most straightforward component of the contributions formula is the base fee, or fixed component. In general, this element is shared equally among all members of the Commission and is paid in a lump sum at the beginning of each financial year. Following the discussions at PrepCon IV, WG.I considered that a base fee equivalent to 10 per cent of the total budget, shared equally between all participants, provided an appropriate basis for further discussion of the base fee element. Several participants noted that the base fee element should be set at the lowest possible level in order to ensure full participation in the work of the Commission. In particular, the need to consider carefully the impact of the base fee on small island developing States was emphasized as well as the need to ensure that such States do not carry a disproportionate burden of the budget.

B. National wealth component

8. According to the Convention, the national wealth component should reflect the state of development of the member concerned and its ability to pay. At PrepCon IV, WG.I considered various suggestions and proposals for the calculation of the national wealth component. The advantages and disadvantages of each potential approach were discussed in detail in a wide-ranging debate, and various alternative formulae were proposed for investigation. The more prominent suggestions appeared to range between the use of contributions to the capital stock of the World Bank (originally proposed by the Republic of Korea in a paper circulated at PrepCon III), Gross National Income (GNI) per capita to establish broad banding within low, middle or high income categories, and GNI per capita adjusted to account for purchasing power parity (PPP), as well as the use of the average of multiple years' statistics.

9. It was emphasized by WG.I that the formula must fully reflect the criteria set out in article 18, paragraph 2, of the Convention, in that as well as reflecting the national wealth of the member concerned, the formula must also make due allowance for the state of development of the member and its ability to pay. It was also important also that the formula should not place a

disproportionate burden on any one State. The need for any formula to be reviewable after a reasonable period and in the light of changing economic circumstances was also highlighted as was the need to avoid a disproportionate impact on small island developing States, especially in terms of ability to pay. The Working Group felt that further work was needed to progress this issue and requested the interim secretariat to make further study as to reliable indices that may be utilized as well as to possible options for applying such indices in a manner that fully reflected the criteria of state of development and ability to pay.

12. The more prominent constraints on the use of contributions to WB capital stock are that notional floor and ceiling benchmarks would need to be established, noting that not all members subscribe capital to the WB, and that contributions to the WB capital are likely to reflect domestic development assistance and fiscal policies at least as much as they reflect comparative national wealth.

13. On the other hand, annual GNI per capita is a widely accepted and available economic indicator and may be considered a good practical surrogate statistic for the purposes of comparing the state of development of member economies. A refinement to GNI per capita available from the World Bank is for it to be expressed in terms of Purchasing Power Parity (PPP). While this allows for population size and exchange rate differences, unfortunately the World Bank does not provide this statistic for all potential Commission members. In particular, no GNI/per capita PPP statistics are available for several developing States and territories or for Chinese Taipei.

14. **Table 1**, which is included for the purposes of comparison only, shows the effect of using the three alternative methodologies discussed above (GNI average (PPP), GNI average, and WB capital stock) in order to calculate the national wealth component of a notional budget of US\$2 m. It will be noted that all of these methodologies share similar constraints and inherent difficulties.

15. Taking into account the various views expressed, and noting the problems inherent in each of the proposals canvassed to date, it would appear that an approach based on GNI per capita, combined with a broadbanding system on the basis of high income (typically, OECD membership) and a division between medium and low income, may adequately provide for important differences between the relative wealth of Commission members. Such an approach would also provide important administrative simplicity and consistency.

15. **Table 2** therefore shows the application of such a system using average GNI per capita statistics for the period 1999-2001. Broadbanding is then applied on the basis of OECD membership (high income) and a division into middle and low income based on the level of GNI per capita. The table shows the effect of this approach on a notional budget of US\$ 2 m where the national wealth component is given a relative weighting of 20 per cent.

C. Fish production component

13. The third component of the budget contribution is the variable fee based, *inter alia*, on the total catch taken within exclusive economic zones and in areas beyond national jurisdiction in the Convention Area of such species as may be specified by the Commission. In the information paper prepared for MHL6 on this issue, it was suggested that the variable fee should be based on the total catches of the four main tuna species of commercial interest in the Convention Area, namely skipjack tuna, yellowfin tuna, bigeye tuna and albacore tuna. However, during the discussions at PrepCon IV, several participants in the Working Group suggested that the catch

statistics used should take into account the catches of all the stocks covered by the Convention throughout the Convention Area.

14. In the light of the discussions, **Table 3** provides an updated summary of the average catches of all the stocks covered by the Convention for which data are available for the period 1999-2002. These include the main target tuna species, as well as the four main billfish species (black marlin, blue marlin, striped marlin and swordfish). It has not been possible to provide indicative estimates of other bycatch species owing to paucity of data. Table 3 shows the breakdown of catches taken in (a) archipelagic waters, (b) the exclusive economic zones of developing States and territories by vessels flying the flag of the State or territory concerned, and (c) the Convention Area as a whole for all other participants.

15. Although the datasets have been further refined since PrepCon IV, it must again be noted that the table is based on currently-available data provided by SPC-OFP. WG.I will be aware that current SPC datasets do not correspond entirely to the Convention Area and a number of caveats must be taken into consideration, including:

(a) concerns over the quality of data available to SPC-OFP on Indonesian and Philippine catch estimates and uncertainty as to the division of catches between archipelagic waters, exclusive economic zones and high seas for those countries, as well as potential overlap;¹

(b) the fact that logsheet coverage for most Pacific Island States is less than 100 percent (although the data are considered reasonable and representative for determining the proportion of catch taken within exclusive economic zones);

(c) a large north Pacific albacore catch (>80,000 t.) for several gears taken in the northern hemisphere of the Convention Area, west of 150° W (currently assigned by SPC-OFP to unspecified fleets) has not been taken into consideration.²

16. Notwithstanding the above concerns, it is considered that the data in Table 3 is sufficiently accurate and representative for the purposes of the present exercise, although it will need to be further refined. However, unless the Commission decides to develop a customised dataset for this purpose, it may be that the Commission will need to take a pragmatic approach to this issue for the first three years of its operations, until the necessary datasets have been developed through the Commission.

17. Given that a lump-sum payment of the variable fee may cause financial difficulties for some island States, it is suggested that the Commission's financial regulations make provision for the payment of this element of the budgetary assessment in two equal annual instalments. The first payment should be made at the beginning of the Commission's financial year and the second instalment six months after the first payment.

D. Indicative scheme of contributions

¹ In the absence of sufficient data, it has been assumed that 80 per cent of the domestic catch by Philippines and Indonesia is taken within archipelagic waters.

² SPC is trying to get this catch broken down by fleet with the help of IATTC and statistics compiled through the North Pacific Albacore working group. The catch is mainly taken by Japan, Korea, Chinese Taipei and the United States.

18. **Table 4** shows an indicative scheme of contributions based on a notional budget of US \$2 m with a relative weighting of 10 per cent (base fee), 20 per cent (national wealth component) and 70 per cent (fish production component). In calculating the dollar amount of the fish production component, it should be noted that a discount factor has been applied to the catches taken within the exclusive economic zone of a developing State or territory by vessels flying the flag of that developing State or territory. In line with the discussions at PrepCon IV, a discount factor of 0.4 has been applied to such catches. No distinction has been made for the time being between different fisheries in the absence of specific guidance from WG.I.

19. It must again be emphasized that, in preparing Table 4, a notional budget of US\$ 2 m has been used. This is not intended to prejudice ongoing discussions in WG.I with respect to the size of the budget and, in particular, those issues which are still pending in WG.I, including the cost of additional services and the extent of the special fund for developing countries pursuant to article 30 of the Convention.

20. In giving consideration to the proposed formula, WG.I may wish to consider further the following issues:

- (a) the relative weighting of the various components;
- (b) the discount factor to be applied;
- (c) the treatment of French Polynesia, New Caledonia and the United Kingdom with respect to the national wealth component and fish production component;³

II. FINANCING OF THE FIRST FINANCIAL PERIOD

21. It is inevitable that when the Convention first enters into force, the number of members of the Commission will be less than the number of participants in the Preparatory Conference. By taking an evolutionary approach to the establishment of the Commission, as recommended in WCPFC/PrepCon/WP.7, it is likely that the budget for the first two financial periods of the Commission will be lower than the budget for the third and subsequent years. Notwithstanding, depending upon the number of members of the Commission at that time, there may also be a need to use additional measures to facilitate the transition from the Preparatory Conference to the Commission proper. Such measures, some of which have been adopted by other new international organizations, may include, for example, temporary adjustments to the scale of contributions to reflect the composition of the Commission as at the date of entry into force or a division of the budget into two or more parts, one to be financed by assessed contributions in accordance with the agreed formula and one to be financed through voluntary contributions. In addition, depending on the date the Convention enters into force, it may be necessary to adopt a resolution adjusting the first financial period of the Commission to cover a period of more than 12 (but less than 24) months.

22. In order to ensure a smooth transition, it is also recommended that the Preparatory Conference Organizational Fund should be transferred to the Commission immediately upon

³ For the purposes of the present paper, in modelling the broadbanding of the NWC, French Polynesia, New Caledonia and the United Kingdom have been considered in the high-income (OECD) category. With respect to the fish production component, WG.I may wish to provide direction as to the allocation of the catches taken in the zones of the French territories until such time as they become participating members of the Commission in accordance with the rules of procedure.

entry into force. The Fund should, however, remain open for further contributions following entry into force, including from participants in the Preparatory Conference that have not yet completed the necessary steps to become members of the Commission. To ensure the necessary flow of funds into the Commission at an early stage, and to encourage early ratification or accession, it may also be agreed that, for a limited transitional period, voluntary contributions made to the Fund after entry into force may be set off against future assessments against the budget of the Commission.

Annex

Tables

Table 1	Comparison of national wealth proxy data
Table 2	National wealth component based on 3-year average GNI per capita and broadbanding
Table 3	Summary of average catches of highly migratory species in the Convention Area, 1999-2002
Table 4	Contribution scenario

Table 1: Comparison of proxy data for computation of national wealth component

Countries	GNI (PPP) 2001 p/c	Proportion of <i>national</i> wealth component	GNI ave. 1999-2001 p/c	Proportion of <i>national</i> wealth component	Contribution to World Bank capital (%)	Proportion of <i>national</i> wealth component
Australia	24,360	7.38%	20,343	8.00%	1.56	3.48%
Canada	26,530	8.04%	20,870	8.21%	2.85	6.36%
China	3,950	1.20%	837	0.33%	2.85	6.36%
Cook Islands	2,190	0.66%	4,689	1.84%	0.25	0.56%
FSM	5,390	1.63%	1,970	0.77%	0.25	0.56%
Fiji	4,920	1.49%	2,200	0.87%	0.25	0.56%
France	24,080	7.30%	23,597	9.28%	4.42	9.87%
French Polynesia	28,020	8.49%	16,150	6.35%		
Indonesia	2,830	0.86%	610	0.24%	0.95	2.12%
Japan	25,550	7.74%	34,987	13.76%	8.08	18.04%
Kiribati	2,190	0.66%	923	0.36%	0.25	0.56%
Korea	15,060	4.56%	8,947	3.52%	1.01	2.25%
Marshall Islands	5,390	1.63%	2,190	0.86%	0.25	0.56%
Nauru	2,190	0.66%	800	0.31%	0.25	0.56%
New Caledonia	25,200	7.64%	14,050	5.52%		
New Zealand	18,250	5.53%	13,123	5.16%	0.46	1.03%
Niue	2,190	0.66%	800	0.31%	0.25	0.56%
Palau	8,500	2.58%	6,940	2.73%	0.25	0.56%
Papua New Guinea	2,450	0.74%	673	0.26%	0.25	0.56%
Philippines	4,070	1.23%	1,047	0.41%	0.44	0.98%
Samoa	6,130	1.86%	1,447	0.57%	0.25	0.56%
Solomon Islands	<i>1,910</i>	0.58%	657	0.26%	0.25	0.56%
Chinese Taipei	22,590	6.84%	13,433	5.28%	1.56	3.48%
Tonga	2,190	0.66%	1,603	0.63%	0.25	0.56%
Tuvalu	2,190	0.66%	1,328	0.52%	0.25	0.56%
United Kingdom	24,340	7.37%	25,250	9.93%	0.25	0.56%
USA	34,280	10.39%	33,780	13.28%	16.87	37.66%
Vanuatu	3,110	0.94%	1,083	0.43%	0.25	0.56%
Total	330,050	100.00%	254,327	100.00%	44.8	100.00%

Table 2: National wealth component based on 3-year average GNI per capita and broadbanding

		Agg. GNI	% of Agg.	% of budget	NWC Amount	% of NWC
OECD/High income Members						
Japan	34,987			1.61%	32,103	8.03%
USA	33,780			1.61%	32,103	8.03%
United Kingdom	25,250			1.61%	32,103	8.03%
France	23,597			1.61%	32,103	8.03%
Canada	20,870			1.61%	32,103	8.03%
Australia	20,343			1.61%	32,103	8.03%
French Polynesia	16,150			1.61%	32,103	8.03%
New Caledonia	14,050			1.61%	32,103	8.03%
Chinese Taipei	13,433			1.61%	32,103	8.03%
New Zealand	13,123			1.61%	32,103	8.03%
Korea	8,947	11		1.61%	32,103	8.03%
		224,530	88%			
Middle income members						
Palau	6,940			0.28%	5,659	1.41%
Cook Islands	4,689			0.28%	5,659	1.41%
Fiji	2,200			0.28%	5,659	1.41%
Marshall Islands	2,190			0.28%	5,659	1.41%
FSM	1,970			0.28%	5,659	1.41%
		5	17,989	7%		
Lower income members						
Tonga	1,603			0.08%	1,548	0.39%
Samoa	1,447			0.08%	1,548	0.39%
Tuvalu	1,328			0.08%	1,548	0.39%
Vanuatu	1,083			0.08%	1,548	0.39%
Philippines	1,047			0.08%	1,548	0.39%
Kiribati	923			0.08%	1,548	0.39%
China	837			0.08%	1,548	0.39%
Nauru	800			0.08%	1,548	0.39%
Niue	800			0.08%	1,548	0.39%
Papua New Guinea	673			0.08%	1,548	0.39%
Solomon Islands	657			0.08%	1,548	0.39%
Indonesia	610	12	11,808	5%	1,548	0.39%
Total	254,327	28	254,327	100%	400,000	100%

Table 3: Summary of average catches of main tuna and billfish species, 1999-2002
(source SPC-OFP data)

1	2 <i>Average catches taken in archipelagic waters</i>	3 <i>Average catches taken in EEZ of developing States and territories by own flag vessels</i>	4 <i>Average catches taken in Convention Area (Incl. EEZ of developed countries)</i>	5 <i>Total</i>
Australia			8,379.00	8,379.00
Canada			239.00	239.00
China			11,413.00	11,413.00
Cook Islands		261.00	7.00	268.00
FSM		3,102.00	14,769.00	17,871.00
Fiji	1,312.00	7,239.00	1,399.00	9,950.00
France		0.00	0.00	0.00
French Polynesia		7,011.00	219.00	7,230.00
Indonesia	295,970.40	73,992.60	0.00	369,963.00
Japan			403,270.00	403,270.00
Kiribati		2,092.00	4,804.00	6,896.00
Korea			200,854.00	200,854.00
Marshall Islands		2,440.00	17,776.00	20,216.00
Nauru		0.00	0.00	0.00
New Caledonia		1,860.00	36.00	1,896.00
New Zealand			16,114.00	16,114.00
Niue		0.00	0.00	0.00
Palau		100.00	0.00	100.00
Papua New Guinea	37,699.00	17,510.00	26,149.00	81,358.00
Philippines	172,064.00	43,016.00	30,081.00	245,161.00
Samoa		4,862.00	530.00	5,392.00
Solomon Islands	10,060.00	10,071.00	3,546.00	23,677.00
Chinese Taipei			285,336.00	285,336.00
Tonga		1,433.00	140.00	1,573.00
Tuvalu		0.00	0.00	0.00
United Kingdom			0.00	0.00
USA			150,809.00	150,809.00
Vanuatu		0.00	20,862.00	20,862.00
Total	517,105.40	174,989.60	1,196,732.00	1,888,827.00

Note: It is assumed that 80 per cent of the domestic catch by Philippines and Indonesia is taken within archipelagic waters

Table 4: Contributions scenario where base fee = 10%, NWC (broadbanding based on GNI per caput) = 20%, catch component = 70% (discount factor to own EEZ catch of 0.4). Notional budget of US\$ 2 m.

Countries	Band classification	Base Fee	National Wealth Component	Catch Component	Total Contribution	% of Budget
Australia	OECD member	7,143	32,103	9,230	48,476	2.42%
Canada	OECD member	7,143	32,103	263	39,509	1.98%
China	lower income	7,143	1,548	12,572	21,262	1.06%
Cook Islands	middle income	7,143	5,659	123	12,924	0.65%
FSM	middle income	7,143	5,659	17,636	30,437	1.52%
Fiji	middle income	7,143	5,659	4,731	17,532	0.88%
France	OECD member	7,143	32,103	0	39,246	1.96%
French Polynesia	high income	7,143	32,103	7,964	47,210	2.36%
Indonesia	lower income	7,143	1,548	32,603	41,293	2.06%
Japan	OECD member	7,143	32,103	444,223	483,469	24.17%
Kiribati	lower income	7,143	1,548	6,214	14,904	0.75%
Korea	OECD member	7,143	32,103	221,251	260,497	13.02%
Marshall Islands	middle income	7,143	5,659	20,656	33,458	1.67%
Nauru	lower income	7,143	1,548	0	8,690	0.43%
New Caledonia	high income	7,143	32,103	859	40,105	2.01%
New Zealand	OECD member	7,143	32,103	17,750	56,997	2.85%
Niue	lower income	7,143	1,548	0	8,690	0.43%
Palau	middle income	7,143	5,659	44	12,845	0.64%
Papua New Guinea	lower income	7,143	1,548	36,520	45,210	2.26%
Philippines	lower income	7,143	1,548	52,090	60,780	3.04%
Samoa	lower income	7,143	1,548	2,726	11,417	0.57%
Solomon Islands	lower income	7,143	1,548	8,344	17,034	0.85%
Chinese Taipei	high income	7,143	32,103	314,312	353,558	17.68%
Tonga	lower income	7,143	1,548	786	9,476	0.47%
Tuvalu	lower income	7,143	1,548	0	8,690	0.43%
United Kingdom	OECD member	7,143	32,103	0	39,246	1.96%
USA	OECD member	7,143	32,103	166,124	205,370	10.27%
Vanuatu	lower income	7,143	1,548	22,981	31,671	1.58%
Total		200,000	400,000	1,400,000	2,000,000	100.00%