



**INTERNATIONAL TROPICAL
TIMBER ORGANIZATION**

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FIFTY-NINTH SESSION
13-17 November 2023
Pattaya, Thailand

**Matters related to Article 19 of the ITTA, 2006 on the Administrative
Account**

(Item 10 of the Provisional Agenda)

Table of Contents

A. Introduction and Mandate of the Working Group	3
• Background	3
• Operational Mode of the Working Group	3
B. Recommendations of the Working Group	4
Annex 1 – Proposed Draft Decision	6
Annex 2 – Minutes of the Working Group	8

A. Introduction and Mandate of the Working Group

Background

1. At the request of the Informal Advisory Group, the Secretariat prepared a report (ITTC(LVII)/7) for Council at its 57th Session (2021) of the International Tropical Timber Council (ITTC), on recent developments in member payments to the Administrative Account in order to facilitate discussions on factors contributing to the increase in delayed or non-payments and possible ameliorative measures for Council's consideration.
2. Following deliberations, the Council adopted Decision 3(LVII) "Management of the Administrative Budget for 2021-2022", which contained, amongst others, the following decisions:
 - Authorizing the Executive Director to transfer, if necessary, such as in emergency situations, an amount not exceeding 10% of the budget from the Working Capital Reserve, to meet any shortfall of funds to implement the work programme of the Organization, and to report to the CFA on a timely basis with regards to any drawdowns from the Working Capital Reserve.
 - Request members to pay as early as possible their assessments and arrears, and to urge the secretariat to undertake appropriate cost savings and efficiency measures.
 - Establish a virtual intersessional group made up of 6 producer members and 6 consumer members as required under paragraph 6 of Decision 3(LVII).
3. The virtual intersessional group established under Decision 3(LVII), met in 2022 and prepared a report (ITTC(LVIII)/4) for Council at its 58th Session (2022). Following deliberations, the Council adopted Decision 3(LVIII) "Management of the Administrative Budget", which increased the threshold at which the Working Capital Reserve could be utilized for shortfalls to 15% as well as allowing arrear payments to be used to cover shortfalls. The Decision also extended for one year the mandate of the working group established under paragraph 6 of Decision 3(LVII) (also contained in paragraph 5 below).

Operational mode of the Working Group

4. In accordance with Decision 3(LVIII), a virtual intersessional working group (WG) was convened consisting of 6 producer members and 6 consumer members nominated by each caucus as follows:
 - Mr. Björn Merckell, Representative of the Government of Sweden
 - Ms. Natacha Nssi Bengone épouse Ona Abiaga, Representative of the Government of Gabon
 - Mr. Mouncharou Ndjayou Georges Collins, Representative of the Government of Cameroon
 - Ms. Carmela Gina Quintanilla Centenaro, Representative of the Government of Peru
 - Mr. Dambis Kaip, Representative of the Government of Papua New Guinea
 - Mr. Azelan Ishak, Representative of the Government of Malaysia
 - Mr. Pedro Antonio Plateros Gastelum, Representative of the Government of Mexico (absent)
 - Mr. Jorge Ruiz, Alternative Representative of the Government of Mexico
 - Mr. Daniel Van Assche, Representative of the EU Commission
 - Ms. Yoko Yamoto, Representative of the Government of Japan
 - Mr. Daniel Carl, Representative of the Government of USA
 - Ms. Anna Tyler, Representative of the Government of New Zealand
 - Mr. Keiran Andrusko, Representative of the Government of Australia
5. Specific tasks assigned to the WG were (as per Decision 3(LVII) paragraph 6):
 - i. Make recommendations on any change to the threshold for annual use of the Working Capital Reserve by the Executive Director without Council approval;
 - ii. Propose ways to prompt members to pay contributions to the administrative budget;
 - iii. Explore ways to adapt the budget of the Organization to the long-term trends in payment of contributions; and
 - iv. Prepare a report for consideration of Council at its 59th Session
6. The WG convened twice virtually on 25 May 2023 and 19 September 2023.

7. Mr. Björn Merckell and Ms. Natacha Nssi Bengone épouse Ona Abiaga were reelected by the WG as Co-chairs of the WG. The outcome and recommendations resulting from the deliberations of the WG are captured in this report. The minutes of the two meetings are also included in this report in Annex 2.

B. Recommendations of the Working Group

1. Make recommendations on any change to the threshold for annual use of the Working Capital Reserve by the Executive Director without Council approval

- No further recommendations were made as Decision 3 (LVIII) from 2022 had implemented all necessary changes.

2. Propose ways to prompt members to pay contributions to the administrative budget

- The WG recommends that Council adopt a trial measure that allows members that are ineligible to submit project proposals or concept notes, in accordance with ITTA, 2006, Art. 19.8, to be allowed to submit one proposal for every two years of arrears paid provided that a payment plan for the total arrears owed is submitted at the same time. The WG recommends that Council adopts this flexibility on a trial basis commencing on 1 January 2024 for a 4-year period until 1 January 2028.
- The WG recommends to abolish the following provisions contained in Decision 7 (XXXIII), Annex 1, Part C – Measures Regarding the Arrears to the Administrative Account, in order to streamline the rules relating to late payment of contributions:
 - 1. The Executive Director is authorized to write off, on an annual basis, one-fifth of a Member's arrears of the period 1986-1996 for any Member which has no arrears in its contributions to the Administrative Budget in respect to its obligations related to the year 2002 and beyond; and
 - 2. The Secretariat will not process project and pre-project proposals submitted by Members with cumulative arrears to the Administrative Account beginning from 2002 which are equal to or in excess of three times the Member's annual assessed contribution in the year proposals are submitted.
- The WG further recommends that interest incurred on late payments for assessed contributions imposed under the ITTA, 1983 (which was abolished in the subsequent ITTAs) will not be recognized as payable and be made obsolete.

The WG made the following clarifications relevant to the implementation of the recommendations:

- Assessed contribution payments are applied from the oldest year of arrears, moving to more recent years as members pay their arrears;
- Being in arrears does not preclude members from receiving voluntary contributions for existing and approved project proposals and CNs (which the members submitted when they were eligible to submit proposals and CNs);
- Members seeking write-off of arrears can do so in accordance with ITTA, 2006, Art. 30 "Relief from Obligations";
- Once a member regains eligibility to submit project proposals or concept notes in accordance with ITTA, 2006, Article 19.8, any credits (allowing for the submission of proposals/concept notes) earned under the trial measure will be reset when the member falls into arrears again in the future.

3. Explore ways to adapt the budget of the Organization to the long-term trends in payments of contributions

- Extensive discussions were held on this mandate item, including that it may be too premature to consider this item at this time as reducing the Administrative Budget would have an adverse impact on the effectiveness of the Organization. The Secretariat will continue to make efforts at cost saving where possible; the fundamental issue stems from the late payment of contributions by members which affects the Organization's budget. This matter can continue to be addressed through the incentive for payments proposed by the WG and through discussions regarding the renegotiation of a new ITTA.

4. Prepare a report for consideration of council at its 59th Session

- This report summarizes the discussions and recommendations of the WG for consideration by the Council at its 59th Session.
- Annex 1 contains proposed text for a draft Decision reflecting the recommendations of the WG.

ANNEX 1



**INTERNATIONAL TROPICAL
TIMBER COUNCIL**

Distr.
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ITTC(LIX)/xx
xx November 2023

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FIFTY-NINTH SESSION
13 – 17 November 2023
Pattaya, Thailand

Draft

DECISION xx (LIX)

MANAGEMENT OF THE ADMINISTRATIVE BUDGET

The International Tropical Timber Council,

Appreciating the continuing efforts made by the Executive Director and her staff in exercising cost savings in the expenditures from the Administrative Budget for the year 2023;

Noting with concern the insufficient receipts of contributions to-date from Members to the Administrative Budget for 2023;

Acknowledging that the Working Capital Reserve is made available to meet the shortfall of funds to implement the work programme of the Organization, and that it ensures continuity of basic operations in the event of a temporary shortfall of cash;

Taking into account the serious difficulties faced by some producer members in paying their assessed contributions to the Administrative Budget and/or arrears, and noting the urgency to explore ways to find a sustainable solution to this ongoing challenge;

Recalling Decision 3(LVIII) which authorizes the Executive Director to transfer, if necessary, such as in emergency situations, an amount not exceeding 15% of the approved budget from the Working Capital Reserve annually to the current account in the Administrative Account to meet the shortfall of funds to implement the work programme of the Organization, as well as arrear payments received within the financial biennium;

Further noting the recommendations made by the virtual intersessional working group established under Decision 3(LVII) and extended for one year by Decision 3(LVIII) contained in its report (Document ITTC(LIX)/4) discussed during the 59th Council Session;

Decides to:

1. Adopt a trial measure that allows members that are ineligible to submit project proposals or concept notes, in accordance with ITTA, 2006, Art. 19.8, to be allowed to submit one proposal for every two years of arrears paid provided that a payment plan for the total arrears owed is submitted at the same time. This trial measure will commence on 1 January 2024 for a 4-year period until 1 January 2028;
2. Request the Secretariat to report to the CFA as needed on the progress of the implementation of this trial measure;

3. Abolish the provisions contained in Decision 7 (XXXIII), Annex 1, Part C – Measures Regarding the Arrears to the Administrative Account;
4. Write-off interest incurred on late payments for assessed contributions imposed under the ITTA, 1983;
5. Request members to pay as early as possible, and in full, their contributions to the Administrative Budgets, including for 2023 and 2024, as well as all arrears in contributions from previous years, to prevent further depletion of the Organization's savings through the utilization of the Working Capital Reserve to meet the shortfalls in contributions;
6. Urge the Secretariat to continue to undertake appropriate cost saving and efficiency measures in accordance with ITTO rules, regulations, policies and decisions in relation to current and future Administrative Budgets.

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Annex 2

DECISION 3(LVII) WORKING GROUP – MANAGEMENT OF ADMINISTRATIVE BUDGET TELECONFERENCE OUTCOME

25 May 2023 7:00 p.m.(JST)

PARTICIPANTS:

Working Group (WG) Members

Decision 3(LVIII) Management Admin Budget (Virtual intersessional WG)	
Mme. Natacha NSSI BENGONE épouse ONA ABIAGA, Gabon, Co-chair	Mr. Bjorn Merckell, Sweden (absent)
Mr. MOUNCHAROU NDJAYOU Georges Collins, Cameroon (absent)	Mr. Keiran Andrusko, Australia
Mrs. Carmela Quintanilla, Peru (absent)	Mr. Daniel Van Assche, EU Commission
Mr. Dambis Kaip, PNG (absent)	Mr. Daniel Carl, USA
Mr. Azelan Ishak, Malaysia (absent)	Ms. Anna Tyler, New Zealand
Mr. Pedro Antonio Plateros Gastelum, Mexico (absent) (alt. Mr. Jorge Ruiz, Mexico)	Ms. Yoko Yamoto, Japan (alt. Mr. Hiroyuki Saito, Japan)

Producers

Ms. Natacha Nssi Bengone épouse Ona Abiaga, Representative of the Government of Gabon, Co-chair
Mr. Mouncharou Ndjayou Georges Collins, Representative of the Government of Cameroon (absent)
Ms. Carmela Gina Quintanilla Centenaro, Representative of the Government of Peru (absent)
Mr. Dambis Kaip, Representative of the Government of Papua New Guinea (absent)
Mr. Azelan Ishak, Representative of the Government of Malaysia (absent)
Mr. Pedro Antonio Plateros Gastelum, Representative of the Government of Mexico (absent)
Mr. Jorge Ruiz, Alternative Representative of the Government of Mexico

Consumers

Mr. Björn Merckell, Representative of the Government of Sweden, former Chairperson of CFA/Co-chair
(absent)
Mr. Daniel Van Assche, Representative of the EU Commission
Ms. Yoko Yamoto, Representative of the Government of Japan
Mr. Hiroyuki Saito, Alternative Representative of the Government of Japan
Mr. Daniel Carl, Representative of the Government of USA
Ms. Anna Tyler, Representative of the Government of New Zealand
Mr. Keiran Andrusko, Representative of the Government of Australia

ITTO Secretariat

Ms. Sheam Satkuru, Executive Director (ED)
Mr. Gerhard Breulmann, Director of Operations
Mr. Simon Kawaguchi, Finance/Administrative Officer
Mr. Tomiji Shudo, IT Assistant

TENTATIVE AGENDA

1. Welcome by the ITTO ED
2. Tour de Table
3. Election of Vice-Chairperson
4. Briefing on the background Document
5. Discussion on the Mandate of the WG
6. Other Matters

1. Welcome by the ITTO Executive Director (ED)

The virtual meeting was convened on Thursday, 25 May 2023 from 19:00hrs (Japan Standard Time) with the above participants. The ED welcomed the members of the Working Group (WG) to the first meeting in 2023. She commenced the meeting by informing that there has not been any changes in the composition of the WG since the last meeting in 2022. She indicated that all of the consumer members are present except for Mr. Björn Merckell, Co-chair, who had informed of his unavailability earlier, and only two from the producer members are present. The ED thanked Ms. Natacha Nssi Bengone épouse Ona Abiaga, Co-chair from the producer group for attending and taking up the floor. Co-Chair from the consumers had notified in advance on his non-attendance.

Ms. Abiaga greeted the members and informed that she is available only for about 30 to 40 minutes due to an official priority. The ED acknowledged Ms. Abiaga's remarks and suggested another member Co-chair's the meeting in the event she needs to leave.

Ms. Abiaga opened the meeting by introducing that the WG's main task - to find means to encourage the members to pay their contribution to the administrative budget. She suggested to start with presenting the tentative agenda, then the recommendations that was presented to the Council last year. She requested the ED to present these on her behalf.

The ED briefed the WG on the tentative agenda items that was circulated earlier. She suggested to move to item three and open the floor for any volunteers as interim Co-chair for this meeting and up to the next one month, in the absence of Mr. Merckell.

2. **Tour de Table** - unnecessary as there were no changes to the composition of the members.

3. Election of Vice-Chairperson

Ms. Abiaga requested the floor for volunteers to be the Vice-chair. As there were no volunteers from the members, she led the floor to the next item.

4. Briefing on the Background Document

The ED briefed the WG on the recommendations made to Council at the ITTC 58 as the WG were already well acquainted with the background document and the mandate of the WG. She identified the subheadings of the recommendations.

- ✓ 1 – *Change to the threshold for annual use of the WCR* – The ED explained that this had been achieved in the Council Decision 3(LVIII)), issued in December 2022.

- ✓ 2 - *Propose ways to prompt members to pay contributions to the administrative budget* – due to discussions on this point are still ongoing, the Council agreed to extend the mandate of this WG for a year until ITTC59 to be held in Pattaya, Thailand.
- ✓ 3 - *Explore ways to adapt the budget to the long-term trends in payments of contributions* - the Council again agreed to extend the WG for an additional year to allow for further explorations.
- ✓ 4 - *Prepare a report for consideration of Council at its 58th Session* (Refer to ITTC(LVIII)/4)

She mentioned it would be most important for this meeting to focus on point 2, especially on the write-off policy. She asked if the WG would agree to the Secretariat making suggestions on proposed payment plans for the members in arrears, i.e. threshold of arrears to be paid and its timeline which enables submission of Concept Notes (CNs) and Project Proposals (PPs).

She explained that the threshold is extremely important since there are 2 sanctions in the ITTA for members in arrears: 1) eligibility to submit PPs and 2) voting rights. One example could be to request the members in arrears to pay X percent of their arrears within a certain period of time i.e. two to three years, which will allow the members to regain their eligibility to submit PPs or CNs. She made it clear that the voting rights would not change, to be fair to the other members who pay up fully.

She requested Mr. Kawaguchi to brief the WG on the status of the administrative account for this year.

Mr. Kawaguchi explained that within the documents circulated together with the meeting invitation was “Summary of Contributions for 2023”, which included arrears for this year and the past broken down into relevant ITTA implementation periods of 1983, 1994, and 2006. He also presented the charts showing the timely contributions over the years 2012 – 2023 (Ref. attached charts). The charts showed more than half of the members paid by the end of April this year. He anticipated that more members will pay, similar to the previous year’s trend. He informed that the actual collection rate will be reported at the CFA as per the WG Decision while this is the current trend so far.

The ED commented that China usually pays their contribution in October, which will lower the arrears level of the consumers, while she expects a few more producer countries may pay prior to the Council. She also stressed that there is a very disconcerting pattern for several member countries who have not been paying for quite a few years, accumulating the arrears to large amounts. She mentioned that unfortunately Gabon is also one of them, and passed the floor to Ms. Abiaga, Co-chair of the WG.

Ms. Abiaga thanked the ED for the briefing and apologized in the name of her country for its contribution status. She said that she was in a meeting with the Ministry of Economy and Gabon is working very hard to pay up even a little this year. She requested the Secretariat to send the ratification notification for ITTA 1983 and 1994, in order for Gabon to facilitate their payment process. She led the meeting back to the discussion on point number two, for any new recommendations. She reminded the WG on the idea raised by Japan, to seek how other organizations deal with arrears, as well as to have a survey within the members to see what are the main difficulties for them to pay the contribution. She invited Mr. Dan Carl (US) for comments.

Mr. Carl (US) introduced himself as he was not on the WG last year but was following the discussions. He commented that there are a number of reasons why countries are in arrears, one of which is apparent from the countries on the list with history of difficult political conditions. He shared that for the US, they are due to pay at the end of May. He said that it is difficult to distinguish the comments that are heard at international meetings on the need for more forest funding for high forest countries, and to compare those with the list of countries in arrears. Each individual country can be reminded on the importance of demonstrating their commitment to sustainable forest management for tropical forests, to remain engaged with the ITTO in both the policy work and the projects. He also mentioned that there is an opportunity where the ITTO can involve itself in various meetings, while it is also helpful to just generally raise awareness about the ITTO. This year, a major forest summit in Brazil

takes place in August, and the forest summit in the Republic of Congo in October. He suggested that it would be a good opportunity for the ITTO to get on the agenda and raise awareness in these highly forested countries in particular, on their arrears status.

Ms. Abiaga thanked Mr. Carl and invited the Secretariat to take the floor.

The ED requested Ms. Abiaga's clarification on whether she meant Gaon's ratification of the first two ITTAs of 1983 and 1994.

Ms. Abiaga responded that is exactly what she meant. The first and the second ratifications are requested by the Ministry of Economy, Gabon. She explained that they had already received the ratification for 2006.

The ED responded that the Secretariat will do its best to obtain these old documents, which are deposited at the UN Repository in New York and most likely need to request for them. They will be sent as soon as they are received.

The ED responded to Mr. Carl, that the Secretariat sends time sensitive reminders on the assessed contributions so members may benefit from the discount policies provided in the ITTA 2006. Also on occasions, individual letters are sent from the ED herself to the selected member countries when donors with proposed project funding identifies the countries they wish to support, informing on their opportunity while urging them to clear at least part of their arrears so that they may benefit from the opportunities presented. She said Mr. Andrusko may remember from last year that Australia wished to support some projects in Papua New Guinea (PNG), and the Secretariat had immediately contacted PNG, requesting that they try to pay some of their arrears. To date, no payments have been forthcoming. The ED had an exchange with a PNG representative at the UNFF and their response was that they would make the payment within the next one month. She personally takes every opportunity to talk to member countries at every bilateral meeting for 10-15 minutes, and usually gently reminds them on their outstanding contributions.

The ED added that this year, the ITTO was at the One Forest Summit and spoke to a few parties there. ITTO staff on mission at member countries also reach out to ministers on gentle reminders. At the UNFF, she caught up with a number of producing member countries and urged them to pay their debts to show that the ITTO is a cohesive organization which has the support of its members while approaching external donors. She replied that the summit in Brazil and Congo are definitely on the radar and is in touch with colleagues and focal points of those countries.

Ms. Abiaga asked if the survey on the difficulty on member contribution had been sent to the member countries. She indicated that this survey may be helpful especially in the African countries because their roles and contact points change often and the work may not be passed on continuously. She understands that the member countries are also concerned about the WCR.

Mr. Andrusko followed up on the comments by Mr. Carl, that the ITTO does a very good job in terms of visibility internationally. His understanding is that a lot of the work that has been done by the ITTO over the years on criteria and indicator (C&I), and that reporting for tropical forest countries is funded out of the administrative budget. If that is the case, he thinks that is underappreciated by the members while it is increasingly important in terms of reporting. It is also in the international focus, both under the CBD and the UNFCCC reporting, and the Glasgow Leaders' Declaration on Forests. He requested for the Secretariat's clarification since he thinks this is something that could be better communicated.

Ms. Abiaga invited the Secretariat to respond.

The ED apologized on the issue on the survey and explained that the Secretariat feels that sending out a general survey to the members may not return much responses. Instead, the ED has held individual consultations with the members. Consultations with Latin American countries were held last year, as well as meetings with some Asian countries at a conference in Malaysia in March this year. She also met with some African countries at the One Forest Summit and the UNFF, but often the response was that they are doing their best to pay. She was

informed that in some member countries, the authority in charge of contribution payments to international organizations had shifted from ITTO's focal point ministry to a different ministry. Members report there is an issue in getting the other ministry (usually Ministry for Finance) to make timely payments. She shared that the situation with Malaysia is the same where the ITTO focal point ministry is not the ministry that pays the contribution. Nevertheless, ITTO's focal point ministry sends a reminder in a timely manner to the ministry for finance and Malaysia's payments are paid way ahead of time. She highlighted that Malaysia is the only member that pays contributions a whole year in advance regularly out of the 75 member countries of the ITTO.

On ITTO focal points, the ED reported that the ITTO is pretty much up to date every year by checking at least once or twice a year. Some changes are informed within emails or messages received from members on several other matters. She thinks the main issue is not so much on the changes in focal points/focal ministries but more on the lack of understanding on the necessity to make timely payments for all international obligations that countries are committed to. She added that the ITTO requested new appointments with all the members in Africa for individual virtual consultations, since several of them did not attend the UNFF18. This has started since April this year, but several countries are taking their time since they are busy with events. She said she is still hopeful to secure at least a few consultations by July or August while the consultations so far have been good in that their priorities and difficulties were discussed. It is still hopeful that payments will be made towards the end of the year. She expressed her bigger worry on the several members who have had arrears accumulating for a period of time.

In response to Mr. Andrusko's intervention, the work on C&I is unfortunately funded by voluntary contributions and through the Biennial Work Programme (BWP) activities. However, the Market Information Service (MIS) is paid for by the administrative budget, which is highly visible and appreciated by the membership and external parties. She explained that the actual work on C&I remains selectively internal because the work is led by the FAO and the ITTO contributes to the Forest Resource Assessment (FRA) and the statistical work conducted by the FAO. The ITTO is quite visible in the FAO circles of FRA meetings. More needs to be done on C&I work but ITTO is unable to do so due to the lack of voluntary contributions. It may be an idea to incorporate the budget into the administrative budget. She thanked Mr. Andrusko for the constructive suggestion.

Ms. Abiaga asked the floor for any comments. She passed the floor to Mr. Van Assche.

Mr. Van Assche thanked the Secretariat for the explanation and agreed that payments of assessed contributions and arrears are a concern. He understands that the ITTO is exploring to have tailor made payments scheduled with each member country, rather than a fit for all approach. He supports this pragmatic approach at this stage, to make sure that each member can pay the arrears at least.

Ms. Abiaga informed the WG that she needs to leave the meeting due to other commitments. The ED proposed that another member of the WG take over from Ms. Abiaga until the end of this meeting briefly, as another meeting can be set up in the next few weeks when Mr. Merkell can also join. She suggested if either Mr. Andrusko, Mr. Van Assche or Ms. Tyler is willing to do so.

Mr. Andrusko volunteered to do so and invited Ms. Tyler for an intervention.

Ms. Tyler questioned if making concessions for late arrears is going to be effective or not while there are potentially structural issues in a number of countries. She flagged that that is a more significant factor and thought where it might be best for the WG to put time and deliberations.

The ED thanked Mr. Andrusko for stepping in for Ms. Abiaga, and Ms. Tyler for the comment, to which she agreed that the issue is complex. She also agreed with Mr. Van Assche who pointed out the difficulty of finding one solution that fits all, and so perhaps payment plans tailored to the select members could be the solution. Even so, it needs to be on a fair basis to the membership in its entirety and that could be complex. Also, any proposed overall mechanism needs to be approved through a Council Decision and any scheme needs to be designed within a reasonably tight timeline. She recalled that some members of the WG had suggested last year on a very long-term payment plan, but that would be extremely complicated to administer i.e. over 10 to 20 years, where a

number of ITTO Secretariat staff would have left/retired. Additionally, small payments over a long time would not clear the arrears within a reasonable timeline.

The ED responded to Ms. Tyler's comment on other possible factors such as structural issues in some countries, i.e. the paying mandate being shifted from a particular government ministry to the ministries for finance or economy to be centrally managed. Considering staff from such member countries being new to the tasks due to staff turnover, ITTO is always very clear in the reminder letters on how much is owed, minimum amount to pay to regain their rights and by when, especially for those who are suspended from project submission and/or voting rights.

She continued on to another factor, a political issue that could be a problem in her personal view. She shared the issues which came across in individual exchanges, but preferred to keep them anonymous for ethical reasons unless those particular member countries decide they do not mind being included in a report on their opinion. This relates to several member countries receiving funds from elsewhere (non-ITTO sources) and are reluctant to pay as ITTO is not relevant to them anymore. This is because several countries are receiving funds from other multilateral donors, and bilateral funding which are more appreciated by these member countries which makes the ITTO undependable. She said she had talked to many producing member countries to consider involving the ITTO in their alternative funding project execution/implementation if and when they receive funding from other organizations. She explained that this is an ongoing advocacy point, since many of the organizations involve members of the Collaborative Partnership on Forests (CPF) who are funding large projects in ITTO member countries; yet, no membership has liaised for the ITTO to be involved. She stressed that she will once again make this plea at the Council this year for support from members. She added that the host country Japan is supporting the ITTO to be included in project execution from huge funds such as the GEF, GCF, UNEP, UNDP, and developing agencies from member countries but funding is yet to be seen.

Mr. Andrusko thanked the ED and passed the floor to Ms. Yamoto, Japan who has requested the floor.

Ms. Yamoto recalled the discussion from the last ITTA WG and she thinks that most of the producer countries are making this a trade-off, to revise this point of not being able to submit project proposals because of their arrears. She wondered if it is really a problem for producer countries if they cannot get projects due to their arrears. She questioned whether, if they have the right to submit proposals, are they actually going to pay off the arrears. She asked the Secretariat if they had thought about this point. She also indicated that in order to proceed on this issue, the ITTO should stick to the ITTA articles, especially Article 30, on relief from obligations, dependent on Council approval.

The ED replied to Ms. Yamoto that the answer in short is yes, that they have turned all issues relating to assessed contributions and members' arrears inside out at least for the last six years. Since her time as Director of Operations, so many factors had influenced the whole process such as the elections and post elections. She agreed with Ms. Yamoto's comment that a number of producing member countries said that they have no incentive to pay their subscription because they are not being granted any projects. The lack of project funding to the ITTO means that the ITTO cannot cater for the projects submitted by the member countries. On the other hand, they do receive project support from other bodies, for example APFNet (China) and AFoCO (Republic of Korea) where they do not pay any subscription fees. These host governments provide each respective organization between US\$ 6-8 million every year in project funding. She explained that this is where the ITTO stands at a complete disadvantage, as the voluntary contribution for the project funding has been dire with projects pending finance standing at US\$14 million, apart from a few small projects being funded under the Concept Note (CN) approach.

She continued on with the next response on a possible payment plan. She clarified that some agreed amount of payment should be made before any submission of PPs or CNs can be made. For example, if a member pays up 60-70% of their arrears, it can be proposed for Council to approve and enable them to submit PPs or CNs to be considered for funding, while their voting rights will not change. She made it clear that voting rights stay the same unless the member is completely up to date with their payments. She added that some member countries seem

to not mind being suspended on their rights, because of the bilateral funding received directly or from involvement in multilateral funding.

Mr. Andrusko thanked the ED for her response. He led Mr. Carl to the floor upon his request.

Mr. Carl commented that this meeting was a little slow in advancing as it is the first resume session of the WG this year. He recalled the recommendations of the WG from the last ITTC and suggested for the next meeting to try and tackle something slightly more manageable than the payment of arrears. He proposed on some prioritization or identification of work areas with less country-specific ways, which all countries would benefit from and not so pointed at any one particular country. He suggested to try and focus on one particular topic in the next meeting, without putting a lot of work on the Secretariat. He requested for some guiding questions to help the WG to discuss, to be received in advance.

Mr. Andrusko thanked Mr. Carl for his inputs and from Australia's perspective, he would prefer not to get into designing complicated write off plans for arrears if there is no definite clarity or strong indication of any benefit in the long run, and would prefer to focus on an issue to tackle in the short term, like Mr. Carl has suggested. He then invited Mr. Van Assche to the floor for his intervention.

Mr. Van Assche commented that it is also the mandate of the WG to explore ways out of the budget of the organization to the long-term trends in payment of contribution. He noticed that the Secretariat has already compared the expenditure to the real cashflow funds; and he suggested to explore this in the next meeting whether to reduce some expenses in order to match with the reality of the contributions.

Mr. Andrusko thanked Mr. Van Assche and gave the floor to the Secretariat as no other request was seen.

Mr. Jorge Ruiz, commented that he invites the WG to explore ideas for a payment plan for members with significant arrears, i.e. open the doors for them to present ideas of small projects; and once these projects are financed, ITTO can use a percentage of the total financing to reduce their debt.

The ED said this was one of the proposals already mentioned last year as a potential incentive to member countries. The second potential incentive was as mentioned earlier, to offer countries the opportunity to clear X percent of their arrears in order to re-qualify for PPs or CNs. She commented that she fully supports working on more manageable plans as suggested by Mr. Van Assche and Mr. Carl, and that the Secretariat is pleased to provide some ideas for the next meeting on potential payment plans. She moved on to the next topic on adapting the budget to long-term trends. It was discussed extensively in the WG last year, and they had decided it was too premature to consider this, as reducing the administrative budget would mean more countries would feel less need to pay while the effectiveness of the ITTO will definitely reduce. She added that there had been zero-growth on the ITTO budget since 2011, for the past 12 years. The ED explained that the amount of work had increased while the number of projects has reduced significantly, and the mandate of this WG is to balance this out. There is a strong overlap with the mandate of the WG and that of the ITTA 2006. On balancing expenditure and cash flow, savings have been made to the utmost. She highlighted that if all members paid on time, this discussion would not have happened for the last three years. The administrative budget is almost two million dollars short of what is due into the administrative account every year. She flagged that this is the key issue to be addressed.

Ms. Tyler stepped in to respond to the ED and raised a concern on the zero-growth budget for a significant time span since she joined ITTO discussions in 2015. She oversees the payments for a number of other organizations with cost pressures, some significant and some fairly modest, but with an overall trend. She asked if the Secretariat is in a position to manage a zero-growth budget for the next financial year or with significant cost pressures. On the payment plan proposal, she suggested something shorter, sharper and can provide a stronger incentive, but that would need to be tested on the willingness of the WG to explore.

The ED responded that the ITTO had been operating on a zero-growth basis for a decade. She informed that the next budget is being contemplated with a minimal increase. She further flagged that there are still unfilled positions within the organization where these cannot be filled due to annual arrears incurred by members. There

are two senior staff retiring next year in January, after their extensions as approved by the Council last year. The process of recruiting is on the way while there will be a minor saving because the two new D1s will come in at a lower level on the D1 scale, compared to the current staff at P5 and D1. Nevertheless, plans to fill in the other capacities exist to give this organization a life beyond the underpaid assessed contributions. She proposed that the Secretariat sends a couple of potential model plan/s to the WG in coming weeks.

Mr. Andrusko thanked the ED and commented as a representative from Australia that it supports the proposal for the payment plan options, while the preference is a way to get members back to paying regularly. He asked for the floor on any other interventions, and if not, he suggested to proceed to the next agenda item five.

5. Discussion on Mandate of the Working Group

The ED explained that this WG mandate is still within the report of Decision 3(LVIII), and the mandate is basically the same as before, so there is no need for discussion at this meeting.

6. Other Matters

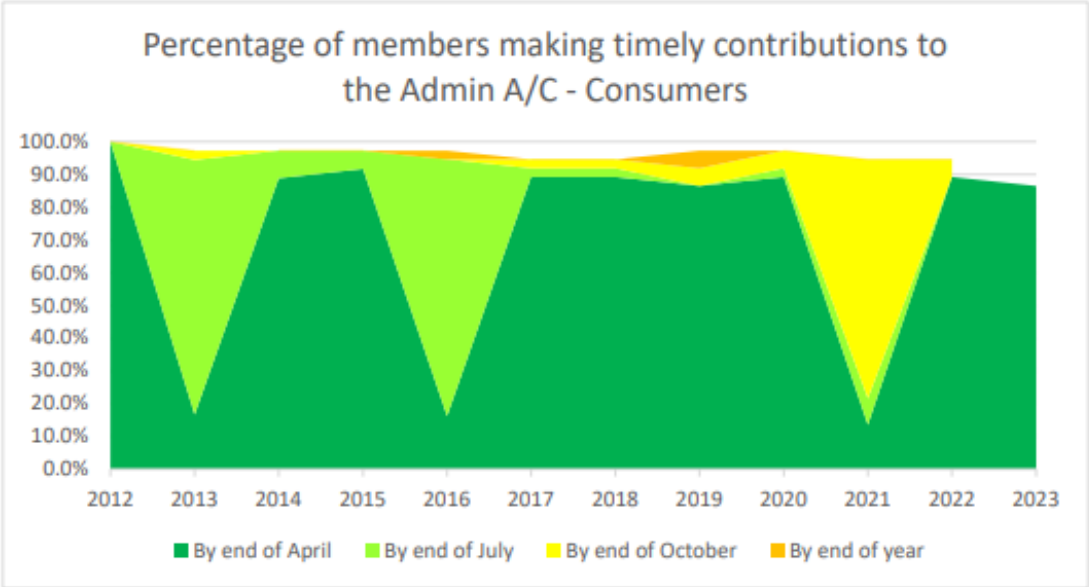
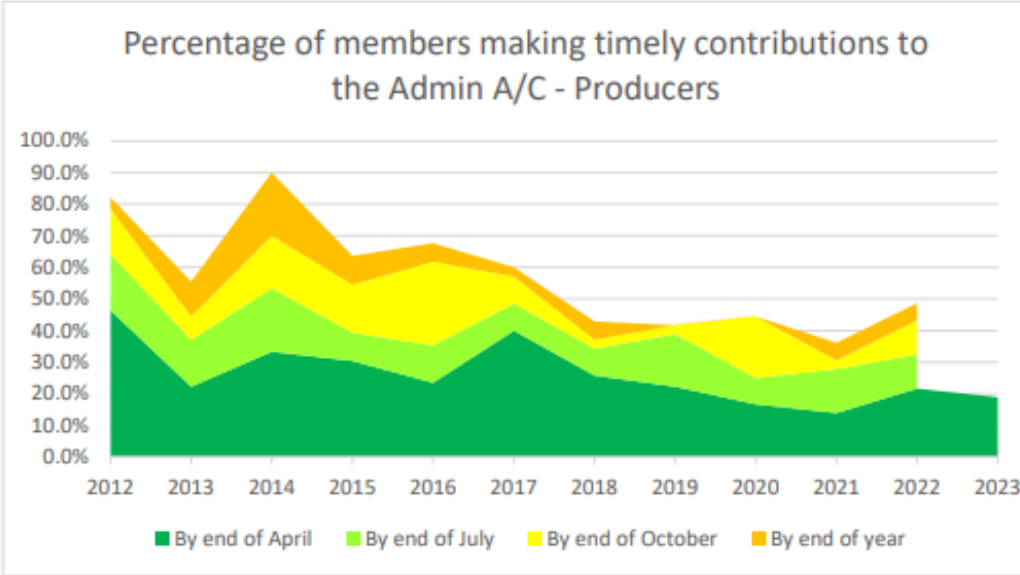
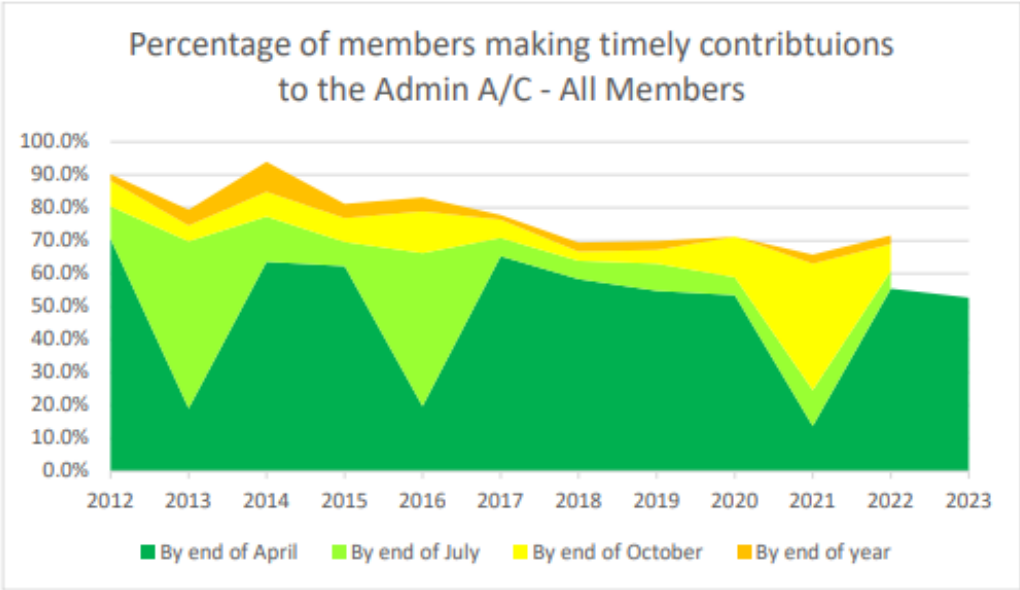
The ED suggested that they will communicate with the WG on the suggested date of the next meeting.

Mr. Andrusko asked the WG if all members agree to the suggestion and closed the meeting as there were no objections.

The ED thanked Mr. Andrusko for his support, and to all the WG members for their active participation and contributions.

The WG was adjourned at 20:35 hrs (Japan Standard Time).

Chart 1 As of 1 May 2023



**DECISION 3(LVII) WORKING GROUP – MANAGEMENT OF ADMINISTRATIVE BUDGET TELECONFERENCE
OUTCOME**

19 September 2023 7:00 pm (JST)

PARTICIPANTS: Working Group (WG) Members

Producers

Ms. Natacha Nssi Bengone épse Ona Abiaga, Representative of the Government of Gabon, Co-chair (absent)

Mr. Mouncharou Ndjayou Georges Collins, Representative of the Government of Cameroon (absent)

Ms. Carmela Gina Quintanilla Centenaro, Representative of the Government of Peru (absent)

Mr. Dambis Kaip, Representative of the Government of Papua New Guinea (absent)

Mr. Azelan Ishak, Representative of the Government of Malaysia

Mr. Pedro Antonio Plateros Gastelum, Representative of the Government of Mexico (absent)

Mr. Jorge Ruiz Morales, Alternative Representative of the Government of Mexico

Consumers

Mr. Björn Merckell, Representative of the Government of Sweden, former Chairperson of CFA/Co-chair

Mr. Daniel Van Assche, Representative of the EU Commission

Ms. Yoko Yamoto, Representative of the Government of Japan

Mr. Hiroyuki Saito, Alternative Representative of the Government of Japan

Mr. Daniel Carl, Representative of the Government of USA

Ms. Anna Tyler, Representative of the Government of New Zealand (absent)

Mr. Keiran Andrusko, Representative of the Government of Australia

ITTO Secretariat

Ms. Sheam Satkuru, Executive Director (ED)

Mr. Gerhard Breulmann, Director of Operations

Mr. Simon Kawaguchi, Finance/Administrative Officer

Mr. Tomiji Shudo, IT Assistant

TENTATIVE AGENDA

1. Opening remarks & updates (Executive Director)
2. Review of the minutes of the May 2023 meeting
3. Discussion on the Mandate of the WG (explanation of payment plan proposal)
4. WG Report to ITTC 59 – proposed deadline for the dissemination of the WG Report to members MONDAY 2nd October 2023
5. Other Matters

1. Opening remarks & updates by the ITTO Executive Director (ED)

The virtual meeting was convened on Thursday, 19 September 2023 from 19:00hrs (Japan Standard Time) with the above participants. The ED welcomed the members of the second Decision 3 Administrative Budget Working Group (WG) meeting in 2023. She informed the group that Ms. Natacha Abiaga, Co-chair, will not be able to join due to the coup in Gabon, while she and her family are safe and were grateful to be contacted by the ITTO. Therefore, the members present from the producer countries was only Mr. Jorge Ruiz Morales from Mexico at the beginning and Mr. Azelan Ishak from Malaysia joined later in the meeting. All other producer members were also absent from the last meeting, and had not responded or informed on their absence for today. From the consumer members, all except New Zealand are present. The ED then passed the floor over to the Co-Chairs.

Mr. Björn Merckell thanked the ED and welcomed all participants. He expressed that it's a pity that the participation is not so high from the producer side. He suggested that the WG should continue with the deliberations although some of the proposals may be discussed during the Council. He then introduced the draft agenda for this meeting and asked the WG if there are any additional proposals to amend the agenda. He saw no comments from the floor and concluded that the agenda is adopted.

2. Review of the minutes of the May 2023 meeting

Mr. Merckell sought the Secretariat's guidance on the minutes from the last WG of 25th May, which had been circulated to the members prior to this meeting.

The ED thanked Mr. Merckell and said that she will briefly go through the Minutes by paragraphs as all members have been provided with the minutes already. Firstly, there were no changes reported to the composition of the WG members which was directly confirmed with the consumer members, and also with the producer spokesperson Mr. Jorge Malleux. Secondly Ms. Natasha Abiaga had been elected as the co-chair of the WG. The WG was taken through the background document while there were some discussions on some points with very constructive inputs. She continued with the agenda item 5 on the mandate which had no change from the previous year. She suggested that the minutes be adopted if no other comments are raised by the WG.

The Chair asked the floor for any comments, and he suggested the minutes to be adopted from the WG if there were no substantial comments. Since he was absent from the last meeting, he indicated his interest on an update of the annual contributions to the accounts.

The ED called on Mr. Kawaguchi to present the updates.

Mr. Simon Kawaguchi thanked the Chair and the members and commenced on the report of the current status of administrative contributions since the last WG meeting in May. He informed that on the producer side, 5 additional contributions were received from India, Myanmar, Thailand, Guatemala, and Trinidad and Tobago. Out of the total net assessment for producers \$3,371,856, total received is \$1,383,570, which is about 41% of the total assessment for producers. On the consumer side, one additional payment was received from the USA making the total received \$2,431,577 out of \$3.8 million assessed by the consumers, which is about 64%. Out of the total assessment of all members \$7,173,000, \$3,815,148 has been received, which is about 53% of the total assessed contribution for 2023 (excluding arrear payments).

The ED informed that Brazil made one arrear payment recently, which was a pleasant surprise. Brazil is yet to pay the full amount owed, close to a million dollars. She added that China's contribution of 1.1 million is expected sometime this month where it is paid usually in October.

The Chair thanked the Secretariat on the valuable information on the status of assessed contributions for this year. He also thinks that some contributions will still be received in coming months. He asked the WG for any other questions related to the topic.

The ED provided another observation to the WG, that Malaysia has always made her assessed contribution one year in advance and is the only member continuing to do so. She thanked Malaysia for the ongoing commitment.

Mr. Merckell thanked the ED and suggested to move onto the next agenda item three since no other comments were made from the floor.

3. Discussion on the Mandate of the WG (explanation of payment plan proposal)

Mr. Merckell proposed that the Secretariat explain the payment proposal that was circulated to the WG through email.

Mr. Kawaguchi explained that the payment plan proposal had been sent by email to all members on September 13th. The proposals are for the members who are ineligible to submit project proposals in accordance with ITTA 2006, article 19.8, which is the absence of payments for assessed contributions in full for two consecutive years. Currently, members who have not paid their contributions for two consecutive years or more are not able to submit project proposals. As an incentive for these members to pay their arrears, they will be able to submit one proposal for every two years of arrears paid. This is to give members a chance to submit just one proposal every time they clear two years' worth of arrears. If they clear another two years, then they get another credit to submit a proposal. As it is indicated, this threshold of two years is open for discussion. For example, it could be three years per proposal. However, this is the current suggestion proposed by the Secretariat and this could be a temporary measure for four years commencing next year from January 2024, and it could be reviewed again in four years' time.

He also explained that there needs to be some clarifications on some of the current rules, in relation to the new proposals on the extra incentive. Firstly, there is a need to decide how to deal with a decision that was taken in 2002, Decision 7(XXXIII) which provides the members a write-off if members clear all obligations from 2002 onwards. In this decision, it states that members who have cleared obligations from 2002 onward would get a one fifth write-off for arrears from 1986 to 1996. It also talks about an additional rule for the eligibility to submit project proposals, which states that if the arrears from 2002 onwards, are three times the current assessed amount, then that also will disqualify members from submitting project proposals. The proposal is to discontinue this decision that was taken in 2002, in order to organize and make the current proposal simpler as many things have changed.

Secondly when members make contributions to the organization, there often had been arguments on which years the assessed contributions should go to. He clarified that the contributions will be applied to the payment in the order from the oldest to the newest arrear.

The third point to clarify is that members in arrears are not precluded from receiving voluntary contributions. He explained this since in the ITTA it only mentions that if a member is in arrears, it loses the right to submit project proposals and to vote. Those are the two penalties that are mentioned in the ITTA, while he wanted to clarify that members in arrears are still able to receive voluntary contributions.

The fourth point to clarify is that under the first ITTA 1983, there was a rule where late assessed contribution payments will be charged with interest. This was abolished in the ITTA 1994 and 2006. However, unpaid interest payments still appear in several documents such as CFA documents, as an obligation. A proposal would be to make these interest payments, which were only eligible under the first ITTA as obsolete. He explained that interests would not be accounted for, and also would not pose any issues with ITTO's financial reporting.

The last point of clarification is that since the clause on write-off will be abolished, if members would like to receive a write-off, they should do so in accordance with the article in the current ITTA 2006, to be relieved from obligations. He explained that this is where the case would go to the CFA or the Council. Members can make their claim to the CFA or the Council on their inability to pay their obligations and propose a payment plan, and then the Council may decide to write off obligations. He clarified that will be the only write-off clause that would remain after restructuring the rule on arrears. This proposal is for the WG's consideration.

Mr. Merkell thanked Mr. Kawaguchi for the clear explanation on the proposal put forward by the Secretariat. He then opened the floor for any comments from the members.

The ED added that the Secretariat had tried very hard to come up with more than one proposal. However, the strictness of the financial rules and what is legally specified in the ITTA made it virtually impossible to be more creative. The ED explained that the Secretariat had been working on individual outreach to select members who have been in arrears and have not shown much of an inclination to pay. This outreach led to the good news that Brazil paid for one year of its arrears, and Secretariat is also in discussion with Ghana who is considering the payment plan since the owed amount is close to \$800,000. Despite its economic difficulties such as the devaluation of their national currency and COVID complications, Ghana still remains committed to the ITTO; therefore, a proposal for a payment plan was suggested where they could pay in installments of two years at a time. She stressed that they were clearly reminded that they would still not regain the right to vote as long as arrears exist. She continued that the suggestion to Ghana was to do their best to pay a bulk, i.e. four or five years at once, although this will not be easy. Another discussion is with Ecuador where the ED is sending a fifth letter soon to them on how to bring it up within the higher authorities in their country. She continued that she also engaged six African member countries but had not heard from them which is unfortunate. Often the response is that another ministry has taken over and therefore require the letter to be resent to the new ministry in charge. She said that every effort is made to resend individual communications, and the reminder letters are planned to be sent out before the Council. The same is being done with a few other member countries through the year.

The ED continued that they are aware that important topics are being discussed at the Council session and if they would like to retain/regain the right to enter the decision-making process, they would need to pay. The other effort that the Secretariat had been working on with the donor governments is for all producer members who pay their contributions to be given first priority for voluntary contributions or emergency budget expenditure. She said that is working reasonably well at this stage and a few more countries who have paid up have submitted Concept Notes (CNs) at the generous invitation of the Japanese government, through which some CNs are being funded but the result for Japan's emergency budget submissions will remain unknown until the end of this year.

Mr. Merkell thanked the Secretariat for their efforts. He thinks the creativity is in this WG to find more ideas how to approach the issues related to arrear payments. Incentives to encourage payments will make a change whether they will pay or just give up. He then handed the floor to Mr. Daniel (US).

Mr. Carl Daniel said he will make three comments. He firstly thanked the Secretariat for the preparation and ideas submitted. Secondly, under this new system of the CNs, it is effective to identify early on projects that have a higher likelihood of being funded. He thinks the main clarification is to just confirm that this idea would apply to projects or CNs as well, and suggested to just add the words CNs. He sought just one clarification from Mr. Kawaguchi's presentation on the five bullets on 'assumptions and clarification'. He questioned if some of the bullets require additional decisions by the Council, and if so, that could be clearly identified. Regarding what Mr. Kawaguchi mentioned one of the things coming up in CFA as an issue, he thinks it is not an issue. His general suggestion is if the WG needs to make recommendations to the Council, then it should be identified clearly and exactly which points are to be raised.

Mr. Merkell then invited Mr. Van Assche from the European Commission.

Mr. Daniel Van Assche greeted the WG and thanked the Secretariat and the ED for all the endeavors towards the payment of arrears. He confirmed his understanding that the new proposals do not affect the voting right policy and it will remain unchanged. He raised a question to the Secretariat, during the consultations with the countries with arrears, if the current proposals were discussed with them to see whether this scenario will actually ease the payment process.

Mr. Merkell thanked Mr. Van Assche for the question. He suggested Mr. Andrusko to take the floor before handing it back to the Secretariat.

Mr. Andrusko asked for one clarification on whether the current proposal requires any changes to the Agreement to deal with Article 19.8.

Mr. Merkell added that there are a number of questions regarding the project proposals and CNs, such as if there would be any need for a Council decision for these assumptions listed below the proposal, and also if the proposal itself had been discussed with the concerned members regarding their rates. Finally, whether there is any need for changes to the Agreement related to the proposal. He requested the Secretariat for an enlightenment.

The ED replied that the Secretariat has already answered the question on whether this suggested proposal applies to CNs, and of course it does. She advised that it would be safe to have a Council decision on the first bullet: to abolish write-off of arrears contained in Decision 7(XXXIII) from 2002, which can be made through a recommendation by the CFA. Bullet two and three are common best practices hence do not require any changes so no need for a Council decision. Bullet four is also advisable for a Council decision through a CFA recommendation, as the interests incurred during the first ITTA 1983 is already abolished in the subsequent ITTAs so they should not be recognized as payable.

The ED moved on to reply to EU's question. She replied that the official answer is no, the proposals have not been discussed with the concerned members with arrears so as to receive some inputs from the WG first before any trials are carried out with the members. Potential payment plans are being discussed with only a few countries like Ghana, Ecuador and other African countries (for which the updates were provided earlier today), but these are being done independently to seek their cooperation and to facilitate their huge arrear payments. She continued to explain that several countries suffered military coups and are now under new administration, which may be in favor to get rid of their international debts. At least it provides the option to think and discuss within the new administration for feedback to the ITTO. She suggested if the WG is agreeable, the current proposals can be tested with the members. A recommendation for a pilot for four years can be made to the Council as an incentive for the members with arrears as two years is too short. She flagged a point which was not inserted in the text but had been mentioned many times in the WG meetings. There is a huge disincentive to members with arrears and/or trying to submit project proposals, which is the US\$14 million worth of projects pending finance. She also clarified that the voting rights policy will remain unchanged and replied to the question raised by Mr. Andrusko that there are no changes to Article 19.8 of the ITTA 2006.

Mr. Merkell thanked the ED for the feedback and for the reminder on the insufficiency of project funding. He sought comments and opinions of the WG members on the proposals suggested by the Secretariat and saw that the members are pretty much comfortable with the suggestions. From the position as a representative of Sweden, he agrees to try out different possibilities to encourage members to pay their arrears. The four-year pilot period should be evaluated for its effectiveness and whether it should be continued or not. He then invited Ms. Yamoto (Japan) to the floor.

Ms. Yamoto sought clarification on the proposals, starting with the third bullet where the members in arrears are not precluded from receiving voluntary contributions for existing project proposals. She asked if this was a new proposal or had existed previously. If not, she questioned if there had been any example in the past where voluntary contribution was made for those CNs which was already submitted by the members who already have arrears. As a comment, Japan is in favor of the proposed new rule that allows members to submit one proposal

for every two years arrears paid and cleared. Japan hopes that this will incentivize the arrear payments, however stressed that the write-off of arrears can be done in accordance with Article 30 of ITTA 2006 while strictly following this rule of two years payment continuously and not just a one-off payment. Finally, she commented that a four-year pilot period on the proposal may be too long in connection with the revision of the ITTA intended in 2025, and suggested to shorten the pilot period.

Mr. Merkell thanked Ms. Yamoto and invited Mr. Carl to the floor.

Mr. Carl enquired from the Secretariat on the first bullet regarding the write-off. He sought an explanation on the relationship of that Decision with the proposal, and a bit more of the background on the current practice. He also asked if the one-fifth write-off had been applied to some members and whether any negative effects would result by abolishing this process.

Mr. Merkell then invited Mr. Andrusko (Australia) for comments.

Mr. Andrusko commented that Australia supports the Secretariat's proposal and it is a positive step to be proposed at the Council session from the WG. He raised a question overlapping with that of Japan, but slightly different; given that the treaty is set to expire in three years, unless it is extended, whether it would be simpler just to trial the pilot for the remainder of the Agreement. He asked if there are any implications given that there is no decision yet in hand.

Mr. Merkell thanked Mr. Andrusko for the valid point raised, however commented that it has to be in parallel with the other WG and depends on the decision made at the current council session. He then handed over the floor to the Secretariat to respond.

The ED thanked the WG members for all their comments and inputs. She requested to respond to Japan first on the third bullet, whether this was something new. She explained that since there had been no example in the past, there is nothing explicit to demonstrate. At this stage, member countries in arrears for two years cannot submit project/CN proposals, strictly applying the rule. So for example, member countries who have paid up to a particular year holding approved projects that are pending finance, once they fall into arrears, then what happens. Hence, bullet three is actually suggesting an incentive for them to pay those arrears and rather not to stop them from obtaining funding if some of their approved projects or CNs are still valid. There could be a donor with a national focus on a particular country wishing to fund one or more project proposals from that country which may happen to have arrears. In that case, it should not stop that member who is in arrears from benefiting to obtain funding for projects that have already been approved and are still pending finance. The only change that is proposed is that even if they are in two or more years of arrears, if there are donors who are prepared to fund something that is already in the bank of project or CN proposals, then they should be allowed to benefit from that. There has not been any case in the past to date. The ITTO is encouraging donors to help the countries who pay regularly and those who are a little bit in arrears, not who are in huge debts.

She then moved onto the point from Japan on the interests that were due under the ITTA in 1983 but wished to confirm whether that was the question. On the pilot period, she replied that the Secretariat is very cognizant that the current agreement will expire in December 2026. However, the ITTA 2006 WG will be advising the Council to extend it until 2029. She explained that the Secretariat is very much aware that the four-year period may look a little bit long, but two years is definitely insufficient due to country situations such as those with changes in administration. She also considered the pilot duration for three years, but the main point is that even if the agreement expires in 2026, it does not mean that the ITTA or the ITTO will fall apart. The Secretariat will still continue as long as it is allowed to. She believes that the leadership at that point in time will do their level best to see through such measures together in collaboration with the members.

She added that even if the agreement does go through changes beyond 2026, it will not be finalized in 2026 nor 2027 because the negotiation process will take time. Scenario one that will be proposed for Council's

consideration from the ITTA 2006 WG foresees the actual preparatory committees for negotiations only to commence in 2026, if not 2027. She sees that it is still doable; However, if the WG feels that it would be safer to recommend a pilot for three years, that can be considered. She also reminded that the Programmatic Approach (PA) and related financial structures is still under pilot status, under the purview of the ITTO Advisory Board (AB) where the review is due in December next year. She flagged that this can be one of the measures to be reported to the AB, which the WG and the Secretariat have endeavored on for Council's consideration. She suggested to move forward from there on as that review on the PA could be delayed again or a decision taken to quit the PA and try an alternative approach. She then passed the floor to Mr. Breulmann from the Secretariat.

Mr. Gerhard Breulmann clarified that existing and approved project proposals and CNs as two different things. The existing projects are currently ongoing which have already received pledging. However, during the period of that project, a member could slip into arrears which is a very common situation. In this case, the projects will not be terminated or cancelled. He said that several projects could be listed as an example, which have been initiated at a time where all members and participants were in good standing but later on, one of those participating members slipped into arrears.

Secondly for the approved project, a list of projects or CNs pending finance is always published on the ITTO website and available for membership. He reconfirmed that if a member slips into arrears, the pending finance projects or CNs that the member had submitted before will not be taken down. When a member consults the Secretariat for advice on where to fund, the Secretariat usually advise that it is better to fund projects from members that are in good standing. However basically nothing prevents any member right now under the current rules, as the ED mentioned, if a member wishes to fund for good reasons, whether or not the country is in arrears or not, that is actually possible under the current regulations.

Mr. Merckel thanked for all the clarifications, and asked the WG whether all members are satisfied with the answers received so far. He invited Mr. Kawaguchi on further remarks.

Mr. Kawaguchi responded to Mr. Carl's question on the application of Decision 7(XXXIII), whether the proposal will have any negative effects. He explained that currently there are two parts to this decision on page four, part C. One is the write-off clause, and the second is the additional condition for becoming ineligible for submitting project proposals. On the first part with the write-off clause, the Secretariat checks whether when a member pays, if they have cleared all obligations since 2002, and if so, every year they meet the condition, one fifth can be written off from their obligations from the period 1986 to 1996, which is exactly the period when the ITTA in 1983 was enforced. That is the idea of clearing new arrears and writing off obligations from the old ITTA. This has been done in the past and lately in 2021 or 2022, and the Secretariat made a suggestion to update this clause to update the period so that if a payment is made under the current ITTA period, then the previous ITTA periods would gradually be written off, because this was created in 2002. For example, if all the write-offs are done, the periods between 1997 and 2001 are unaccounted for, for some reason. As there are some design issues with this Decision, the proposal was to update it so that it makes more sense and the members can focus on the current ITTA period which started in 2011 onwards. Everything before that can be gradually written off. He expressed that the Secretariat's impression was that there were some members who received this negatively and felt that there should not be a general write-off clause. Instead, if there's a need for a write-off, members have the right to go to CFA or Council through the article in the ITTA and make their case and then receive a write-off. This is the reason behind the Secretariat's proposal to discontinue the write-off scheme and it is about giving incentives for making payments. Some members who have received benefits from this particular decision, which was reported in last year's report, are Congo, Cote d'Ivoire, Gabon, Honduras, Liberia and Togo. Hopefully giving incentives to make payments and by allowing submission of proposals leads to a positive cycle of long-term incentive. The second part of the decision adds an additional condition for members to be ineligible to submit project proposals. Since the condition under the ITTA is two consecutive years, it just makes it harder for members to be eligible to submit proposals; hence, abolishing this is actually positive for the members. He concluded on the rationale behind the new proposal and that it would be more beneficial in the long run for the members.

Mr. Merkell thanked the Secretariat for the detailed explanations and comments. He reminded on the reply from the Secretariat gave the floor to Ms. Yamoto (Japan).

Ms. Yamoto thanked for the clarification and responded that her point was on the fifth bullet “Relief from Obligations”. She said that Japan would like to strictly apply this Article 30 in writing, and if this is the only proposal, then the payment or plan of the members in arrears is not included. She suggested to add the proposal that the members in arrears should submit a payment plan for the total arrears owed in order to receive this benefit of the two years of arrears payment with one concept note submission. Japan wishes to see that the members in arrears of more than two years are willing to pay for the rest of their arrears under a schedule, and agrees to the payment proposal if that condition can be considered.

Mr. Merkell thanked Ms. Yamoto and agreed that her point makes sense. He invited Mr. Ruiz from Mexico before passing the floor back to the Secretariat.

Mr. Jorge Ruiz suggested that an updated table or list of countries in arrears in their contributions be provided.

Mr. Merkell replied that there exists such a list which was presented in the last Council session. He passed the floor to the Secretariat to respond further.

The ED responded that the list of countries in arrears is available on the website in the Status of the Administrative Account which clearly shows which countries are in arrears. (www.itto.int/administrative_account/) The list also explains the amount of years that they have been in arrears, interest that is due, those due for 2023 and arrears from the past years. The Secretariat thought that it was unnecessary to provide the WG with a list as it is available to all members.

The ED moved on to respond to Ms. Yamoto’s suggestion, that there is no problem in adding the suggestion to include an arrears payment plan. She is aware that countries with arrears will take time to discuss with their ministries and hopefully to come up with a payment plan. Although she is not sure how effective this will be but there is no harm in including this and see how it goes. She shared that this approach had been tried with Liberia at the council in 2019 and Secretariat made concerted efforts to talk to them, but they did not respond to requests for discussions on the payment plan, it is now four years since that happened. She explained that is why the Secretariat is reluctant to stipulate too many details. The best would be to introduce something that is reasonably flexible for their consideration, and to talk to them individually. It takes a lot of effort to liaise and bring them into this process while the hardest hurdle is to figure out what would be the benefit to them. Nevertheless, the Secretariat has no problem including what Japan has suggested.

Mr. Merkell thanked the ED and asked for comments from the WG. He summed up that Japan has proposed to add some text stating that members in arrear should present their payment plan for their arrears. The Secretariat responded that it might be better to have a more simple approach to the wording, not to scare the members away from trying to pay their arrears. He opened the floor to the WG for any ideas and views.

Mr. Carl commented that it might be helpful to have some specific decision language that the WG recommends which the Council would be asked to adopt regarding project proposals, and then add the proposal from Japan. He thinks that Ms. Yamoto’s suggestion makes sense and that the USA would support Japan’s proposal. Clearly the country is wanting to respond and address their arrears because they are making a payment. He thought the idea might not be well received by the countries that are in arrears, but by applying this new flexibility, they may be in favor and inclined to come up with some sort of payment plan. He feels the WG cannot directly enforce it;

therefore to come up with a concrete language assumption that is not binding, i.e. simply that country's intention, to pay the arrears based on the schedule.

Mr. Merkell thanked Mr. Carl and asked for any further comments from the floor. He summed up that the USA and Japan are in favor of added text to the proposal itself. Since no other members of the WG is suggesting to stick to the original text, he suggested that the WG would be in favor of such addition of text. He thinks that the Secretariat is capable to add certain texts that is clear enough for everyone to understand. He also understood that the WG is in favor to have this payment plan proposal for a piloting phase of three or four years. The agreement itself could expire in December 2026, however the possible arrear renegotiation would most likely not be finalized by then and the ratification of a new agreement will only happen after December 2026. As such, he thinks a four-year period would be quite reasonable for this piloting. He sought additional views from the WG.

Mr. Van Assche commented that he does not have strong views whether it should be three or four years, but just a slight preference for three. From his experience on pilot initiatives, it is often that some members come in just in the final year as they would wait while observing. He would agree to four if the majority is in favor.

Mr. Merkell thanked Mr. Van Assche for his valid point. He requested the floor for more views.

Mr. Andrusko also commented that he had no strong views, therefore would agree to the majority's decision.

Ms. Yamoto added to her earlier comment that she wanted to make sure that the WG and the ITTA revision process would not collide with each other. She also flagged that the CFA should have constant input from this activity in order to monitor the pilot phase. She suggested to consider the possibility of amendment or termination earlier than four years if necessary.

Mr. Merkell agreed with Ms. Yamoto that the CFA will monitor the development of the pilot phase, and that the duration can be shortened or even extended if appropriate. He said that unless any other voices are raised, he would put forward the pilot proposal for four years. He then announced the exhaustion on agenda item three and continued on to the WG's reports to the ITTC 59 which comes forward with clear proposals to the Council in mid-November this year. He hopes that the Secretariat would be available for preparing a draft report that the WG could react on as usual, and handed the floor over to the Secretariat.

4. WG Report to ITTC 59 – proposed deadline for the dissemination of the WG Report to WG members MONDAY 2nd October 2023

The ED expressed gratitude to the Chair and the WG members for their active discussion on the proposals in finding ways forward. She said that the Secretariat will naturally draft the WG report for the WG's consideration and inputs. It will be circulated within the WG first for reviews. Also, a draft paragraph of recommendations just like for the ITTA 2006 WG will encompass a number of the issues that have been agreed today. Additionally, a simple draft decision that the CFA will be monitoring the progress of the pilot approach will be circulated to the WG. Usually the draft council documents are distributed in time to upload the report on the website between four to six weeks prior to the Council. The suggested date in the email circulated was Monday October 2nd, which gives the WG about 10 days to finalize the report so that it can be disseminated and posted on the website, latest by 12th October. She suggested to work with some contingency time as with the ITTA 2006 WG, the schedule was pushed back due to different reasons.

Mr. Merkell acknowledged the ED's suggestion and thanked Mr. Carl for actively submitting his proposals in the chat. He suggested that to be considered for inclusion in the report by the Secretariat. He opened the floor for final comments by the WG members.

The ED commented that the Secretariat will do its best to send out the first draft report by October 2nd for your feedback. At the same time, this draft will also be sent to the translator so that any amendments can be made in track changes and incorporated rather quickly.

Mr. Merkell recommended that all proposals for changes in the draft report should be in track changes and not in comments, to ease the workload for the Secretariat.

The ED thanked Mr. Merkell for his consideration and thanked the members who contributed to the other WG which had been quite complex with a heavy workload.

Mr. Merkell concluded that agenda item four is completed and asked the floor if any other matters under item five have come up during this meeting.

5. Other Matters

The ED mentioned one very important matter which was not included in the agenda for today. This is on whether to put in a recommendation for the Council to continue the mandate of this WG or if it should take a break if the Council is agreeable to the pilot phase of the payment plan plus the ongoing arrear payment proposals. She said that this does not have to be answered now, as long as the feedback from this WG can be received before the ITTC 59.

Mr. Merkell agreed and commented that it could be a decision or a proposal from the CFA that there is a need for some kind of continuation of such a WG. He thinks that the mandate of this WG has more or less been exhausted even though it can continue. His proposal is that when discussing this issue in the CFA, the CFA could come up with the proposal for a decision to have some kind of a WG set up to continue these discussions. He opened the floor for other members on other ideas. As the floor was quiet, he concluded that the WG is very exhausted and this work should be finalized for the time being. If so, there may be a need for one more WG to continue this work. He asked the Secretariat if in that case, it would be the CFA to put that recommendation forward and not from the WG.

The ED clarified that if this matter were to be discussed at the CFA, then the Council would have to direct it to the CFA. The WG will present its report to the Council at the ITTC 59, and one of the recommendations to the Council would be to defer further discussions down to the CFA. This will not actually be added to the draft decision as it needs to be articulated by the Co-chairs at the ITTC 59. She also pointed out that if the discussions are then deferred to the CFA, then the CFA will monitor the pilot approach and everything else, and the CFA can make a recommendation at the end of next year if the WG is to continue. Alternatively, following discussions at the ITTC 59, Council can already decide whether the WG should be continued as before or with a slightly different mandate, or with any innovations that can be introduced within the financial rules and the ITTA.

Mr. Merkell said that his understanding is the same as his intervention. He then thanked the WG for the very constructive and active participation and commented that the WG has done a good job during the year. He hoped for a better position with the budget that fits its purpose and closed the WG meeting.

The ED thanked the Chair and all the members of the WG.

The WG was adjourned at 20:33 hrs (Japan Standard Time).