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COMMUNICATION RECEIVED FROM THE PERMANENT MISSION OF SPAIN ON 12 MARCH 2002 CONCERNING ADOPTION OF THE EURO BY THE AGENCY

On 12 March 2002 the Director General received a letter from the Permanent Representative of Spain, on behalf of the European Union, attaching a memorandum on the adoption of the Euro by the Agency. The letter from the Permanent Representative of Spain and, as requested, its attachment are herewith distributed for the information of Member States.

02-04141 (131)
Translated from Spanish

Permanent Mission of Spain to the international organizations
Vienna

Vienna, 3 January 2002

OIEA/No. 46/2002

Sir,

In connection with item 8 of the agenda for the next Board of Governors, Planning for the Programme and Budget for 2004-2005, I hereby inform you that the European Union will be making a statement proposing to the Board that the Secretariat study the implications of adopting the euro as its base currency. I attach a memorandum justifying this proposal.

I would be grateful if this memorandum could be circulated to Member States in all official languages sufficiently in advance of the discussion of this item.

Accept, Sir, etc.,

(signed) Antonio Núñez García-Saúco
Ambassador, Resident Representative



12.03.02

EU Memorandum on the adoption of the euro by the IAEA

Introduction

The final stage of the European Union economic and monetary union began on 1st January 2002 when the national currencies of twelve European countries including Austria, the IAEA's host country, were definitively replaced by the Euro. Today, about 300 million Europeans use the Euro for their daily transactions and the "euro zone" reaches beyond those twelve countries. Indeed, apart from its foreseeable expansion in the European continent, many other non-European countries have linked their currencies to the euro.

The present split-currency assessment and appropriation system, whereby the respective dollar and – since 2002 - euro shares in the assessment correspond approximately to the current expenditure in both currencies, was introduced in the IAEA in 1986 by decision of the Board of Governors. Although the assessment is done in both currencies, other formal aspects of the budget (presentation, accounting, reporting) are expressed in dollars. The split-currency system was introduced to overcome the difficulties that the exchange rate fluctuations were causing the IAEA at that time. The Agency was specially sensitive to these fluctuations because it was financially based on a currency (the dollar) in which only a small fraction of its expenditure occurred.

In fact, the geographic location of the IAEA implies that the overwhelming majority of its expenditure occurs in euros (82% in 2001) and the rest in dollars. The main component of the euro expenditure is the staff salaries (68,7% of 2001 Regular Budget) while the main component of the dollar expenditure (6,1% of 2001 Regular Budget) is for historical reasons the IAEA contribution for professional staff to the UN Joint Staff Pension Fund. Other important expenses in dollars are: "research and technical contracts", "travel", "equipment purchased / construction work", "contracts" and "miscellaneous".

The arrival of the euro has resulted in a number of International Organizations located in Europe examining its introduction as a base currency. The closest case is UNIDO, an Organization that bears many similarities to the IAEA, including the proportion of both currencies in their split-currency systems. UNIDO's Member States and the Secretariat considered the change beneficial and as a result, from 2002 onwards, budget assessments are in euros. Other International Organizations located in Europe, within or outside the UN system, have adopted the same decision (e.g. World Tourism Organization, International Criminal Court). Some Organizations are at present discussing the issue (FAO, WFP) and others will discuss it in the future. It should also

be mentioned that those International Organizations that were based on eurozone currencies (OECD, OPCW), changed automatically to the euro on 1st January 2002.

Finally, the issue of the convenience of basing the budgets of UN specialized Agencies on local currencies was analysed by the Joint Inspection Unit in 1989 (JIU/REP/89/9). It was recommended then "to establish the budget in the currency of the host country if more than 85% of the expenses were done in this currency"

Reasons for the change

The present split-currency system, which is based in two currencies, the dollar and the euro, but presented in dollars, is a complicated system, more staff intensive and therefore more costly to run. Those inconveniences result from the fact that, although most of the expenditure occurs in euros, budget presentation, accounting and reporting are in dollars.

The main advantage of a single currency system based on the euro is its relative simplicity and straightforward application, especially with respect to accounting and transactions. Transactions for budget and accounting would be recorded in euros, thus making comparison of budgets with actual expenditure simpler. This would lead to more transparency and simplified budgetary control.

If adopted, it would benefit both the Secretariat - easier to manage, improvement of financial monitoring and control, simplification of procedures, etc. - and Member States - reduction of costs, more transparency, easier to understand, simplification of payment procedures, etc.

While the new system would expose the Agency to some risk of currency fluctuations linked to the non-euro component of expenditure – currently at 18% - this risk could be reduced by lowering the dollar expenditure in the above mentioned items. This reduction could very likely bring the dollar share below the 15% threshold mentioned by the JIU. As to the IAEA contributions for professional staff to the Pension Fund, where the commitments are in dollars, future changes cannot be excluded¹.

Mechanisms exist - and have been introduced by other International Organizations - to take care of a residual exchange rate risk. Among them one could mention the advanced purchase of dollars and the creation of a specific Reserve Fund for gains and losses resulting from exchange rate fluctuations. As to the costs of introducing the change, any such costs will be relatively small and more than offset by long-term savings.

Conclusions

The introduction of the euro, which has created a new financial environment, provides the Agency with an opportunity to improve its effectiveness, efficiency and transparency. In this respect, the EU is of the opinion that the introduction of a single currency system based on the euro would be to the benefit of the IAEA as well as that of its Member States.

¹ Some retired staff receive their pensions in euros. The UN Staff Pension Fund might therefore allow part of the IAEA's contribution to the Fund to be paid in euros.

We recognise nevertheless the need for a study by the Secretariat on this issue before any final decision can be taken. The study should analyse the budgetary, operational, financial and legal implications of the adoption of the euro as base currency in the IAEA and should include recommendations to the Board of Governors.

On the basis of the above mentioned considerations, the EU invites the Board of Governors to adopt the following decision: *"In connection with the Planning for the Programme and Budget 2004-2005, the Board of Governors requests the Director General to present a report to the next Board on the budgetary, operational, financial and legal impact of the possible adoption of a euro based financial system. The report should include the formulation of appropriate recommendations".*