



International Oil Pollution
Compensation Funds

Agenda Item 6	IOPC/APR17/6/1/1	
Date	3 April 2017	
Original	English	
1992 Fund Assembly	92AES21	
1992 Fund Executive Committee	92EC68	
Supplementary Fund Assembly	SAES5	●

REVIEW OF THE WORKING CAPITAL OF THE SUPPLEMENTARY FUND

Note by the Director

Summary:

At the October 2016 session of the Supplementary Fund Assembly, a number of delegations expressed the view that there was an inequitable distribution of the burden of the working capital in the Supplementary Fund. The Assembly instructed the Director to review the working capital and the sharing of the burden amongst Member States, and to put forward a proposal to the Assembly at the next session.

The Director has examined this issue and proposes that the working capital of the Supplementary Fund should be maintained at £1 million. He further proposes a reimbursement of £830 000 on 1 March 2018 from the estimated balance of £833 061 in the General Fund as at 31 December 2017. The reimbursement is to be made to contributors in the 19 Member States who contributed to the only levy to the Supplementary Fund. The Director also proposes that a General Fund levy of £1.5 million (which includes administrative expenses of £500 000 for the foreseeable future) be levied for payment by 1 March 2018 by contributors in the current 31 Member States.

Action to be taken:

Supplementary Fund Assembly

- (a) Decide whether to maintain the working capital of the Supplementary Fund at £1 million;
- (b) decide whether to reimburse £830 000 on 1 March 2018 to contributors in 19 Member States who contributed to the levy to the Supplementary Fund; and
- (c) decide whether to levy £1.5 million to the General Fund payable by 1 March 2018 by contributors in the current 31 Member States.

1 Introduction

1.1 The Supplementary Fund's Financial Regulations provide that a working capital shall be maintained at such a level as the Assembly may decide from time to time (Financial Regulation 7.1(b)).

1.2 Under Financial Regulation 7.1(c), the Supplementary Fund shall have a General Fund which shall be used:

- (i) to meet the costs and expenses of the administration of the Supplementary Fund and any

other expenditure which may be authorised by the Assembly; and

- (ii) to make loans to a Claims Fund for the satisfaction of payments referred to in Article 11.1(i)(b) of the Supplementary Fund Protocol, to the extent that sufficient money is not available in that Claims Fund.

1.3 In order to enable the Supplementary Fund to respond to unforeseen expenditure, the Assembly at its first session in March 2005 decided that the Supplementary Fund should have a working capital of £1 million.

2 Considerations by the Supplementary Fund Assembly at its October 2016 session

2.1 At the October 2016 session of the Supplementary Fund Assembly, some delegations expressed concern that there was an inequitable distribution of the financial burden since the working capital of the Supplementary Fund had been financed by a fewer number of Member States in 2007 compared to the current membership. It was also suggested that the balance in the General Fund should be reimbursed to the contributors who had initially contributed to the Supplementary Fund and that levies should be made to meet administrative expenses in the future as required. A number of delegations agreed that this issue required consideration.

2.2 The Supplementary Fund Assembly therefore instructed the Director to review the working capital and the sharing of the burden amongst Member States and to put forward a proposal to the Supplementary Fund Assembly in April 2017 (see document [IOPC/OCT16/11/1](#), paragraph 9.1.22).

3 Director's considerations

3.1 The Supplementary Fund will only make compensation payments if claimants have been unable to obtain full compensation under the 1992 Fund Convention. It is therefore unlikely that the Supplementary Fund will be called upon to make payments in the early stages of an incident. If an incident were to occur which would require the Supplementary Fund to make compensation payments, there would be sufficient time to convene a session of the Assembly to decide a levy of contributions. In the Director's view it would therefore not be necessary for the Supplementary Fund to have a significant working capital.

3.2 However, it is important for an organisation to maintain some reserve funds. In order to avail of banking facilities with financial institutions and credit facilities with suppliers, the organisation should be in a position to prove its financial stability. The Director therefore considers that a working capital of £1 million should be adequate for the Supplementary Fund.

3.3 The Supplementary Fund Assembly, at its October 2006 session, decided on its first and only levy of £1.4 million which included a working capital of £1 million. There were 19 Member States to the Supplementary Fund who contributed to this levy. At present, the Supplementary Fund has 31 Member States. Since there have been no further levies, contributors in 12 Member States have not made any contributions to the Supplementary Fund. This has created an inequitable distribution of the financial burden among contributors in Member States.

3.4 In the Director's view, a fair distribution of the financial burden can be achieved by reimbursing £830 000 from the estimated balance in the General Fund of £833 061, as at 31 December 2017, to contributors in the 19 Member States of the Supplementary Fund who contributed to the levy (see document [IOPC/OCT16/9/1/2](#), paragraph 4.3.1).

3.5 There are no provisions in the Financial Regulations for reimbursement from the General Fund. The levy decided in 2006 was based on the contributing oil reported in 2005 and the Director is of the

view that the amount to be reimbursed to each contributor should be made on the same basis as the levy.

- 3.6 It is important for the organisation to maintain some reserve funds. This will require that new contributions be levied by the Supplementary Fund Assembly. The Director therefore considers that the Assembly should decide to levy £1.5 million to cover the working capital (£1 million) and administrative expenses (£500 000) for the foreseeable future. The levy is payable by 1 March 2018 by contributors in the current Member States.
- 3.7 The Supplementary Fund has an annual administrative expense budget of some £40 000, made up of the management fee payable to the 1992 Fund and the cost of the external audit. It is assumed that if the Supplementary Fund is not involved in any oil spill incident, the administrative expenses will remain the same in the future. Given this level of administrative expenses, a levy of £500 000 should be sufficient for the next 12 years.
- 3.8 The Director is also of the view that the Supplementary Fund Assembly may need in the future to review the working capital and the sharing of the financial burden among contributors in Member States in light of new incidents involving the Supplementary Fund and new States acceding to or ratifying the Protocol.

Director's proposal

- 3.9 The Director considers that there is no reason to change the level of the working capital decided by the Assembly at its March 2005 session. He proposes therefore that the level of working capital be maintained at £1 million.
- 3.10 In order to address the inequitable distribution of the financial burden between contributors in Member States, the Director proposes that £830 000 from the estimated balance of £833 061 in the General Fund as at 31 December 2017 be reimbursed to contributors in the 19 Member States, who contributed to the first and only levy, on 1 March 2018.
- 3.11 The Director also proposes a levy of £1.5 million to be payable by 1 March 2018 based on oil reported for 2016 by contributors in the current 31 Member States. This levy would cover the working capital (£1 million) and administrative expenses (£500 000) to avoid depleting the working capital and burdening contributors with relatively small payments to cover administrative expenses.

4 Action to be taken

Supplementary Fund Assembly

The Supplementary Fund Assembly is invited to:

- (a) take note the information contained in this document;
 - (b) decide whether to maintain the working capital of the Supplementary Fund at £1 million;
 - (c) decide whether to reimburse £830 000 on 1 March 2018 to contributors in 19 Member States who contributed to the first levy to the Supplementary Fund; and
 - (d) decide whether to levy £1.5 million to the General Fund payable by 1 March 2018 by contributors in the current 31 Member States.
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