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Long-term financial sustainability - ePhyto

Agenda item 13.1

Prepared by the IPPC Secretariat

1. Background and Purpose

- [1] The purpose of this document is to outline an acceptable plan for CPM-15 (2021) to determine how best to ensure sustained resources for the IPPC ePhyto Solution. The IPPC ePhyto Solution consists of a centralized system to facilitate the exchange of ePhytos between National Plant Protection Organizations (NPPOs) and a Generic ePhyto National System (GeNS), which is a web-based system to allow countries without their own technology system to produce, send and receive ePhytos in a harmonized format which is exchanged with other participating NPPOs through the ePhyto Hub. Ninety-one countries in total are registered on the system, and forty-nine countries are now exchanging ePhytos “live” as a part of regular business operations. Nearly 500,000 ePhytos were exchanged in 2020.

2. Discussion

- [2] As Contracting Parties are well aware, the IPPC ePhyto Solution was an initiative of the Commission on Phytosanitary Measures (CPM) 9 (2014) to advance the implementation of electronic phytosanitary certification (ePhytos) in order to facilitate the safe trade of plants and plant products. The initial stages of the project were supported by the Standards and Trade Development Facility and a number of donor countries (Australia, Canada, the European Commission, Ireland, Japan, Republic of Korea, New Zealand, Switzerland and USA/NAPPO). Total financial support received to date amounts to over 3 million USD.
- [3] Overall annual operating costs amount to approximately 685,000 USD which includes resources for two professional staff. The IPPC budget currently has sufficient dedicated resources specifically for ePhyto to cover expenses through the end of 2022. While indications have been provided by some previous donors that they will continue to provide resources to support continued operations of the ePhyto Solution, there exist no hard and fast rules, requirements or mechanisms within the IPPC framework to ensure sustained funding of the ePhyto Solution.
- [4] A number of discussions have taken place during the past few years focused on how to financially sustain the IPPC ePhyto Solution. A number of reasonable proposals have been put forth, some of which would be more difficult and others easier to implement. These include (with pros and cons):
- (1) **Fixed charge per phytosanitary certificate payable to the IPPC Secretariat by the contracting party for maintenance and operation of the system (from US\$.05 to US\$1.00 per ePhyto)**
 - **Pro:** Would provide a steady and sustainable income stream. Costs would be allocated strictly according to usage
 - **Con:** Countries would need to determine how to pay for the per certificate charge. This could include using government funds or could be by recovering costs from exporters or industry users. Some countries do not currently have a cost recovery mechanism in place for phytosanitary certificates so if government funds were not available, new legislation may be required to enable cost recovery. Countries that currently charge exporters for phytosanitary certificates could continue to do so and incorporate the ePhyto charge into the current phytosanitary certificate charge. Charging for each certificate may be administratively complex and inefficient particularly if the charge per certificate is very low. In addition, industry organizations representing several sectors consider that it is not appropriate for the IPPC to set fees or standards for sharing the data that is conveyed on phytosanitary certificates – paper or electronic. Industry believes that neither IPPC nor any 3rd party should have the ability to charge for access to information that impacts commercial trade for which a Phytosanitary certificate may be needed.

(2) **Monthly Fee: charged to contracting parties using the ePhyto Solution based upon a number of factors such as country development status, gross national income, population, volume of use, and the overall capacity to pay.**

- This could be established along the lines of the annual contributions to the overall UN operating budget with adjustments to weight contributions according to the volume of ePhytos issued and received. Interestingly, contributions from the USA for ePhyto over the past few years of 150,000 USD are roughly equivalent to 22% of the ePhyto budget *and* the contributions of the USA (22%) to the UN operating budget. In addition, the top 20 countries contribute 83.78% to the UN operating budget while the other 173 countries contribute 16.22% only. (For the ePhyto Solution as noted above, only eight countries have sustained ePhyto over the past few years). Almost all IPPC Contracting Party users would need to be willing to commit resources for using the ePhyto Solution.
- **Pro:** As for option 1 above, this would provide an assured income stream. Administration of the system would be significantly simpler and less costly than option 1. Using the UN system as a starting point to weight contributions recognizes the ability of more developed countries to pay a higher proportion of the overall costs. The fee could be set in such a way that least developed countries would access the system for free and other developing countries would only have minimal payments (for example, based on the UN formula, ePhyto Solution user country Morocco could only need pay approximately 3,425 USD per annum for access).
- **Cons:** Billing processes for collection of fees would need to be established and managed which would incur additional administrative overhead costs. The United Nations Office of Project Services (UNOPS) could be engaged (for a fee) to manage the financial aspects of this approach (and other approaches discussed in this document).

(3) **Annual Fee: charged to contracting parties using the ePhyto Solution based upon a number of factors such as country development status, gross national income, population, volume of use, the overall capacity to pay.**

- Like the preceding approach this model assumes that a standard invoicing regime is desirable. The cost of running the ePhyto Solution is likely to be relatively static month to month, but there may be considerable variation in the number of certificates exchanged month-on-month because of seasonal factors. Hence an annual billing cycle is proposed. The volume component of the fee would be calculated based on usage in the previous year rather than trying to predict future usage.
- **Pro:** This option would provide an assured income stream. Administration is simpler and overhead costs of the model are lower than option 1 and 2. This option removes seasonal fluctuations in costs. In addition, this option could be applied to other international organizations (e.g. OIE) if they wanted to use the ePhyto Solution for exchange of other certificates.
- **Con:** Some contracting parties may prefer a smaller, more frequent (monthly) invoice rather than one annual fee. As for options 1 and 2 complex administrative processes would need to be established to establish fees and manage invoicing and receipt of payments.

For options 1, 2 and 3:

- a) A decision would be needed on whether least developed countries or countries with a very low usage of the ePhyto Solution could be exempt from charges. Exempting low use countries could significantly simplify administration and enable more rapid uptake by developing countries without imposing significant additional costs on countries with higher use. An appropriate volume threshold would have to be established and the establishment of that volume and who would be responsible for setting that level could become problematic.

- b) A decision would also be needed on whether charging should be based on all transactions through the ePhyto Solution (inward (import) and outward (export)), or just outward (export) transactions. Currently charges for ePhytos tend to be incurred by the exporting country or exporter.
 - c) A transition period of 1 to 2 years may be needed for countries needing to establish a funding stream or cost recovery system.
 - d) There would need to be a decision on possible consequences (e.g. withdrawing access to the system) if countries did not pay the charge for their use for the ePhyto Solution. Countries in this situation could still issue paper phytosanitary certificates. This could be very contentious and has the risk of disproportionately affecting countries/industries, also compromising the impartiality of the IPPC ePhyto Solution and rendering the whole electronic exercise moot – what would incentivize countries to attach themselves to an “electronic” process when they will be penalized, when the paper option offers much clearer adherence and no penalization?
- (4) **Multiyear voluntary contribution agreements from national governments, donor organizations and industry organizations (not individual firms).**
- **Pro:** Similar to current situation with contracting parties and donor organizations providing donations. Adding the ability for industry organizations to make contributions would increase potential sources of funds. Administratively simpler to receive and manage funds. Easy to implement, monitor and maintain. A written commitment could also hold countries and donors accountable. Additionally, this could also be aligned to a system along the lines of proposal number 2, which is also legally valid under FAO rules.
 - **Con:** Insufficient funding being received currently to sustain operations over the long term. No long-term assurance that sufficient funding would be forthcoming. Would require additional Contracting Parties and new donors to step up and commit sustained resources. Does not allow for sustained operations and planning as no legal commitment would exist from either Contracting Parties or private sector organizations regarding sustained contributions. Voluntary nature of the agreement implies that countries are not mandated to provide resources and again brings up the issue of what to do if a country doesn't honor its commitment. Not fulfilling commitment to provide resources would result in potential shortfalls in funds.
- (5) **FAO to cover all operational costs as a component of business as usual operations for the organization.**
- **Pro:** Eliminates the need for IPPC Contracting Parties to provide resource support directly to the IPPC Secretariat. Maintains the impartiality, non-biased, non-preferential access to phytosanitary information to all interested parties. NPPO/competent authorities issuing and receiving ePhytos retain ultimate control over cost as well as management of the ePhyto issuance process. Ensures sustainability over the long term (assuming it becomes a fixed item in the FAO operating budget).
 - **Con:** Requires FAO Council to agree. Requires active lobbying on the part of Contracting Parties through their FAO representative as well as lobbying in individual countries to ensure alignment with national goals and objectives regarding FAO operations. Contracting Parties have not given the impression in prior years that they are either willing or influential enough to gain support for this type of approach in the past. This would be a less flexible funding option as the amount of funding available will be constrained by and could be changed by FAO budget processes each year.
- (6) **Access fee charges for blockchain companies and/or private industry to access the ePhyto “channel” services.**
- **Pro:** No resources required from either Contracting Parties or direct budget allocation from FAO. Could also provide additional technical resources if approached through a “partnering” approach.

- **Con:** Industry has shown no inclination to provide anything other than verbal/written guidance, and in-country lobbying for NPPOs to join the ePhyto Solution. Establishing and *maintaining a billing system to private industry may not even be legal under UN and FAO rules*, and if it is possible, it would require a completely different financial and accounting approach. Contracting Parties and industry would have to establish a high degree of trust of one another to ensure smooth and effective functioning of such a system. Another concern is whether those industries with greater financial reach get better access or get to stipulate usage and operational aspects of the ePhyto because they are making financial contributions to make the system better? In addition, could this option imply that the ePhyto Solution or aspects of the ePhyto Solution are up for hire? Perhaps most importantly, the ePhyto Solution is supporting the provision of government to government official assurances in a way that significantly reduces the ability of private sector players to tamper with or produce fraudulent certificates. Direct involvement of the private sector in funding, design or operation of the system may be perceived as putting this at risk and therefore be inappropriate.

(7) **Establishment of a government/private sector consortium (including other international organizations interested in and/or participating in the Hub for exchanging their certificates) which manages and develops a unique funding mechanism.**

- **Pro:** This would be a new concept, perhaps similar to the TIR system for international transport, but it would also demonstrate, if successful, the ability for government and industry to successfully work together. Would put the onus to develop the financial management system for ePhyto on the consortium rather than the IPPC Secretariat or FAO. Government/industry combination *could* mean sustained resources over the longer term as buy-in would be from all sectors interested in continued operations.
- **Con:** Would require a much longer time to put into place. Putting together the legal framework, determining the structure, and consortium responsibilities would require detailed deliberations. And, Contracting Parties and businesses alike would have to overcome longstanding distrust of one another to ensure smooth and effective functioning of such a system. As stated above the government to government nature of the assurances provided through the ePhyto Solution may mean it is inappropriate for the private sector to be directly involved particularly in a governance or management function. In addition, industry representatives are also of the strong opinion that the entity operating the ePhyto Solution – be it UNICC or IPPC – should not be directly funded by the commercial trade/commercial operators for which an ePhyto may be needed and that benefits from the IPPC ePhyto Solution.

[5] The preceding discussion provides a brief description of the most viable approaches for long-term sustainability for the IPPC ePhyto Solution. In depth consideration of these options requires more extensive investigation as regards their practicality and acceptability before CPM can be asked for a final preference. Some of the proposals may simply be impractical or too complicated and time-consuming. Option 6, charging blockchain companies for copies of phytosanitary certificates would be problematic as it would require changing the way the IPPC Secretariat – the owner of the IPPC ePhyto Solution – handles finances if *it is even legal*). In addition, things would necessarily change should other organizations such as OIE or Codex wish to use the ePhyto Solution to transform it into an SPS electronic certification solution, and CPM may not be willing to be so reliant on the private sector.

[6] Therefore, CPM is being requested to narrow the number of options for sustained ePhyto Solution financing to no more than three that can then be fully explored in-depth by a small working group where both Co-chairs of the IAG representing the industry will be invited to participate (reporting to the ePhyto Steering Group) with the specific assignment to prepare and present a decision document for CPM-16 (2022). The following are proposed as the steps to take to put CPM-16 (2022) in the position to make a decision as to which option to choose for sustainably funding ePhyto:

- (1) **March 2021** - CPM-15 (2021) reviews the above options, decides on the three best, and establishes a small working group comprised of government and industry partners to thoroughly investigate the remaining options for the purpose of making a final proposal as the way forward for sustainable funding of the ePhyto Solution for CPM-16 (2022).
- (2) **April-September 2021** – Small working group comprised of government and industry partners evaluates the remaining options from the perspective of pros and cons, possibly with the assistance of the United Nations Office for Project Services (UNOPS) and FAO Legal, and prepares a paper with their results for the Autumn 2021 meeting of the Strategic Planning Group (SPG).
- (3) **October-November 2021** – SPG reviews the small working group document with pros and cons, provides comments, inputs and additional guidance on next steps for the proposal. Perhaps even advocates for a specific option.
- (4) **November 2021/January 2022** – Small working group adjusts document for CPM with final recommendation for sustainably funding the IPPC ePhyto Solution.
- (5) **March/April 2022** – CPM-16 (2022) reviews document on sustainable funding and decides which approach to implement. The IPPC ePhyto Solution Steering Group along with the CPM Bureau reviews the state of ePhyto finances and the complexity of the option to determine an appropriate transition period and action plan for implementing the sustainable funding approach.
- (6) **First quarter 2023** – The IPPC ePhyto Solution sustainable funding mechanism is established, or should a more challenging option be agreed upon by CPM, a transitional period may be established necessitating additional donor contributions for a specific period of time .

[7] CPM-15 (2021) is invited to:

- (1) *review* the options presented in this document,
- (2) *decide* upon the two or three preferred options to be consider in detail,
- (3) *agree* a small working group, comprised of government and industry partners be established reporting to the ePhyto Steering Group,
- (4) *charge* the small working group to evaluate the remaining options in depth following the process outlined above and prepare a final decision document on sustainable funding for the IPPC ePhyto Solution for CPM-16 (2022).