

## **Committee on Budget, Finance and Administration**

### **REPORT ON WTO SALARY METHODOLOGY**

1. Further to the decision by the General Council of 13 December 2002 (document WT/GC/M/77), the Committee on Budget, Finance and Administration has discussed extensively the methodology to be adopted by the WTO for future salary adjustments.

2. In examining this question, the Committee took account of all relevant factors and documents<sup>1</sup> referred to in that decision and the elements listed in the statement by the General Council Chairman on 13 December, in order to provide WTO staff with salaries, benefits and other conditions sufficiently competitive internationally to attract and retain a highly skilled and motivated staff. The Committee examined a wide range of information on recruitment and retention of staff, and the organisations and sectors between which there was the greatest movement of personnel to and from WTO. The Committee was assisted by a consultant, who advised, and provided a great deal of technical information, on various ways of constructing a salary methodology and choosing appropriate comparators.

3. The Committee subsequently looked at a number of approaches, mindful of the need for a methodology which could provide for a smooth and predictable adjustment mechanism which could be implemented fully and in good faith on an annual basis.

4. The Committee invited the Staff Council to present their views to it on a regular basis, and took careful note of their comments and papers presented by the staff. The Chairman and individual members of the Committee also had frequent consultations with staff.

5. The Committee examined three broad options:

- 1) A selection of intergovernmental organisations to represent broadly the market in which the WTO competes for staff, weighted to reflect the relative influence on that market of each of the organisations in question;
- 2) A basket of the salary levels of a number of national civil services, including an appropriate adjustment for expatriation; and
- 3) Using parity with the UN as a baseline for annual adjustments in line either with real pay increases granted by five national civil services currently used for the annual cost-of-living adjustments under Staff Regulation 6.2, or a revised adjustment to reflect the real cost-of-living changes in Geneva, including a more representative element for housing costs.

6. In the course of discussions, it became apparent that Option 2, while attractive in principle, would not be viable in practical terms, as the appropriate data were not readily available on an annual basis. Option 3 attracted support from some delegations, but others felt that it did not create the basis for a durable system, as it did not, after year 1, relate directly to actual salary levels, and would need a

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<sup>1</sup> Documents WT/ BFA/W/80, WT/L/282 & 269.

regular review which might not meet the requirement for a smooth and predictable adjustment mechanism.

7. Under Option 1, delegations looked at a range of possible comparators including those set out in the Survey of Salaries and Allowances (document WT/BFA/W/80). Delegations considered each of these with a view to arriving at a weighting of the organisations according to their relevance to, and perceived impact on, the WTO's ability to compete for highly skilled staff. In considering these comparators, the Committee noted that the organisations in question based their own methodology on direct study of national civil services. As comparators, those organisations would thus provide the WTO with a proxy for the national civil services concerned. In summary, the Committee concluded as follows:

A. UN

8. Delegations felt that the UN common system warranted a substantial weighting in any basket of comparators for the following reasons:

- The UN system was by far the largest employer in Geneva, and, in turn, Geneva had the largest number of international civil servants in the world.
- The organisations within the UN common system were the largest source of recruitment from, and destination of those staff leaving for, other intergovernmental organisations since 2000.
- Geneva-based international organisations, notably UNCTAD, had had a sustained level of contact, and carried out activities closely related to the WTO's work and that of the GATT before it. The widened mandate of the WTO since 1994 has meant an expanding level of cooperation and contact with a larger number of UN bodies (e.g. WIPO, UNEP, WHO).
- The 1998 decision on staff pay made direct reference to UN salary scales in terms of cost neutrality.
- UN professional salary scales were based on actual salaries in what was judged to be the highest paid national civil service with a relevant expatriation element and cost-of-living adjustment for Geneva; UN support staff salaries were based on the best prevailing local conditions (Government, parastatal and private sector salaries).
- Against this, the WTO had left the UN common system in 1998, and WTO pay scales and benefits had been adjusted accordingly. Many delegations were therefore finally willing to accept that the UN should not be the only comparator.

B. OECD AND OTHER COORDINATED ORGANISATIONS

9. Delegations considered that the OECD and other Coordinated Organisations (CO)<sup>2</sup> were relevant to the WTO, but with some reservations:

- The CO covered a wide range of activities and functions, some of which were closely, but others which were clearly not, related to the WTO's functions.

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<sup>2</sup> NATO, Council of Europe, WEU, ESA, European Centre for Medium Range Weather Forecasts (ECMWF)

- Of these, OECD was an organisation engaged in discussion and analysis of economic issues, many of which were directly or indirectly related to trade.
- Many of the functions of OECD staff could easily be correlated to those of WTO staff.
- The CO methodology reflected civil service salary scales in seven European Member States, and thus provided a useful reference back to current public service salaries and expatriation elements.
- CO produced published information on those national salary scales.
- But even OECD was engaged in many activities different from those of the WTO, with a greater emphasis on economic and statistical analysis, less rule-making, and no binding adjudication mechanism.
- OECD limited recruitment to nationals of its members. It had a smaller membership than the WTO, and therefore could draw only from a more limited potential labour pool than the WTO. This meant that not all those eligible for WTO jobs could apply to OECD.

C. EU

10. Delegations felt that the EU's relevance to WTO pay levels was rather limited, and had a number of difficulties attached to it:

- The EU was a body based, like the WTO, in Europe, engaged in part, but not exclusively, in economic regulation.
- It had easily identifiable grade levels, but the relationship between grade and function was not always clear.
- As a body with extensive executive powers (sole right to initiate and enforce legislation, right to take legal action and sanctions against Member States, even physical entry to company premises) under the EU treaties, the European Commission has a rather different set of functions from those of the WTO Secretariat.
- Recruitment to the EU Commission and Council Secretariat was limited to nationals of the 15 (soon 25) Member States of the EU. Thus, the majority of candidates from the 146 countries who were eligible for jobs in the WTO Secretariat are not able to work for the EU. The movement of staff between WTO and EU was consequently on a relatively small scale.
- EU salary scales were based on comparisons with national civil service pay scales in eight EU Member States, with an adjustment to reflect the international nature of the organisation. Unfortunately, neither the identity of the eight Member States in question, nor the formula applied to their salary scales, was available even within the EU. This made it more difficult to judge the relevance of these salary scales to the "market" the WTO was seeking to address. The non-transparency also cast doubts on the suitability of the EU as a comparator in any open and transparent salary adjustment methodology.

D. IMF

11. Most delegations felt that the IMF had no, or very little, relevance to the recruitment of staff to the WTO:

- They recognised that staff had left the WTO for the IMF, but, despite a major difference in salary scales, only one WTO staff member had resigned to join the IMF since 1999. The relative number of macroeconomists (the main class of IMF employee) in the WTO was very small compared with the IMF.
- The IMF drew all the resources for its regular budget from interest income from sovereign loans provided to national governments and its dealings in currencies.
- The IMF was engaged in economic analysis and policy actions which might impact on the international trading system. This was recognised in cooperation (also with UNCTAD and World Bank) under e.g. the Integrated Framework and the coherence agenda;
- But this important cooperative relationship recognised that the two organisations' functions were complementary, and that each had its own role, responsibilities and expertise. This relationship was limited to a small area of the IMF's work, which included many other activities e.g. extensive economic and fiscal analysis, and the granting of major capital loans to sovereign States.
- Its recruitment thus targeted not only (as does the WTO) economists and lawyers/public sector administrators but also the private banking sector in order to gain the financial and currency dealing expertise it needed. The WTO did not. The Committee thus concluded that the IMF salary scale had no real impact on the market for WTO posts.

#### E. PROPOSED WAY FORWARD ON COMPARATORS

12. After thorough examination of these options, and the variations on them, members were able to agree to the following approach to salary methodology to be applied from 1 January 2004:

**Use, on an annual basis, of comparator salary scales in the UN and CO, weighted to reflect the considerations above as**

**UN – 70%**

**CO – 30%**

Members further considered whether it would be necessary to adjust the pensionable part of WTO staff remuneration to reflect the non-pensionable nature of expatriation allowances in the CO. After due consideration of the arguments for and against such an adjustment, members decided that it would not be necessary to make such an adjustment.

13. The Committee noted that this option would involve the WTO adopting a different method of setting pay from most international organisations, in not basing its salary scales directly on comparisons with national civil services. Nonetheless, it considered that the international organisations provided both a useful comparator in their own right, and gave an approximate, but acceptable proxy for those national pay comparators.

14. The Committee also sought the advice of the consulting actuary of the WTO Pension Plan on the implications of the proposed methodology for the future financing of the Pension Plan. The consulting actuary reported that the proposed salary adjustments would not require any change in the current rate of contribution to the Pension Plan.

F. MEASUREMENT OF COMPARATOR SALARY SCALES

15. The Committee examined in depth the arguments in document WT/BFA/W/80 between measuring salary comparisons at the minimum and mid-point (average of minimum and maximum) of the relevant salary scales. It concluded that, as a more accurate and equitable measure of the salaries actually paid to staff, and as a more predictable indication of the budgetary impact:

**The salary comparisons should be based on measurement of salary scales of the comparators in question at the mid-point of those scales.**

16. As part of the introduction of performance-related pay, the Committee **recommends that the Organization undertake further work with a view to adopting the system, as recommended in document WT/BFA/W/80, of mid-point control as a method for determining the fair level of salary adjustment for WTO staff.**

17. The comparison of UN and WTO salaries in document WT/BFA/W/80 was found to be based on the false assumption that, as in the UN, Grade 6 staff were equally divided between support and professional grades (G6/P1). Due to the lack of correlation between UN G and P grade salary scales, this led to an exaggeration of the discrepancy between UN and WTO staff at this level. This was corrected in the comparisons used for the calculation of salary adjustments needed to implement the methodology in Option 1.

18. The Committee also examined what method might be most appropriate for adjusting the purchasing power of CO salary scales to reflect living costs in Geneva:

**It concluded that, as recommended in Document WT/BFA/W/80, the CO salary scales should be adjusted using a combination of 50% Parity of Purchasing Power (PPP) and 50% Nominal Exchange Rates (NER).**

G. ADJUSTMENT FOR INFLATION

19. Since the pay comparisons and adjustments will be carried out on an annual basis against actual salary levels in the two comparators mentioned; since these comparators adjust their salary levels annually for inflation, and since they conduct regular reviews of comparability, the Committee considered that a separate adjustment for inflation would not be necessary.

20. It therefore **recommends that:**

**Given the reflection in this methodology of adjustments for inflation and pay reviews conducted in the comparators, no additional annual adjustment for inflation is necessary; and that Regulation 6.2 and Annex B of the Staff Regulations be amended accordingly.**

H. REVIEW

21. The decision of the General Council and the statement of the General Council Chairman in December 2002 called for a predictable and smooth evolution in salary levels.

22. In the light of this, the Committee examined the question of how the General Council should deal with the review and possible adjustment of the methodology set out above to ensure that the system in place fulfilled the objectives of the methodology and the overall compensation philosophy set out in Annex 2 of document WT/L/282 (Conditions of Service Applicable to the Staff of the WTO Secretariat).

23. It considered it important, in the interests of both the staff and Members, to provide for predictability and stability for a period after the salary methodology was applied. It was also important to allow for the interaction between this methodology and the introduction of performance-related pay to become clearer.

24. It further considered that, as there would be regular pay reviews in the comparators, the WTO salary methodology, applied annually, would reflect the dynamics of pay developments in that wider community of international organisations.

25. On that basis, the Committee considered that, for a reasonable initial period, the methodology should be applied without review. Thereafter it might be most appropriate to allow the General Council, on the recommendation of the Committee on Budget, Finance and Administration to trigger such a review, but not to stipulate in the Staff Regulations any set periodicity for such a review, and to recommend:

**That the salary methodology adopted should be implemented in such a way as to create a smooth and predictable evolution of staff pay and benefits. After 31 December 2006, it would be open to the Committee on Budget, Finance and Administration, to advise the General Council on whether circumstances rendered it necessary for that Committee to undertake a review of, and submit recommendations to the General Council on, the continued appropriateness of the salary methodology to the needs of the organisation in line with the compensation philosophy set out in document WT/L/282.**

**Periodically, the Committee on Budget, Finance and Administration may review the need for any minor technical adjustments (e.g. to grade equivalences) and submit its recommendations to the General Council.**

26. Annexed to these recommendations is a set of specific amendments to the Staff Regulations to implement the salary methodology set out above.

## **SUMMARY OF RECOMMENDATIONS**

27. The Committee recommends that:

- (a) The WTO use, on an annual basis, comparator salary scales in the UN and Coordinated Organisations (CO), weighted to reflect the considerations above as:

UN – 70%

CO – 30%

- (b) The salary comparisons should be based on measurement of salary scales of the comparators in question at the mid-point of those scales.
- (c) The Organization undertake further work with a view to adopting the system, as recommended in document WT/BFA/W/80, of mid-point control as a method for determining the fair level of salary adjustment for WTO staff.
- (d) As recommended in Document WT/BFA/W/80, the CO salary scales should be adjusted using a combination of 50% Parity of Purchasing Power (PPP) and 50% Nominal Exchange Rates (NER).

- (e) **Given the reflection in this methodology of adjustments for inflation and pay reviews conducted in the comparators, no additional annual adjustment for inflation is necessary; and that Regulation 6.2 and Annex B of the Staff Regulations be amended as follows:**

## **SALARIES AND BENEFITS**

**Regulation 6.2:** The WTO shall establish a salary scale which shall be adjusted annually according to the method described in Annex B of the *Staff Regulations*.

## **ANNEX B**

### **WTO SALARY SCALE – METHOD OF ANNUAL ADJUSTMENT**

Pursuant to Staff Regulation 6.2, the WTO salary scale shall be adjusted according to the following method:

The WTO salary scale shall be adjusted annually on 1 January through a comparison of WTO international salaries with the salary scales effective on 1 January in a basket of comparators. The comparators shall be the United Nations Office in Geneva (UNOG) and the Coordinated Organisations<sup>1</sup> (CO). The relative weighting of the comparators shall be 70% for the United Nations and 30% for the Coordinated Organisations.

The salaries of the comparators shall be measured at the mid-point of each of the grades that have been determined by the Director-General, and reported to the Committee on Budget, Finance and Administration and the General Council, to be equivalent to grades 1 through 12, ADG and DDG in the WTO.

The international salary scales of the Coordinated Organisations shall be converted to a Geneva base using a 50/50 mix of Purchasing Power Parities (PPP) and one-year average of Nominal Exchange rates (NER). For UNOG, the Swiss franc salary scales (P and GS) shall be used. PPP/NER data used for the purposes of the comparison shall be the most recent data available.

The grade-weighted average difference between the WTO salary scale and the comparator salary scales shall then be determined<sup>2</sup>, and the WTO salary scale adjusted on average accordingly, provided that the resulting overall payroll increase shall not exceed the corresponding payroll-weighted average difference between the WTO salary scale and comparator salary scales. In applying the adjustment, the Director-General shall take account of the need to maintain competitiveness of all grades with the salaries in the comparators and shall report his decision to the Committee on Budget, Finance and Administration.

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<sup>1</sup> The Coordinated Organisations comprise the following international organizations: North Atlantic Treaty Organization (NATO), Council of Europe, Western European Union (WEU), European Space Agency (ESA), European Centre for Medium Range Weather Forecasts (ECMWF) and the OECD. The scale used for the CO will be based on a weighted average of any change to the CO salary scale as implemented by the constituent organizations of the CO.

<sup>2</sup> The grade-weighted average refers to the average difference in salaries weighted by the percentage of WTO staff in grades 1 to 12, ADG and DDG.

**Data sources**

Comparator salary scales	Salary scales for UNOG (Swiss franc salaries for UN staff in Geneva) and the Coordinated Organisations effective 1 January for the year in question.
Purchasing Power Parities (PPP)	PPP provided by the Coordinated Organisations for the adjustment of salaries of international staff.
Nominal Exchange Rate (NER)	One-year average of UN operational exchange rates

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- (f) **That the salary methodology adopted should be implemented in such a way as to create a smooth and predictable evolution of staff pay and benefits. After 31 December 2006, it would be open to the Committee on Budget, Finance and Administration, to advise the General Council on whether circumstances rendered it necessary for that Committee to undertake a review of, and submit recommendations to the General Council on, the continued appropriateness of the salary methodology to the needs of the organisation in line with the compensation philosophy set out in document WT/L/282.**
- (g) **Periodically, the Committee on Budget, Finance and Administration may review the need for any minor technical adjustments (e.g. to grade equivalences) and submit its recommendations to the General Council.**
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