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Organización de las
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FINANCE COMMITTEE

Hundred and Seventy-fifth Session

Rome, 18 - 22 March 2019

Update on the FAO Commissary

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FC 175

EXECUTIVE SUMMARY

- This document provides an update to the Finance Committee on progress towards putting in place a successor arrangement to the former Commissary. In particular, the document sets out:
 - a) The legal framework for the FAO Commissary.
 - b) The key principles on which the new Commissary arrangement will rely.
 - c) The proposed outsourcing of the Commissary operations.
 - d) The access to Commissary services by entitled officers.
 - e) The principles governing the selection, sale and delivery of goods.
 - f) The responsibility of FAO for the management of the annual import licenses, as well as for the monitoring and oversight of Contractor operations (acting on behalf and in the name of FAO) and the use of import entitlements by entitled officers.
- The document also provides brief information on the status of negotiations with the Host Government on the proposed modalities.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to take note of the information provided.

BACKGROUND

1. This document provides an update on the new business model of the FAO Commissary, as requested by the Finance Committee at its 170th¹ and 173rd² Sessions.
2. Following closure of the previous Commissary on 30 September 2017, the FAO Secretariat informed the Finance Committee at its 170th Session (Rome, 21-25 May 2018) of the closure process and foreseen successor arrangements³. It further indicated that the future Commissary business model would rely on the following principles⁴:
 - a) Limited involvement of FAO in the running of the new Commissary: business operations and logistics would be fully outsourced to a Contractor. FAO would, however, retain full control over the management of the annual import licenses issued by the Government of Italy.
 - b) Compliance with FAO's obligations arising out of the FAO Headquarters Agreement⁵: The Organization will be responsible for the management and monitoring of the contractual arrangements with the Contractor (who will be acting on behalf and in the name of FAO), for the management of import licenses and for preventing the occurrence of any abuse of import privileges.
 - c) Selection of goods on offer revised to ensure a better alignment with UN values and to increase the share of goods that are not readily available on the local market,.
 - d) Revised client base granting access to the Commissary in accordance with the provisions of the FAO Headquarters Agreement.

RAISON D'ÊTRE OF THE FAO COMMISSARY

3. Pursuant to Article XIII, Section 27(j) (ii) of the FAO Headquarters Agreement "*Officers of FAO shall enjoy within and with respect to the Italian Republic ... the right to import free of duty and other levies, prohibitions and restrictions on imports, ... through the medium of FAO, reasonable quantities, to be agreed upon in accordance with a procedure to be established between the Government and FAO, of foodstuffs and other articles for personal use and consumption and not for gift or sale*".
4. "*Officers of FAO*" are defined in Article 1 (k) of the FAO Headquarters Agreement as "*all ranks of the FAO Secretariat engaged by the Director-General or on his behalf*". The officers shall also "*be supplied with a special card [issued by the Ministry of Foreign Affairs and International Cooperation of Italy] certifying the fact that they are officers of FAO enjoying the privileges and immunities specified in this agreement and in particular in Section 27*"⁶.
5. Furthermore, Article XVI, Section 33 (a) of the FAO Headquarters Agreement provides that "*the Director-General shall take every precaution to ensure that no abuse of a privilege or immunity conferred by the agreement shall occur, and for this purpose shall establish such rules and regulations as he may deem necessary and expedient for officers of FAO ...*".
6. The FAO Commissary was created within the purview of Sections 27 (j) (ii) and 33 (a) of the FAO Headquarters Agreement. Under this framework, the main purpose of the Commissary is to:

¹ Par. 36 b) of doc. CL 159/4, Report of the 170th Session of the Finance Committee refers.

² Par. 15 d) of doc. CL 160/4, Report of the 173rd Session of the Finance Committee refers.

³ See doc. FC 170/15, Update on Commissary closure and related matters.

⁴ See par. 23 and 24 of doc. FC 170/15.

⁵ Agreement between the Food and Agriculture Organization of the United Nations and the Government of the Republic of Italy on FAO Headquarters, concluded in Washington on 31 October 1950 (hereinafter, the FAO Headquarters Agreement).

⁶ Article XIII, Section 28 (b) of the FAO Headquarters Agreement refers.

i) pull together individual orders by FAO officers and carry out the related importation procedures “*through the medium of FAO*”; and ii) ensure that no abuse of the import privilege conferred to officers occurs. As these two functions arise out of provisions of the FAO Headquarters Agreement, they will remain key functions under the new Commissary business model.

THE PROPOSED NEW FAO COMMISSARY MODEL

Outsourcing

7. The FAO Commissary will be an online shop, entirely managed by a Contractor selected through a competitive procurement process. This will ensure professional business management, increase transparency and accountability and reduce substantially the reputational and financial risks inherent to the previous business model.

8. The Contractor will maintain an online catalogue of goods and a dedicated website through which officers can order goods.

Entitled officers

9. Staff entitled to shop will be all “*Officers of FAO*” with duty station in Italy, as defined in Article 1 (k) and Section 28 (l) of the FAO Headquarters Agreement. Consideration is being given to include also “*Officials of WFP*” with duty station in Italy, as provided in Article 1, Section 1 (h) and Article XIII, Section 33 of the WFP Headquarters Agreement.

Goods to be offered

10. There will be special emphasis on offering goods that are not easily available on the local market.

11. Tobacco, fresh and frozen food will no longer be offered for sale. Other categories of goods will remain those in use under the previous Commissary model.

Annual import licenses and individual quarterly entitlements

12. Import licenses will be requested by FAO from the Italian authorities on an annual basis, following a procedure agreed with the Government of Italy in 1986. As part of this procedure, every year FAO and the Government of Italy “*determine by mutual agreement reasonable quantities of foodstuffs and other articles for personal use and consumption (of entitled officers) and not for gift or sale*”⁷ under each of the broad categories of goods.

13. The annual license quantities will be divided into four equal quarterly quotas for each entitled officer and by category of goods. The individual quotas will then be uploaded to the Contractor’s website and goods will be made available for purchase.

Sale and delivery of goods

14. Entitled officers will be allowed to purchase goods up to the limit established every quarter and under each category of goods. The Contractor will import the goods on behalf of FAO and against the annual import licenses. The importation will be carried out on the basis of orders by entitled officers. Unused balances from the individual quarterly entitlements will be carried forward to the next quarter but will expire at the end of each year.

⁷ See Article XIII, Section 27 (j) (ii) of the FAO Headquarters Agreement.

15. Goods will be packed by individual order and delivered to officers in accordance with a procedure to be agreed with the Italian authorities.

16. Officers will receive their orders upon identification with a valid ID card issued by the relevant Italian authority.

Contract management and monitoring

17. Close monitoring will be exercised by FAO over the Contractor, as well as over entitled officers to avoid any abuse of import privileges.

18. The Contractor will provide quarterly reports on orders placed by entitled officers and on all imports made against FAO licenses. Monitoring will be carried out in close cooperation with the Government of Italy.

NEGOTIATIONS WITH THE GOVERNMENT OF ITALY

19. In 2018 FAO organized two rounds of negotiations with the Italian authorities on the new Commissary arrangements. Upon reaching agreement with the Italian authorities, FAO will launch a tender for the selection of a Contractor to provide the services.