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UNITED STATES OF AMERICA

**STATEMENT BY H.E. AMBASSADOR KENNETH D. WARD
PERMANENT REPRESENTATIVE OF THE UNITED STATES OF AMERICA TO THE
OPCW AT THE EIGHTY-FIRST SESSION OF THE EXECUTIVE COUNCIL
ON THE FINANCIAL SITUATION OF THE OPCW AS AT 29 FEBRUARY 2016
(SUBITEM 10 (D))**

Mr Chairperson,

The deteriorating financial situation of the OPCW threatens to spiral into a crisis within the next eighteen months if we – all Member States in partnership with the Technical Secretariat – fail to uphold our collective responsibility to take decisive action.

Let me make it very clear that the situation in which we find ourselves is not the result of any financial mismanagement on the part of the Secretariat. The deteriorating financial situation is the inevitable consequence of non-payment by a number of Member States of their financial obligations – some for several years. This encompasses non-payment of the assessed annual contribution as well as failure to reimburse inspection costs. Currently, Member States owe over EUR 6.8 million in prior year assessments. As for inspection costs, most notably, Syria has refused to pay its EUR 3.9 million inspection bill. Of course, if these Member States were in the next few months to pay their outstanding arrears, the OPCW's financial status would immediately improve. Unfortunately, until that occurs, the Council, as it guides the Organisation through 2016 and considers the 2017 budget, must take prudent steps to ensure the financial health of the Organisation.

The first steps in recognising and addressing the looming financial crisis were taken at the Twentieth Conference of the States Parties. In its decision approving the 2016 OPCW budget, the Conference requested the Council to “address, as necessary, the financial situation of the OPCW in 2016...” Further, the Conference requested “the Director-General to provide detailed monthly updates about the overall financial situation, particularly cash flow, to Member States.” The Technical Secretariat issued the first of these monthly reports on 18 February and the second on 8 March, and we commend the Secretariat for the transparency provided. The figures in these reports reveal a grim financial picture.

The effects of non-payment by some Member States were first evident at the close of 2014 as the Organisation posted a shortfall of nearly a million euros. In 2015, the shortfall was over EUR 4.6 million. How did the OPCW continue to operate in the face of such a substantial shortfall? To begin with, the Secretariat was forced to completely deplete the OPCW's liquidity reserve, its EUR 4 million Working Capital Fund. This is the first time this



has happened in the Organisation's history. The OPCW financial regulations require that this fund be replenished in the following financial period further exacerbating the cash flow problem for 2016. But the Working Capital Fund was not sufficiently large to cover the full shortfall and provide sufficient cash for the OPCW to operate in January of 2016 pending the arrival of assessed contributions. So the Secretariat also had to "borrow" EUR 3.1 million from the Enterprise Resource Planning (ERP) Fund. We, the Council, established this fund in 2014 with a balance of EUR 7.1 million to procure new management software. As is the case with respect to the Working Capital Fund, these funds should be paid back in 2016, further exacerbating the cash flow shortfall for 2016.

For 2016, the Secretariat projects another cash deficit, this time over EUR 3.3 million. And once again, the Secretariat will have to make emergency transfers from the Working Capital Fund and the ERP Fund in order to keep the OPCW solvent. The growing annual shortfalls of the Organisation are not financially sustainable nor is it feasible to continue to cover them through transfers from the Working Capital and the ERP funds. To do so would endorse an approach of financing recurrent shortfalls through a rolling debt that keeps getting bigger and more burdensome every year. It is an approach based on the hope that delinquent states will promptly pay their arrears in full -- a hope that is not supported by recent experience. The figures I have highlighted reveal a trend of dwindling cash reserves and mounting shortfalls undermining the finances of the OPCW to insolvency less than two years from now. We can see this iceberg coming into view on the horizon and, as I stated at the outset, it is our collective responsibility to change course now.

To chart this safer course, the United States of America is proposing that the Secretariat, in consultation with Member States, present by the Eighty-Second Executive Council Session in July a plan for putting the OPCW back on a sound financial footing. The Secretariat did not create this problem, but the Secretariat, together with the Executive Council, must play a leadership role in the solution. This plan will require a candid re-evaluation of priorities we all support, such as the ERP. We firmly believe that an EUR 8 million ERP capital expenditure in the midst of this financial crisis would be irresponsible. Indeed, it would be reckless to allow this ERP fund to be depleted as it already has proven itself to be an indispensable stop-gap solution to address cash flow shortfalls.

Let me be clear -- the ERP is an important undertaking for the OPCW and the United States of America fully supports this project. However, implementation of the ERP may need to be delayed until the Organisation no longer needs to tap into the fund to avoid insolvency.

The United States of America stands ready to work with other Member States and the Secretariat to restore the OPCW to sound financial health, so the Organisation can continue its important work for many years to come. Let us begin this urgent work now.

Thank you, Mr Chairperson.

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