Distinguished delegates,

1. I invited you to these informal consultations this afternoon to discuss with you a very important issue, which should not come as a surprise to any of you, namely the current financial situation of the Organisation.

2. As you will recall, just over one month ago I informed the Executive Council at its Twenty-Second Session, last December, that we would be facing financial and budgetary problems in 2001. For those of you who wish to remind yourselves of what I said on that occasion, I refer you to my opening statement to that session of the Council (EC-XXII/DG.12, dated 5 December 2000). My primary purpose today is to explain the situation in greater detail and to describe some of the measures which I have already taken to address the problems. Lastly, I will outline actions that you, the Member States, can and should take to alleviate these difficulties.

3. Basically, as I informed the Council last December, we have two separate problems, although, of course, they are both interrelated. First, we are facing a serious cash flow or liquidity problem. Secondly, we are considerably under budgeted for 2001. If additional funds are not made available until the Conference in May, the Secretariat will be forced to drastically reduce its planned activities for this year. And if the problems inherent in the current budget for 2001 are not resolved, they will be further compounded in the budgets for 2002 and future years.

**Budget for the year 2000**

4. Let us now talk about the budget for the year 2000, since this is also germane to both the cash flow problem and the systemic problems associated with the OPCW’s budgets. I should preface my remarks by pointing out that, until the accounts for 2000 are finally reconciled, it is not possible, of course, to give precise figures at this stage, so there may be some changes to the figures which I am about to give. The main trend, however, is very clear.

5. According to preliminary figures given to the ABAF last week, provisional
expenditure for the year 2000 was NLG 132.9 million, or approximately NLG 110,000 more than the amount of NLG 132.8 million which the Conference of the States Parties at its Fifth Session authorised us to spend. In percentage terms this amounts to a provisional overspend of less than 0.1%. It is “provisional” because this amount of expenditure also includes a figure of approximately NLG 10 million of unliquidated obligations. Experience from previous years suggests that, when these obligations are liquidated, which will happen sometime within the next few weeks, provisional expenditure will drop significantly. I am confident that, when this happens, actual final expenditure for the year 2000 will be well below the authorised figure. So you do not have to worry about that.

6. But this simple statement contains an important factor, one that we all need to recognise. This is that, unlike previous years, when there were significant underspends in the budget, in 2000, for the first time, the budget was spent in full, simply because the OPCW is fast reaching maturity, and is therefore moving towards the full implementation of its mandate in all its dimensions.

7. However, a problem arises because the Secretariat has so far collected only NLG 125.2 million of the anticipated revenue for 2000. The shortfall of approximately NLG 7 million has come about for the following reasons:

(a) an under collection of assessed contributions from Member States for the year 2000 of approximately NLG 2.6 million;

(b) the non-receipt of reimbursements for verification activities conducted under Articles IV and V; and

(c) inflated estimates for Article IV and V reimbursements contained in the 2000 budget, resulting in a shortfall in income for this item.

8. The first two factors - the under collection of assessed contributions, and the non-receipt of reimbursements for verification activities - are not new, and have been a feature of the OPCW since its inception. I should note, however, that historically we have had an average annual collection rate of over 99%, which, I am informed, is a very good collection rate by comparison with many other international organisations. Yet even this commendable record may not be good enough under current circumstances.

9. In past years (1998, 1999, and 2000) these factors were not a problem due to the existence of large cash surpluses from under expenditures in previous financial years - the first years of the OPCW. These cash surpluses provided a convenient cash “cushion” which enabled the OPCW to function properly until sufficient contributions were collected, and before the surpluses for previous years were returned to Member States. These surpluses have steadily decreased each year, however, and have now all but disappeared. The OPCW therefore no longer has the comfortable cash flow “cushion” which, in previous years, enabled it to function effectively at the start of the financial year without receiving Member States’ assessed contributions by the due date.
10. As to the third factor, (c), the estimate in the 2000 programme and budget for income from Article IV and V reimbursements was NLG 17.9 million, whereas the estimated figure provided by the Secretariat prior to the adoption of that budget in mid-1999 was NLG 12.1 million. This latter figure is actually the one shown in the original budget decision (C-IV/DEC.23, dated 2 July 1999), and was subsequently changed by delegations, as is shown by the corrigendum to this final decision (C-IV/DEC.23/Corr.1, dated 18 August 1999). At the same time delegations left untouched the total amount of NLG 132 million in the budget, and the Conference decision specifically authorised the Secretariat to spend up to this amount to implement the 2000 programme of work.

11. There was thus, right from the outset, even before the year 2000 had commenced, a shortfall in the achievable level of reimbursement of NLG 5.8 million. And, now that the year 2000 has ended, it seems likely that, due to the fact that destruction programmes in the declared possessor States Parties did not proceed at the pace originally envisaged, the actual shortfall will be more like NLG 10 million. It will no doubt be argued that, as the corresponding inspections were not carried out, this should not have mattered. This conclusion overlooks one simple, basic fact. This is that approximately two thirds of this estimated reimbursement income was for the salaries of inspectors, which must be paid anyway, irrespective of whether or not the inspections are carried out.

12. I believe that the only practical way in which this dilemma can be resolved is for the Member States to agree, as delegations had suggested during the budget consultations in 1999, that the anticipated cash surplus in 1999 may be used to cover this shortfall in income. I am well aware that the ABAF has pointed out that, in accordance with Financial Regulation 6.3, cash surpluses should be redistributed to Member States. I believe, however, that, as did those delegations that offered this solution, using the 1999 cash surplus is the only sensible way to proceed in the present circumstances. The alternative - returning the cash surpluses and then subsequently seeking a new allocation to cover the shortfall in income – seems not only cumbersome, but also unnecessary. I understand that the simplest way to achieve this objective would be for the Conference to agree, on the recommendation of the Executive Council, to the suspension of Financial Regulation 6.3 for this particular case only.

Cash flow problems

13. Now let me turn to the cash flow situation.

14. In a nutshell, the cash flow problems came down to the fact that our bank balances, i.e. cash in the bank, are well below what they should be. The reason is very simple. Only some 28 of our 141 Member States are not in arrears in respect of their contributions to the present 2001 OPCW budget. I am grateful to these Member States for the prompt payment of their contributions, either last year or early this year. While this is, of course, encouraging, and while a number of other Member States have also partially paid up, collectively the contributions of these 28 Member States comprise only 10.8% of the assessed contributions, so we still have a long way to go before we collect enough to emerge from our current difficulties. Most of the
10 largest contributors, which collectively contribute over 70% of the budget, have either made partial payments or, in the case of two of them, have paid in full. I request those States in particular to do whatever they can to settle their outstanding arrears with the Organisation as soon as possible.

15. It seems prudent to proceed on the basis that the Organisation must, normally, always have the cash equivalent of two months operational requirements in the bank. On the basis of the monthly rate of expenditure for 2000 of NLG 11 million per month, that would be approximately NLG 22 million. Today we have only a little over NLG 20 million in the bank, not counting trust funds and special accounts that are not routinely available for us to use for regular operations. Our cash flow projections indicate that we will drop below our two months’ requirement by the end of this month, and below zero by the middle of March, unless we receive the remaining contributions from Member States in the very near future. And, I should add, these projections also assume that we will exhaust the Working Capital Fund.

16. I should also point out that, in relation to one of the factors I mentioned earlier, the total amount owed to the OPCW by the declared possessor States Parties for inspections carried out under Articles IV and V, over the period 1997 to the end of 2000, is approximately NLG 17.5 million. By coincidence, this figure is almost the same as the amount of NLG 17.9 million as the estimated revenue in 2000 alone for these costs, but they are not of course the same figure. Some NLG 13.5 million of the NLG 17.5 million have already been invoiced to the declared possessor States Parties, and the remainder, relating to the second half of 2000, will be invoiced when all the relevant receipts are available to the Secretariat.

17. Let me emphasise, once again, for the record, that this is not the same NLG 17.9 million contained in the 2000 budget as the estimated revenue for this item for 2000, to which I referred earlier.

18. Since our current cash position is such that we can just pay salaries and common staff costs for two months, the implications are clear: unless our cash position is substantially and rapidly improved, we will have to drastically curtail our programme of activities.

19. In these circumstances, I can only do what I have done before: urge all those Member States that are in arrears, for whatever reason, to settle their account with the Organisation as soon as possible. I am providing you separately with a paper for your capitals which summarises the serious cash flow situation and asks you to take appropriate urgent action. The Secretariat should be advised within the next two weeks when the budgetary contributions will be transferred into the Secretariat’s bank account, because at that time I will have to take further decisions on the curtailment of programme activities until the cash flow situation improves.
20. I have already drawn the Council’s attention to budgetary problems on many occasions. Let me repeat again. Our current difficulty is that, in 2001, we are facing a budgetary deficit, meaning that the estimated total cost of implementing our programmes in 2001 will substantially exceed the amount budgeted for this year. There are, however, also some deeper systemic problems related to the structure of the budget which also need to be addressed. I will say more about these in a moment.

21. The reasons for the anticipated deficit in 2001 relate in part to the mandatory staff-related cost increases that occurred in 2000 and which will be incurred again in 2001; in part to the effect of the exchange rate trend on dollar-based expenditures; and, in part, to the fact that the budget assumed an unrealistic post vacancy rate for this year. Together, these costs will cause a budgetary deficit of at least NLG 14 million (or EUR 6 million, since the 2001 budget is denominated in euros).

22. You might ask how the budget came to be so grossly underestimated. The short answer is that, as with the estimated Article IV and V reimbursements for 2000, you, the Member States, willed it so. For example, against the advice of the Secretariat, you elected to cut personnel costs by reducing the step level for the calculation of salaries from step V to step IV, and you increased the lag factor for the filling of posts from 3 to 6 months, despite the Secretariat’s recommendation that it be reduced to zero. As the Secretariat pointed out at the time, the consequences of this latter decision would be, in effect, to keep the equivalent of 53 professional posts vacant for six months. The Secretariat argued that such a post vacancy rate could not realistically be achieved, and would jeopardise the implementation of the programme and budget if it were. I believe that this view is even truer today than it was then.

23. Delegations also decided to eliminate the NLG 2.2 million proposed by the Secretariat to settle administrative cases such as the one with the ILO.

24. Since the projected expenditures for 2001 exceed the approved budget, as Director-General I have only two options. The first is to request you, the Member States, to increase the assessed contributions. This can only be done if you are prepared to approve a supplementary budget. If you are not, then I have no alternative but to resort to the second, which is to decrease expenditures as much as necessary to offset the anticipated shortfall in income.

25. Let me be quite clear as to what that latter option will mean. In a total budget allocation of EUR 60.3 million, which is the approved budget for 2001, an imposed under resourcing – or shortfall in income - of EUR 6 million is, in effect, a 10% reduction of the budget. This was very well known to you.

26. Beyond this, there is also, unfortunately, an additional complication. Given the continuing delay in payments by the declared possessor States Parties for inspections under Articles IV and V, income to the OPCW in 2001 from this source is certain to be less than the amount of almost EUR 4 million contained in the budget. This would lead to an even larger shortfall of income in 2001 than the EUR 6 million which I have just mentioned. In fact, if one takes into account the unavoidable delays in
reimbursements by Member States for the costs of inspections under Articles IV and V, the possible shortfall in income in 2001 could be as much as 15% of the approved budget of EUR 60.3 million.

27. As is the case with most organisations, the bulk of our costs are personnel-related costs, which have to be paid irrespective of the levels of programme activity. In our case, these amount to 70% of the budget. Put very simply, as I mentioned earlier, we have an average monthly expenditure rate of approximately NLG 11 million. Of that NLG 11 million, approximately NLG 7 million go on personnel-related costs. Yet, if I am to achieve savings of 15% in 2001 because of the anticipated shortfall in income of 15% which I just mentioned, this means in effect that we will have to spend at least NLG 1.5 million less per month than we do at the moment. The only way in which I can achieve such savings is through: substantial delays in the filling of vacant posts, leading to considerable operational inefficiencies, of course; a substantial reduction in the costs, i.e. in the number of inspections; and some very savage cuts indeed to our international cooperation and assistance and outreach programmes.

28. Of these two options, a supplementary budget is obviously the preferred solution. It would enable us to carry out our critical activities on the requisite scale, and on the scale that you agreed on when you approved the budget for 2001. It would, in short, allow us to implement our budgets as planned. I warned the Council in my opening statement to its Twenty-Second Session last December that the Secretariat would have to ask for a supplementary budget in 2001, and I have instructed my staff to go ahead and prepare one. To assist your consideration of this proposal, I am also circulating a paper today which indicates the additional contributions which each Member State would have to pay in order to cover the EUR 6 million shortfall.

29. I have also mentioned some systemic problems with the structure of the budget. It is becoming clearer by the day that we can no longer operate the Organisation on the basis of a budget which includes, as a significant proportion of its income, reimbursements from Member States which are not even received in the same financial year that they are budgeted for. In my view we have to devise a budget structure that completely divorces the reimbursement for inspections under Articles IV and V from the main budget of the Organisation.

30. As you know, the present method of funding the annual OPCW budgets includes depending upon miscellaneous income from reimbursements under Articles IV and V. For all practical purposes, this will remain the only component of miscellaneous income after the Host Country subsidies cease in the next few months. In 2001 reimbursements for Article IV and V costs amount to almost 7% of the total budget. In future years, with the beginning of major destruction activities in the Russian Federation, this amount will almost double. Fifteen percent of future budgets would depend upon these reimbursements, which have already proved to be a very unreliable source of funding.
31. The only absolutely sure way of establishing sound financing for the budget is by assessing the full amount of the budget to Member States. Reimbursements for Article IV and V costs should be deposited in a separate account and periodically refunded to Member States.

Conclusions and recommendations

32. As urgent and necessary as a supplementary budget is, we cannot count on it until, at the earliest, the middle of this year, after the Conference of the States Parties approves it. Therefore, I have had no choice but to take immediate measures to alleviate the anticipated cash flow and budgetary problems. As an example, I have directed that, with one important exception, all recruitment of new staff be frozen. I have also directed that industry inspections be reduced from the planned four per week to only two per week until the cash flow situation improves. I have also cancelled some courses and seminars that were planned in the next few weeks. More will have to be cancelled or delayed in the future. And finally, I have decided that, until the budgetary situation improves, the Secretariat cannot reimburse any Member State for expenses incurred during Article VI inspections.

33. If, however, the Executive Council does not, in the coming weeks, recommend a supplementary budget, the cuts will have to be much greater, across-the-board, and much more drastic.

34. How can the Member States help to address these problems? The action which I request of Member States falls into two broad categories.

35. The first relates to the cash flow problem. In the case of those that have not already done so, I request that they pay their assessed contributions for 2001 immediately. And those Member States which have not paid their invoices for inspections conducted under Articles IV and V should pay such invoices immediately.

36. The second relates to budgetary aspects. In my view the Council, at its next, twenty-third, session should make the following proposal to the Conference of the States Parties at its next session, in May of this year:

(a) first, the suspension of Financial Regulation 6.3, to allow the 1999 cash surplus to be allocated to cover the shortfall in income for 2000;

(b) second, a supplementary budget for 2001 of at least six million euros;

(c) third, an amendment to Financial Regulation 6.4, to increase the Working Capital Fund from one twelfth of the budget, to one sixth of the budget, in order to equal approximately two months’ operational requirements;

(d) fourth, a new approach to the framing of the budget in 2002 and in future years: in essence one which would totally divorce reimbursement for inspections under Articles IV and V from the main OPCW budget; and
(e) fifth, a review of suggestions for changes to the OPCW budget cycle to make it feasible for Member States to pay their assessed contributions before, and not after, the start of the OPCW financial year.

37. It is my intention to request the Chairman of the Executive Council to call an informal meeting of the Council in the very near future to discuss, and hopefully decide on, these issues, so that we are able to launch our activities for 2001 on a sound and credible basis. Since the draft budget for 2002 itself will, in accordance with Financial Regulation 3.4, have to be provided to the Council by 5 February, I would suggest that the supplementary budget for 2001, which is already under preparation in the Secretariat, should also be presented to you within the same time frame. I have instructed the Secretariat to proceed accordingly.

I thank you for your attention.