

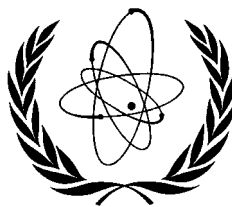
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STATEMENT BY THE DIRECTOR GENERAL

**INTRODUCTORY STATEMENT TO THE
BOARD OF GOVERNORS**

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INTERNATIONAL ATOMIC ENERGY AGENCY

INTRODUCTORY STATEMENT TO THE BOARD OF GOVERNORS

Our agenda for this meeting covers a broad range of issues, including the Agency's Annual Report, the Technical Cooperation Report, the Safeguards Implementation Report, and the report of the Programme and Budget Committee. I will briefly address these and other issues of interest to the Board.

ANNUAL REPORT

The Annual Report serves as both the Board's report to the General Conference, and the Agency's report to the United Nations and the general public. The draft report before you summarizes the scope and the results of the Agency's programme of work in 2004. It highlights some of the achievements across a wide-ranging programme aimed at helping Member States harness nuclear energy for peaceful uses, with a focus on meeting both development and security objectives. The activities described range from helping countries assess their groundwater resources and improve their agricultural productivity, to re-evaluating the seismic safety of nuclear facilities and assisting in the upgrading of their physical protection; and from supporting the development of national energy strategies, to continuing efforts to ensure a more effective and efficient safeguards system.

THE AGENCY'S TECHNICAL COOPERATION (TC) PROGRAMME

You have before you the Technical Cooperation Report for 2004.

TC Management Change Initiative

In recent years, the TC programme has grown substantially in size, complexity and the number of participating Member States. Last year, the Agency's TC programme supported national and regional projects in 114 countries and territories, and disbursements totalled over \$73 million. New approaches to technical cooperation and technology transfer are emerging globally, and the Agency must adapt to the challenges and opportunities these changes present.

Last June, I informed the Board about a review of TC workload and processes, carried out by the Agency's Office of Internal Oversight Services. Since that time, we have used the recommendations from that review — as well as from a number of other

evaluations and studies — to undertake a comprehensive TC change initiative to improve programme effectiveness.

The TC change initiative has a number of aspects. We are restructuring the TC Department to conform to the four new geographical regions of the TC programme: Africa, Asia and the Pacific, Europe and Latin America. We are streamlining processes and working arrangements for greater efficiency, using a “Programme Cycle Management Framework” to ensure a harmonized approach across the TC regions, and using information technology to make the programme more accessible and more transparent to Member States.

TC Programme Funding

Let me turn briefly to a number of issues related to TC programme funding.

The target for voluntary contributions to the Technical Cooperation Fund (TCF) for 2004 was \$74.75 million. Total payments towards that target reached approximately \$66.5 million, resulting in a rate of attainment of 89%. While this rate of attainment fell just short of the 90% goal set by the Board, it is satisfying to note that this is the highest rate achieved since the establishment of this mechanism in 2001.

As you know, last year the Board decided to replace the 8% Assessed Programme Costs on TC project disbursements with 5% National Participation Costs (NPCs). 2005 is the first year for NPCs, and Member States were asked to pay by January to ensure a timely start of project implementation. Out of 88 countries that received NPC payment requests, 78 have paid a sufficient amount for implementation to begin. For the remaining 10 countries, as mandated by the Board, we have not yet begun project implementation — although some preparatory work has been completed.

I would exhort all Member States to pay in full and on time their applicable TC contributions so that funding for the TC programme can be assured, sufficient and predictable, and so that we can implement TC programmes as planned for all recipient countries.

NUCLEAR APPLICATIONS

The Agency continues to expand its partnerships with other United Nations system organizations, international financial institutions, regional organizations and other relevant

bodies, to expand the scope and achieve synergy with respect to our activities in the area of nuclear applications and technical cooperation.

In the area of human health, for example, the Agency has taken a step forward in its partnership with the World Health Organization. Just last month, the World Health Assembly adopted a resolution on “cancer prevention and control” that acknowledged the Agency’s support in combating cancer, and recognized our recently established Programme of Action for Cancer Therapy (PACT). The resolution asked WHO “to explore the feasibility of initiating the development of a joint programme between WHO and IAEA for cancer prevention, control, treatment and research.” This is a welcome development, and will augment our existing cooperation with WHO in the areas of medical physics and nutrition.

NUCLEAR POWER

Results of the Paris Conference on the Future of Nuclear Power

In March, the Agency held an International Ministerial Conference in Paris on Nuclear Power for the 21st Century, in cooperation with the OECD and the NEA. The level of participation and the nature of the discussions and conference findings made clear that, while challenges remain related to safety and waste disposal, many countries are seriously considering an expansion in the use of nuclear power — due to factors such as the rapid growth in energy demand, the desire to ensure the security of energy supply and the growing awareness of the risk of climate change.

NUCLEAR SAFETY AND SECURITY

Convention on Nuclear Safety

International legal instruments such as the Convention on Nuclear Safety (CNS) are a key component of the global nuclear safety regime. I am pleased to report to you that, with India’s ratification of the CNS earlier this year, every country in the world with operating nuclear power plants is now a signatory to the Convention.

At the 3rd CNS Review Meeting in April, the Contracting Parties agreed to further improve the transparency with which the Convention is implemented. I was encouraged by the Review Meeting resolution agreeing to use Agency safety standards as a reference in the CNS review process. I was also pleased by the number of requests for Agency safety

missions — particularly the requests by countries with larger nuclear programmes for International Regulatory Review Teams (IRRTs) and Operational Safety Review Teams (OSARTs).

Transport Safety Regulations

You have before you a proposed policy on making periodic revisions to the Agency's Transport Regulations, which are part of the corpus of Agency safety standards. The policy is aimed at maintaining consistency with the transport regulations of other United Nations organizations, while reducing the burden on Member States that could result from frequent updates on issues of minor significance.

London Conference on Nuclear Security

In March, the Agency organized an international conference in London on nuclear security, in cooperation with the European Union, the OSCE, Interpol, Europol and the World Customs Organization. The conference highlighted the range of efforts under way to combat nuclear terrorism and to improve the physical security of nuclear material and facilities, and discussed how the Agency's Nuclear Security Plan of Activities should evolve to meet remaining challenges. I should mention that next week an open-ended meeting of Member States here in Vienna will focus on the Agency's proposed new four-year plan of activity for nuclear security.

Convention on the Physical Protection of Nuclear Material

As I mentioned in March, in response to the request by a majority of the States Parties to the Convention on the Physical Protection of Nuclear Material (CPPNM), I have convened a diplomatic conference to be held here in Vienna, from 4 to 8 July, to consider and adopt proposed amendments to the Convention. These amendments would provide essential and long awaited extensions to the scope of the Convention.

Following the recent adoption of the International Convention on the Suppression of Acts of International Terrorism, the CPPNM amendments will be yet another milestone in international efforts to improve the physical protection of nuclear materials and facilities.

Recent Emergency Response Exercise

In ensuring its preparedness to respond to nuclear emergencies, the international community benefits greatly from conducting international nuclear emergency exercises. Last month, Agency staff — together with representatives of 62 Member States and 8 international organizations — participated in “ConvEx-3”, a complex exercise that lasted for nearly 40 hours, based on a simulated accident at Romania’s Cernavoda nuclear power plant. The recommendations of the exercise evaluation report will be used to strengthen the Agency’s system for responding to nuclear and radiological emergencies.

NUCLEAR VERIFICATION*The Safeguards Implementation Report and Safeguards Statement for 2004*

The Safeguards Implementation Report (SIR) for 2004 is before you. For 21 States with both a comprehensive safeguards agreement and an additional protocol in force or being otherwise applied, the Agency was able to conclude — having found no indication of the existence of undeclared nuclear material or activities — that all nuclear material had been placed under safeguards and remained in peaceful nuclear activities or was otherwise adequately accounted for.

For 129 other States, the Agency was able to reach a more limited conclusion — namely that the nuclear material or other items that had been placed under safeguards remained in peaceful use or were otherwise adequately accounted for.

Four States were found to have been engaged in nuclear activities of varying significance that they had failed to report. Corrective actions are being taken by these States, and verification of the correctness and completeness of their respective declarations is ongoing.

Status of Safeguards Agreements and Additional Protocols

Our goal continues to be the ability to provide credible and comprehensive assurances to the international community that States are honouring their non-proliferation obligations. As of the end of 2004, 40 non-nuclear-weapon States party to the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) had not yet fulfilled their obligation to bring comprehensive safeguards agreements with the Agency into force. For these States, we could not draw any safeguards conclusions.

Additional protocols are central to the Agency's ability to derive safeguards conclusions regarding the absence of undeclared nuclear material and activities. While more than half of the States with safeguards agreements have now signed additional protocols, I reiterate my call on all States that have *not* yet done so to bring additional protocols into force without delay. The Board will have before it comprehensive safeguards agreements with Cape Verde, Comoros and Saudi Arabia and additional protocols with Cape Verde, Comoros, Fiji, Honduras, Liechtenstein and The Former Yugoslav Republic of Macedonia.

Implementation of Safeguards in the Democratic People's Republic of Korea

Since 31 December 2002, when on-site verification activities were terminated at the request of the Democratic People's Republic of Korea (DPRK), the nuclear activities of the DPRK have been outside IAEA verification. The Agency has therefore been unable to draw any conclusions regarding the DPRK's nuclear activities since that time. I continue to believe in the importance and urgency of finding a solution to the current situation. The Agency stands ready to work with the DPRK — and with all others — towards a solution that addresses the needs of the international community to ensure that all nuclear activities in the DPRK are exclusively for peaceful purposes, as well as addressing the security needs of the DPRK.

Implementation of Safeguards in the Islamic Republic of Iran

Regarding the implementation of safeguards in the Islamic Republic of Iran, I would like to update you on the Agency's activities since the March meeting of the Board. As at that Board, Deputy Director General for Safeguards, Pierre Goldschmidt, will provide more details later during this meeting.

The Agency has continued its efforts to verify Iran's compliance with its NPT safeguards obligations. Iran has facilitated Agency access under its safeguards agreement and additional protocol to nuclear material and facilities. In keeping with the Board's requests, the Agency has also continued to monitor all aspects of Iran's voluntary suspension of enrichment related and reprocessing activities.

The Agency is making progress on one of the two key remaining issues: namely, the origin of the low and high enriched uranium contamination on equipment at various locations in Iran. Last month, the Agency received from another Member State a number of centrifuge components, on which we have been conducting environmental sampling. I

am grateful for the cooperation of this Member State in assisting our efforts to resolve these matters.

With regard to the second issue — namely our efforts to verify information provided by Iran regarding its centrifuge enrichment programmes — we have continued to press for additional documentation regarding offers of equipment made to Iran, as well as for information on associated technical discussions between Iran and intermediaries in the procurement network. Iran has provided some additional documentation and information, which are not yet sufficient to answer several remaining questions.

The Agency will continue to pursue these and other verification issues. I continue to ask Iran to provide detailed information that could shed light on the outstanding issues. I would also ask Iran to support the Agency's efforts to pursue further its investigation of the Lavisian-Shian and Parchin sites, by working to reach agreement on modalities, currently under discussion, that would provide the Agency with access to dual-use equipment and other information related to the Lavisian-Shian site, and would allow additional Agency visits to areas of interest at the Parchin site.

I intend to report progress in September, and hopefully, with the cooperation of all parties, reach conclusion on some of these outstanding issues.

Small Quantities Protocols

As I mentioned to you at our last session, the Secretariat has identified the 'Small Quantities Protocols' (SQPs) to comprehensive safeguards agreements as a weakness of the safeguards system. For States with SQPs, some of the safeguards measures central to effective nuclear verification are held in abeyance — including initial reports on nuclear material and the right to conduct inspections. Since February, the Secretariat has been consulting with Member States on this issue, with a view to identifying possible remedies.

The report before you identifies two options on how we might proceed. As described, both options would redress the important limitations currently placed on safeguards implementation. I would ask the Board to give its attention to this important matter so as to reach a conclusion at the earliest possible opportunity.

Committee on Safeguards and Verification

On the Board's Agenda is a proposal by the United States of America that has been under consideration for some time. As currently formulated, the proposal aims to establish a committee to consider ways and means to strengthen the safeguards system. You may recall that, in the aftermath of the failure of the safeguards system in the early 1990s to detect Iraq's clandestine nuclear weapon programme, the Board established a committee in 1996 to consider how to redress the weaknesses in the safeguards authority.

The strengthening of the Agency's safeguards system to deal effectively with evolving proliferation challenges should be an ongoing process. Recent revelations, such as the discovery of additional undeclared nuclear programmes, aided by covert nuclear supply networks, and the risks associated with nuclear terrorism, have confronted the Agency's verification system and the non-proliferation regime in general with unprecedented challenges. A new committee would usefully explore how the safeguards system could be further strengthened. Areas that could be addressed should, in my view, include more information sharing, the use of new emerging technologies, enhancing the Agency's independent analytical capabilities, and ensuring that the Agency has an adequate and uniform legal authority to conduct credible verification. I hope the Board will be in a position to act on this proposal at this session.

RESULTS OF THE 2005 NPT REVIEW CONFERENCE

It is with regret that I note the inability of the States Party to the NPT, at their recently concluded Review Conference in New York, to agree on how to strengthen the implementation of the Treaty.

The lack of substantive agreement is particularly disheartening, given the urgent challenges we face, and the opportunity afforded by this Review Conference. Despite the outcome of the Conference, these challenges are still here and must be addressed. We still need to universalize IAEA authority under the additional protocol; tighten control over, and dissemination of, proliferation sensitive aspects of the nuclear fuel cycle (while ensuring assurances of supply); enhance mechanisms for dealing with non-compliance; and naturally accelerate progress towards nuclear disarmament.

If there is a positive note to be taken from the conference, it is that the challenges we face have been clearly identified. I would urge all States to pursue in earnest solutions to

reforming our faltering global security system — of which the non-proliferation regime is an essential part. The United Nations summit in September is a timely opportunity to launch this urgently needed reform.

REPORT OF THE PROGRAMME AND BUDGET COMMITTEE

The Board has before it the Report of the Programme and Budget Committee (PBC). I am pleased to note the PBC's recommendation that the Board adopt the Agency's draft programme for 2006–2007, and recommend the draft budget for 2006 to the General Conference for approval. In formulating its proposals, for each of the major programmes the Secretariat adhered strictly to the envelopes established in the 'Package Proposal' agreed upon by Member States in 2003. Having this budgetary framework fixed in advance has facilitated the work of both the Secretariat and the PBC.

Report of the External Auditor

I welcome the report of the new External Auditor, the Vice-President of the German Federal Court of Audit. The report reflects the value of a fresh perspective in reviewing the Agency's fiscal matters.

I would like to underline, in this respect, the External Auditor's remarks on the burden placed on the Secretariat when Member States attach restrictive conditions to their extrabudgetary contributions. While the contributions are welcome, these restrictions make it difficult to carry out a balanced and well planned programme, in accordance with agreed priorities.

A case in point is the Nuclear Security Fund (NSF). When the NSF was created, three years ago, the expectation was that, over time, we would review its appropriateness as the funding mechanism for nuclear security. In the intervening period, security has become a core Agency activity, but the implementation of the security programme has been impeded by restrictive contributions and by a lack of funding reliability. As requested, the Secretariat is preparing a paper on NSF funding arrangements for the Board's consideration.

CONCLUSION

The Secretariat remains committed to the implementation of a programme that aims to address the increasing challenges we are facing in both areas of our activities:

human security and human development. The Secretariat will do its best with your guidance and support to ensure efficient and effective implementation of the programme. But our success will naturally continue to depend on your acknowledging that only through a spirit of mutual accommodation can we move forward, and that only with the required financial resources available can the Secretariat respond to your needs and priorities.