

## EXECUTIVE DIRECTOR'S REPORT ON STCU ACTIVITIES 10<sup>TH</sup> BOARD (June 1, 2000)

### GENERAL COMMENTS

The first half of 2000 continued to reflect the busy activities of the Center and was characterized by the resolution of several significant issues, which had long plagued the Center's activities. These positive developments are the first signs in a very long time that Ukraine is serious about their obligations and commitments and may in fact be a general reflection of the long awaited economic and structural reforms beginning to take place.

Following the successful completion of the 9<sup>th</sup> Board meeting in December (29 projects approved) where over \$6.5 million was committed (includes Y2K special Program), work continued on many initiatives, in addition to the normal post-Board activities.

I am very pleased to report that issues that the Center encountered last year are being dealt with and many have been successfully resolved by the Center's actions and with the assistance of the Ministry of Foreign Affairs. Although the Secretariat continues to deal with the many every-day problems which make-up the regular activities of the Center, all new initiatives and project implementation have been effectively carried out and continue to be carried out in a business-as-usual manner.

The Secretariat and Center staff performed at a high professional level throughout the year and not only completed all planned activities related to their normal operations but also successfully expanded and continued several major programs.

### ACTIVITIES RELATED TO STAFF

An Advisory Committee meeting was held in London on Mar.21, 2000. Following the meetings, the ED, Senior DED and DED-USA met with representatives of STCU partner EOARD to discuss future collaboration on Partner projects.

3 new STCU replacement staff were hired following competitions (Accountant - Zoya Turkovska; Customs Clearance Officer - Anton Moroz; and Tatyana Nychyperovich - Procurement Officer) in late December and two short term contract staff were recruited in January to assist in the audit, annual report and CD-ROM projects.

English training courses were continued at the STCU at three levels to expand and strengthen staff abilities to liaise with foreigners. Executive Assistant A-M. Yanchevska participated in a two-week training course in Vancouver, Canada, to learn new aspects of office management and strengthen her abilities in her position. P. Melnik-Melnikov, the Sustainability Group Project Coordinator will participate in a one-week training course in Wheeling, WV, USA, to learn new aspects of technology commercialization, technology licensing and technology assessment to strengthen his abilities in his position.

Anatoly Ignatusha, the STCU Partner Program accountant, was selected for an all expense paid two-year scholarship at a prestigious college in the United States to complete an MBA in accounting. He was one of twenty-seven people chosen from Ukraine. We feel this serves as an excellent example of our staff's professional abilities and reflects the results of our training initiatives.

Competitions have closed and interviews held for 2 new STCU student interns who will be hired to assist with Center activities during summer vacation season.

The Secretariat instituted a new "project launch" procedure. On the first Monday of each month, Directors and Project Managers from Institutes representing each new contract signed the previous

month are invited to the Center to meet with the Executive and formally begin their association with the STCU. This forum provides an excellent opportunity to interact at the management level before a project actually begins.

Eleven conferences have been supported to date with the following organizations: in Kyiv - Ukrainian Physical Community, Institute of Magnetism, Bogolyubov Institute for Theoretical Physics, Institute of Physics, Institute of Metal Physics, Institute for Problems of Material Science NASU, and National Technical University; in Lviv - State Scientific and Research Institute of Information Infrastructure NASU; and in Donetsk - Donetsk Physical & Technical Institute NASU, in Kharkiv - Institute of Physics and Technology and in Uzhhorod - Institute of Electron Physics NASU.

## EXECUTIVE ACTIVITIES

### Presentations/Meetings

ED attended Canadian Ambassador's business lunch meeting to meet Ann Collins, Director of Eastern Europe Division, Department of Foreign Affairs and International Trade, Canada, Jan. 31

Senior DED attended several meetings with Mr. Chalji, First Deputy Minister of Foreign Affairs, to discuss progress on outstanding issues with respect to Ukrainian obligations, Feb.2

ED and DED-EU attended several science program-related meetings in conjunction with a NATO visit to Kyiv, Feb.2

Management staff provided a briefing on STCU activities for NATO Deputy Assistant Secretary General for Scientific and Environmental Affairs, Dr.Gardner, Feb.3

ED and Senior DED met with new Ukrainian Minister of Science & Education, Mr.V.G. Kremin, First Deputy Minister of Science & Education, Mr. Y.S. Yatskiv, and the Ukrainian Board Member to discuss STCU issues, Feb.4

ED and Senior DED visited Arsenal factory and discussed projects and future work, Feb.8

Management staff provided a 1½-hour presentation and briefing on STCU activities to Ms Natalie Melnyczuk, Head of the NATO Information and Documentation Centre in Kyiv, Feb. 21

STCU prepared and hosted a wrap-up seminar, Program Summary Panel Meeting on the "Program Supporting Y2K Readiness at Ukrainian NPP's" and press conference and trip to Chornobyl; approximately 40 individuals, 3 TV stations and 10 newspapers were represented, Feb.24 & 25

ED and DED-EU met with Portuguese Embassy First Secretary L.B.Camara and provided a briefing on STCU issues, Feb.29

ED met with Ambassadors from USA, Portugal and Canada, E.Baran (Cdn.Board Member), and F.Bogo (EU) to brief them on progress of Ukraine in resolving issues, Mar.3

ED and Senior DED met with Ambassadors from USA, Portugal and Canada; E.Baran (Cdn.Board Member); F.Bogo (EU); Mr.Chalji, First Deputy Minister of Foreign Affairs and other Ukrainian officials to discuss progress of Ukraine in resolving issues, Mar.3

ED & CAO met with K.Jung-Astier, Attache de Cooperation, Embassy of France, to discuss STCU activities and future collaboration, Mar.7

ED and Senior DED met with Moldavian Ambassador to discuss official visit to Moldova and next steps in possible accession request, May 3

Management staff provided a briefing on STCU activities for Mr.R.Ward, Director General; Policy, Planning & Financial Services, Central & Eastern European Branch, CIDA, May 19

ED met with First Secretaries from the Portuguese and EU Embassies, Mr.Baran from the Canadian Embassy and Ms Cabral from the USA Embassy to discuss progress of Ukraine in resolving issues, May 26

ED and Senior DED met with Parliamentary Deputy and Chairman of the Parliamentary Committee for Science and Education, Mr. I. Jukhnovsky to discuss ratification issues, May 26

### Executive Trips

Senior DED and DED-USA visited Tashkent, Uzbekistan with staff to monitor projects, investigate office space and interview potential candidates for a new STCU Information Office, Mar.13-16

ED visited Chernivtsi State University and Institute for Problems of Material Science to discuss project results and future possibilities for STCU grantees from 3 projects, Chernivtsi, May 1

## ISSUES

### Banking Update

Since the Board meeting in December, the ED sent an official reply (negative) to the bank's request for Governing Board consideration of a share-buy-in plan and the CFO initiated internal write-off procedures, as agreed-to at the Board meeting. In late February, lawyers were approached to provide bids for obtaining funds and/or initiating bankruptcy proceedings through formal claims via the court system. On Mar.3, a contract was signed with legal council to initiate claims in Arbitration Court. Mr. Datsyuk was contracted to represent STCU and prepare legal actions against State Joint Stock Specialized Import Export Bank of Ukraine (Ukrspetsimpex Bank). He completed a review of all pertinent documents by mid-April. On the basis of this review and Ukrainian law, STCU is asking for \$278,514, which includes interest and fines + 1,022,825 Hr, which includes interest and fines. The bank has until May 20, 2000 to respond to the claim. If they do not, the claim will be filed in Arbitration Court. The lawyer believes we have a 90% probability of winning the case and recovering our funds although he states it make take 6 to 9 months.

On May 10, 2000, a sum of 608,000 Hr was transferred from State Joint Stock Specialized Import Export Bank of Ukraine (Ukrspetsimpex Bank) and deposited in STCU's account at First Ukrainian International Bank. This represents a major step forward in resolution of the debt issue.

### Building/Rent/Update

In December, the First Deputy Minister of Foreign Affairs agreed to take responsibility for the STCU building issue and lease and be responsible for all dealings with the landlords. Additionally, it was stated that the balance of the 290,000 Hr budgeted for STCU for 1999 would be paid by year-end. It was also stated that should the Ukrainian government not come to an acceptable agreement with the landlords, they would find a suitable alternative facility and ensure that STCU could remain at the present location until the new facility was in a move-in condition.

Since this time, the remainder of the 290,000 Hr 1999 budget (approx.60,000 Hr) was not paid.

In early February, the landlords requested STCU to pay the first quarters rent, and when they were informed that they should be dealing with the MFA, various fines and eviction notices were immediately delivered to STCU. On Mar.15, Kyiv Energo informed the Center that they would be cutting all power at 12:00 PM. The MFA intervened at the last moment and convinced utility

providers to not cut services. The MFA also had their first meeting with the landlords and requested ownership documents. These have as yet not been provided and if they are not forthcoming, the MFA considers the contract invalid (as does STCU).

The MFA continues to actively pursue resolution of this issue and have apparently initiated a full scale investigation of the Gals HK company in regard to all their past activities. In reaction, the landlords tried to file suit in Kyiv Arbitration Court on April 14, 2000 against STCU for non-payment of rent owing since Jan.1, 2000 + fines. This was apparently rejected by the court for incomplete information.

Although the MFA continues to try and resolve this issue, significant progress has yet to be made. The lease expires on May 31, 2000. Sufficient funds have been budgeted for year 2000 to pay the rent as per the contract. However, STCU cannot retrieve the funds nor is the landlord cooperating in STCU's efforts to make the payments. Additionally, the MFA has advised not to pay the rent until they clarify the purported owner's right to rent the property.

On May 19, Mr.Datsyuk (lawyer recommended by MFA) presented a contract to STCU at MFA's request, stipulating terms for payment to defend STCU against the landlords in court. The First Deputy Minister strongly encouraged STCU to participate in this legal approach. Although the general approach was not unreasonable and the STCU agreed in principal to participate on behalf of the Ukraine government, the contract itself was deemed inappropriate and unacceptable as presented, by STCU management. Since this time, STCU has made every effort to have the contract redrafted to be more transparent with respect to terms and responsibilities of parties. The lawyer has been unwilling to accept suggested changes.

#### Re-registration of STCU

Following accreditation, it was necessary for STCU to re-register its status at several government ministries, including Tax Inspection, Customs, Statistics etc.. This was, as expected, a long and arduous process. MFA assisted with both their staff and provision of an official certificate identifying the Center as a diplomatic mission, which included an example of a new official stamp. This new stamp was obtained from abroad and has been accepted by most organizations to date. **This issue is now considered resolved.**

#### VAT Rebates

The process for STCU administrative VAT rebates was completed with the Regional Tax Inspection office in mid-January and eligible claims submitted for all of 1999. The office has a 30-day minimum period to respond to claims. STCU has worked continuously and diligently, often with the assistance of MFA, to realize this process over the past 5 months and on Mar.3 received payment of 78,000 Hr for the first claim. Verification that the process of monthly reimbursement of STCU VAT appeared on April 20/00 when tax rebates for STCU executive staff purchases and Administrative purchases were provided for Dec/99, Jan/00, and Feb/00, and on May 18, for Mar/00. To date, STCU has received rebates totaling 102,291 Hr (\$18,669). The process now appears to be working and **this issue is considered resolved.**

#### Customs Delays

As expected, the change in STCU status from Resident in Ukraine to Diplomatic Mission resulted in a breakdown of customs clearance activities beginning on Apr.15, 2000. More than 18 items have been held up since this time, while MFA works together with STCU to establish new procedures with Customs. Although on May 22, 2000, a strong letter was delivered from the MFA First Deputy Minister to Customs supporting immediate resolution, Customs do not appear to be anxious to expedite the process.

## Security

On Jan. 17/00, the National Guard began 24 hr/day continuous external security at the STCU, as provided to Embassies. STCU paid \$2500 for material and construction of a suitable guardhouse and ancillary requirements. A new contract to provide internal security has been signed with the local militia and includes a clause exempting STCU of responsibility for late or non-payment by the government of Ukraine through its budgetary process. The MFA participated in the negotiations. **The issue is resolved.**

## Proposal #2093

As a result of reviews by technical experts, it was determined that aspects of this proposal might be regarded by some as dual purpose. It appears that the collaborator might have informed the project participants that the EU was responsible for the decision to not support the proposal. The STCU Secretariat apprised the Parties of this situation at the previous AC meeting and steps were taken by the Parties to ensure it doesn't occur again. **The issue is resolved.**

## Impacts of Currency Exchange Fluctuations

The constant increasing valuation of the US\$ vs the euro prompted the Center to take decisive action with respect to current projects financed with the EU. Now that the first year of funding has ended, it is clear to the Center the ramifications of the terms of the BFA and how it is impacting on both scientists and projects.

On May 11, an information seminar was provided to 20 Project Managers for Board 7 & 8 projects to explain the situation and describe the actions required. In the first year, these projects have lost a total of \$117,000 to their budgets and Managers were requested to amend the work plans to reflect these reductions and impacts. For 2 and 3-year projects, the losses will be compounded and possibly significantly greater. Project Managers will be informed of the cuts required when STCU knows the figures and will be required to amend work plans each year.

These reductions to original project objectives and results will further adversely impact projects co-funded with Canada and the USA.

Discussions at the last Advisory Committee meeting have led to some good suggestions for additional actions by the Center which should lessen the impacts for both existing and future projects with respect to currency exchange fluctuations.

## MAJOR ACTIVITIES

### 1999 Annual Report

This report is complete. Following previous recommendations, the Annex of Abstracts of all funded regular and partner projects, a search function, a list of participating institutes, supported patents and conferences, as well as financial audit statements and notes are now included on CD-ROM. As a result, the report will be approximately 25% shorter than last years. In addition, the AR has been produced in both hardcopy and on CD-ROM. The report was completed on schedule and for the first time is ready to present to the Board in final form.

### 1999 Audit

A request for proposal was sent out to three international audit firms for bids. Following evaluations, the London-based firm of Lubbock Fine Chartered Accountants was selected and started the audit in early March. The 1999 audit has been completed and there is every indication that it will once again be a clean audit. The final report should be available by May 30/00.

### STCU Web Site Update

The STCU web site is now checked and updated every two months. Additional improvements were recently made on the basis of input from the USA Advisory Committee members.

### Database Project

As a result of requests from the Parties, the STCU has initiated a database project to build a single database, which can provide any type of report requested, and conforms to ISTC models, where possible and practical. This project is more complicated than first believed and is currently in progress.

### Y2K Project

Eight Y2K projects, previously approved and funded by the USA (+DOE), EU (+Netherlands) and Canada, for a total of \$2.1 million are now complete. Results of the work were positive as no Y2K related problems were experienced at any of the Ukrainian NPP's at roll over. Addenda B (four work plan extensions) was signed since the last Board meeting and will allow completion of some secondary remediation work at four NPPs. A draft Addenda C has been developed on the basis of an additional 700,000 euro promised by the EU, for completion of remaining secondary nuclear safety remediation. A Program Summary seminar and press conference was held over a two day period at STCU and the Chernobyl NPP to provide a forum to bring closure of the Program and discussion of results.

The Addenda C work plans were submitted to the EU in April together with a grant request to TACIS for up to an additional 700,000 euro (previously committed by the EU). Addenda B work has been completed and it is critical to receive EU funds by the end of May in order to seamlessly initiate Addenda C work.

## NEW DEVELOPMENTS

### Administrative Reform

As part of the new governments actions since December 1999, administrative reform was initiated and the number of Ministries, Ministers, Deputies etc. radically reduced and rationalization of activities started. As a result, there is now a new Ministry of Education & Science, which incorporates all functions of the previous Committee on Science & Technology and Intellectual Property Issues. The new Minister is Mr. V.G. Kremin, and new First Deputy Minister, Mr. Y.S. Yatskiv, who will have all responsibility for science and technology and STCU relations. As such, the Minister plans to submit through the Cabinet of Ministers a request for Mr. Yatskiv to represent Ukraine on the Governing Board. In the Cabinet of Ministers, Vice Premier Mykola Zhulynsky has been given responsibility for science related matters and has also been appointed head of the newly created Intellectual Property Committee. In Parliament, Mr. Ihor Jukhnovsky of Udovenko's Rukh Party, has been appointed Chairman of the Science & Education Parliamentary Committee.

### Other Governments

Japan has had no contact with the STCU for some time. Despite repeated attempts to have the new Ambassador visit the Center to be briefed on activities, there has been no success to date. Many Japanese-supported proposals were forwarded to the Embassy and Tokyo for this Board. The Japanese Embassy recently informed STCU that they are not "Observers" but Sponsors.

Contacts with Moldova have continued sporadically and an official visit is planned for early June. This country appears to be interested in joining but several changes to their government in the recent past has delayed progress.

A monitoring mission was carried out in Uzbekistan and preliminary information compiled describing a potential office and candidate to staff the proposed information office. Prior to finalizing agreements, the government has been requested to provide all appropriate documents confirming diplomatic privileges, customs clearance and tax exemptions, as per the Agreement.

A change in approach to establishing the Georgia information office has resulted in a delay. A mission will be planned for later this year to investigate practical aspects of establishing an office.

**NAUDEI**

This organization no longer exists and has been incorporated into the Ministry of Economics as a department. As such, until re-structuring is complete and roles, responsibilities and mandates are confirmed for this body, STCU has not pursued further discussions.

**Sustainability Group Activities**

Six new partners have been introduced since December, including Upsalla University, Sweden, Aero-Sensing Radarsysteme GmbH, Germany, Paradigm Shift Technologies, Canada, E.O.Paton International Holdings Inc., Canada, J.J.MacKay Canada Ltd., Canada and Plasmatec Inc., Canada. Six new project activities were also approved with E.O.Paton International Holdings Inc., Canada (P-033); Upsalla University, Sweden, (P-045), the European Office of Aerospace Research and Development (EOARD) (P-041 and P-044), Paradigm Shift Technologies, Canada (P-027), and Optiweld, Canada (P-038) for a total of \$443,305.

IPR Seminars were held in Kharkiv on Mar.1 and in Dnipropetrovsk on Mar.2.

A CIDA business delegation was hosted from Apr.24-Apr.27 by the STCU. Meetings were arranged for 3 Canadian business leaders in Kyiv, and Dnipropetrovsk and it is expected that new partner activities will result.

**PROJECT PIPELINE**

<b><u>PROPOSALS ABROAD FOR 10<sup>TH</sup> BOARD REVIEW</u></b>	
<i>NUMBER OF PROPOSALS REMAINING FROM THE FIRST 9 GOVERNING BOARDS AND PRESENTLY UNDER EXTERNAL REVIEW (USA ONLY)</i> <i>[1 - 3<sup>rd</sup> Brd.; 3 - 5<sup>th</sup> Brd.; 1 - 6<sup>th</sup> Brd.; 6 - 7<sup>th</sup> Brd.; 8 - 8<sup>th</sup> Brd.; 51 - 9<sup>th</sup> Brd.]</i>	70
<i>NUMBER OF PROPOSALS REMAINING FROM THE FIRST 9 GOVERNING BOARDS AND PRESENTLY UNDER EXTERNAL REVIEW (EU ONLY)</i> <i>[1 - 5<sup>th</sup> Brd.; 1 - 7<sup>th</sup> Brd.; 7 - 9<sup>th</sup> Brd.]</i>	9
<i>PROPOSALS REMAINING FROM THE 8<sup>TH</sup> BOARD (EU+USA)</i>	14
<i>NUMBER OF PROPOSALS SENT ABROAD FOR THE 10<sup>th</sup> BOARD (EU+USA)</i>	214
<i>SUBTOTAL (USA)</i>	298
<i>SUBTOTAL (EU)</i>	237
<i>SUBTOTAL (CANADA)</i>	225

*# OF PROPOSALS SENT ABROAD FOR THE 11th BOARD (EU+USA)*

87

STATUS OF PROPOSALS FROM THE 3<sup>RD</sup> CALL

PROPOSALS SENT FOR EXTERNAL REVIEW (9 <sup>TH</sup> +10 <sup>TH</sup> Boards)	218
PROPOSALS SENT FOR EXTERNAL REVIEW (11 <sup>TH</sup> Board)	83
<u>NUMBER OF PROPOSALS AT STCU UNDER PREPARATION</u>	<u>492</u>
SUBTOTAL	793

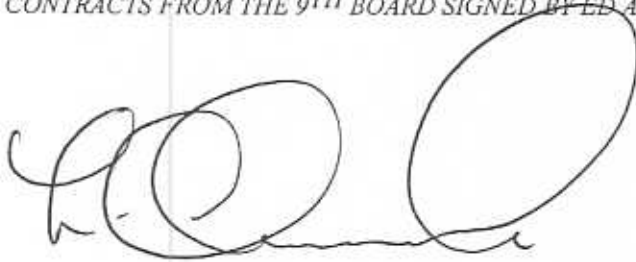
PRESENTLY UNDER REVIEW BY THE COMMITTEE OF SCIENCE	197
STATUS OF PROPOSALS REMAINING FROM THE 1 <sup>st</sup> & 2 <sup>nd</sup> CALLS	20

STATUS OF REGULAR FUNDED PROJECTS (YEAR-TO-DATE)

TOTAL PROJECTS FINANCED	246
ACTIVE PROJECTS AS OF May 31/00	116
NUMBER OF PROJECTS COMPLETED TO May 31/00	130

STATUS OF PREVIOUS BOARD APPROVED REGULAR PROJECTS

CONTRACTS FROM THE 7 <sup>TH</sup> BOARD AWAITING WORKPLAN APPROVAL	1
CONTRACTS FROM THE 9 <sup>TH</sup> BOARD AWAITING WORKPLAN APPROVAL	17
CONTRACTS FROM THE 9 <sup>TH</sup> BOARD AT STCU UNDER PREPARATION	6
CONTRACTS FROM THE 9 <sup>TH</sup> BOARD AT STCU AWAITING ED SIGNATURE	4
CONTRACTS FROM THE 9 <sup>TH</sup> BOARD SIGNED BY ED AND STARTED	4



Leo Owsiacki  
Executive Director  
May 31, 2000