



Update on STCU Building Status

The current STCU Building Usage Agreement between STCU and the State Property Agency (GDIP) was set to expire on 1st November 2007, in connection to the expiration date (1 November 2007) of the rental lease between GDIP and the owner of the 21 Kamenyariv St. premises. Due to the past (bad) experience with the previous STCU Headquarters building, STCU took the initiative to prod the Ukrainian government into starting early negotiations on either renewing the 21 Kamenyariv St. lease or arranging to relocate the STCU to other premises. This began with an STCU letter to the Ministry of Education and Science of Ukraine (MES) in March 2006, reminding the Ukrainian authorities of the lease issue and indicating the STCU's preference to remain at 21 Kamenyariv so as to avoid a major and disruptive relocation. A response from MES First Deputy Minister Ghourzhiy was received on 29 May 2006 indicating that MES would try to keep STCU at Kamenyariv, depending on the lease negotiations.

During the ensuing months, negotiations occurred (between the Landlord, MES, and GDIP, including MES requests for the Landlord to provide information such as a comparison of similar property rental prices. These activities have been reported to the Governing Board, most recently at the 24th GBM on 31 May 2007. The crux of the current negotiations is the increase in rental price demanded by the Landlord, which the Ukrainian government would need to accommodate through the MES state budget line.

The negotiation process has been sporadic, as best as STCU can tell. At times the Landlord has resorted to threats of eviction to push the Ukrainian government agencies into taking further steps. However, the MES and GDIP have repeatedly assured STCU that the negotiations would be resolved so that STCU could remain in its 21 Kamenyariv Street location.

Update since the last AC/GB Meeting on 29-31 May, 2007.

- Since the discussions made at the last AC/GBM, the STCU has received 2 additional letters from the MES. The first dated 25th May 2007 advised that they had made considerable efforts to make it possible for STCU to continue its operations in the current building, by meeting with GDIP and the Landlord, that the MES had confirmed the local property valuations to support an increase in lease costs, and that MES had sent of a request to the Ministry of Finance for approval to include the indicated increased lease amount in the state budget. MES also confirmed that it had sent a letter request to Cabinet of Ministers to adjust both the increase in lease amount and to have GDIP sign the new lease for a period of 3 years (i.e., the lease would be valid from end of 2007 to end of 2010).
- The second MES letter, dated 11th June 2007, repeated the earlier statements that MES had confirmed full payment for the current lease to the Landlord, and that the MES requests to CabMin and MinFin were awaiting official notification.
- As was agreed at the last GBM, the Governing Board Chairman sent a letter, dated 25 July 2007, on behalf of Board to the Ukrainian Government (via MES First Deputy Minister Ghourzhiy) the government to resolve this building lease issue as soon as possible.

As per the 24th GBM Record of Decision, STCU provided an update to the Governing Board on the status of the STCU building lease negotiations by 1 September. A meeting took place on 5 Sep 2007 at the Ministry of Science & Education offices, along with officials from GDIP and the Landlord. That meeting concluded that:



- MinFin refused the MES request on new lease agreement terms because it could not support the double-digit increase and some of the Landlord's other conditions.
- The Lease and User Agreement was extended from 1 November until year's end (31 Dec 2007) and MES had paid the Landlord up to that 31 Dec date.
- GDIP made a plea to the CabMin to intervene with MinFin to keep STCU in the present building and to find finances for the lease.
- GDIP would continue negotiations with the Landlord to seek a decrease in the lease amount requested and other terms not accepted by MinFin.
- MES (Ghourzhiy) suggest follow up meeting on 21 September.

However, instead of a meeting, MES/Mr. Ghourzhiy sent a letter to STCU dated 13 Sep 07 repeating that the lease was extended and paid in full until 31 Dec and that a letter addressed to CabMin had been sent with a request to entrust GDIP to solve this issue.

No further news was received, and with the 25th GBM approaching, STCU requested a meeting with all parties plus a representative from MFA. The meeting, which took place on 22 Oct 07, concluded the following:

- The Landlord reduced his asking lease amount slightly, fixed for a 3 year period. . The related request to MinFin to reserve state budget funds are in place but MinFin had not provided a response.
- MFA agreed to send its own letter to CabMin in support of STCU and will request the necessity to finance the building lease facility and to appoint a permanent governmental interlocutor for STCU issues at the Vice Prime Minister level.
- MFA advised Landlord to be patient as dealing with Government as its processes involving budget funds are always slow. MFA anticipated that any response to their letter would not come until mid-November.
- Mr. Krivanos (Director of GDIP) believed that it would be helpful to push the Ukrainian Government on this issue by having the STCU Party Ambassadors engage MinFin directly. Likewise, the Ukrainian Government's representative on STCU's Governing Board should also voice his support for STCU with the relevant Authorities.
- At the request of STCU, another follow up meeting was requested for mid/end November.

In the event the lease renewal issue is not resolved by the end of the year, the Parties may want to be reminded of the previous building crises in 2002 to compare the actions taken then, as the basis for future recommended actions to STCU Management on this current building situation.

Summary of Actions taken during the 2002 STCU Headquarters crisis.

- Lease expired on the Laboratornyj Provulok 3, building during 2002. Dispute between GoU and Landlord (Gals-K, Ltd.), but STCU remained in the building and continued operations.
- Gals-K tries to force STCU from the premises by turning off all utilities, including water service.
- On October 10, at the time of yet another cut-off of utilities to the STCU building, STCU declared *Force Majeure* based on standing Governing Board instructions (14th GBM Record of Decisions, June 2002. All Ukrainian-related activities of the Center, including grant payments to active Ukrainian projects, were suspended until the STCU was provided a satisfactory long-term resolution of this issue. STCU Staff were



sent home with pay, but a skeleton crew (including the STCU Management Committee) relocated to a rented office space in a local business center.

- STCU informs the Ukrainian MFA that it is renting this business center space and would change the rent to the Ukrainian Government. MFA disputes use of Treasury funds for this temporary office space.
- Negotiations between STCU Secretariat, STCU Governing Parties (including the Parties' diplomatic heads in Kyiv) force the Cabinet of Ministers to act, resulting in finding available premises at 21 Kamenyariv Street.
- During December, STCU moves its office equipment from Laboratorniy to Kamenyariv.
- STCU starts up operations in Kamenyariv in January, and the Governing Board approves the lifting of the *Force Majeure* status as of the end of January 2003. STCU was under *Force Majeure* for approximately 3.5 months.
- The long running, and well documented, legal cases between Gals K, STCU, and the Ukrainian Government, regarding rental debt owed to Gals-K, continued until 2006.