

EXECUTIVE DIRECTOR'S REPORT ON STCU ACTIVITIES – 7TH BOARD, DECEMBER 10, 1998

ACTIVITIES RELATED TO STAFF

A staff training exercise was successfully completed by 9 Project Officers in July and August. The Project Officers spent an intensive 2 ½ weeks attending project management related courses provided by the University of New Mexico in Albuquerque, New Mexico, USA. Coincidental tours of Sandia National Laboratories and other facilities were also attended. All participants indicated that the training was of high calibre and very useful to them in their work. A summary evaluation of the training was prepared and distributed to the ISTC for their information.

During staff training and vacations in July and August, the 3 Field Office staff were brought to Kyiv to carry on Project Officer work so that no significant interruptions would occur at the Center. This proved to be an effective mechanism for continuity of work at the Center while at the same time providing an important opportunity for additional training of these individuals to further enhance their contributions in their expanding role as Project Officers.

Julia Efanova, using input from staff and Advisory Committee representatives, designed a new STCU logo. Envelopes with letterhead have been printed and the STCU web site page updated to reflect both the new identity as well as the international nature of the Center. Business cards have been designed and will be printed together with letterhead paper once the telephone system review is completed.

The Center's regard for the working conditions of staff was further exemplified by the addition of a life insurance policy to existing plans. The extensive travel required by much of the staff on Center business in a country where travel conditions can be extremely dangerous precipitated this decision. The costs of the coverage are relatively minimal and were absorbed within the existing insurance budget of the Center.

A picnic was held on the shores of the Dnipro River in late September for staff and families as part of the morale enhancing activities of the Center. A staff Christmas party and Children's Christmas party have been arranged for December.

Mr. John Murtha of the USA arrived in early August, following an orientation stop in Washington at the State Department. A similar orientation stop in England allowed for an introduction to STCU banks and was coordinated by Mr. Bill Luke. Mr. Murtha worked with the CFO in a transition period to the end of September, while familiarizing himself with the STCU financial system and officially started his duties as Chief Financial Officer on October 1, 1998.

Dr. Franticek Janouch was nominated to be the European Commission Deputy Executive Director for a one-year term.

A tour of various Center projects was arranged for a professional photographer from the Canada International Development Agency. The information is intended to be used in a brochure promoting Canadian activities in Eastern Europe.

Extensive interviews on topics related to four Center activities were conducted with "CBIT", a Ukrainian national science newspaper, in commemoration of the 80th Anniversary of the National Academy of Sciences in Ukraine. Four special editions were produced and highlighted the new Executive Director and general STCU activities; the Partner Program and IPR seminars; scientists working with STCU and their work; and views of the 4 Ambassadors working in support of the Center.

With the recent accession of the EU, growth and increased demands of the Partner Program, new funds from Japan, and the accession of Georgia & Uzbekistan, the work at the Center can no longer be effectively fulfilled by existing staff. As such, a re-structuring plan has been developed and based on projected Center requirements. In order to deliver the work expected as of January 1, 1999, an additional 4 positions will be required and an appropriate budget increase has been requested.

PRESENTATIONS

Three presentations were provided to groups of interested Canadian government, industry, business and research/academic participants in Sudbury, Ontario, Canada. Presentations focused on providing information on the STCU activities, its objectives and role of scientists in the former CIS. Emphasis was then placed on our need to identify new collaborators for projects and proposals and promotion of our Partner Program opportunities as a means of obtaining private sector funding.

INCO Limited (International Nickel Company) Mines Research Division- July 9, 1998- 12 participants attended the presentation and expressed serious interest in the Partner Program, particularly with respect to advanced R&D in the area of gyroscopes and automation & robotics which could be applied to mining & exploration.

Team Canada- July 16, 1998- Met with approximately 12 participants from a diverse group representing local business and industry which included representatives from Industry Canada Trade Commissioner, Ontario Trade & Investment Marketing, MPC Group, MIRARco, MIROC, Northern Development & Mines, and Sudbury Regional Development Corporation. Several expressed an interest in future dialogue as part of a planned Team Canada mission to Kyiv in January.

MIRARco (Mining Innovation, Rehabilitation and Applied Research Corporation)- July 21, 1998- Met with the Executive Director and Chief Scientist to discuss STCU and potential for collaborators

Management staff provided the Austrian Ambassador with a 1 ½ hour briefing and tour of the Center and its activities on September 21, 1998.

Owsiacki, Leo: "The Science & Technology Center in Ukraine and Its Role in Ukrainian Science and Technology Issues" presented at 2nd Annual Conference of the International Chernobyl Center, October 13-16, 1998, Slavutyich, Ukraine

Leo Owsiacki made a presentation to Third Meeting of Ukraine-Canada Intergovernmental Economic Commission, October 20, 1998, Kyiv; "Science and Technology Cooperation Sector in the Framework of IEC"

Art Ducharme was invited to make a presentation in Spokane, Washington on October 5, 1998, at the Spokane Intercollegiate Research & Technology Institute International Commercialization Conference titled "Developing Policies that Promote Commercialization". His talk provided a description of STCU activities as they relate to our Partner Program and conversion from a military to a market economy and was seen as an excellent forum to promote our expanding work in these areas.

Borys Atamanenko was invited to participate in a Non-Proliferation Studies program in Washington, D.C., organized by the Monterey Institute of International Studies (USA), Sep.30-Oct.10, 1998

Leo Owsiacki presented a short address to the Kharkiv Physical Technical Institute on the occasion of their 70th Anniversary Jubilee Conference in Kharkiv on October 29, 1998.

Management staff provided the new Canadian Ambassador with a 1 ½ hour briefing and tour of the Center and its activities on November 12, 1998.

A press conference was organized for the formal accession of the EU on November 26, 1998

Borys Atamanenko was invited to attend the Wilton Park Conference on the Threat of Nuclear Proliferation, December 14-18, 1998 in London, England

Frantisek Janouch made a presentation describing STCU Chernobyl and nuclear safety related projects at the 2nd Annual Conference of the International Chernobyl Center, October 13-16, 1998, Slavutyich, Ukraine

Frantisek Janouch: The STCU and its role in Ukrainian Science and Technology, Dnipropetrovsk, Chemicotechnological University, October 20, 1998

Frantisek Janouch: The STCU and its role in Ukrainian Science and Technology, Donetsk, Physico-Technical Institute. October 22, 1998

Frantisek Janouch: Energy Primer (A Physicists Point of View), Dnipropetrovsk, Chemicotechnological University, October 20, 1998

Frantisek Janouch: Energy Primer (A Physicists Point of View), Donetsk, Physico-Technical Institute. October 22, 1998

Executive Director Trips

- visited the Institute of Biomedical Engineering in Kyiv in September and reviewed the work of project # 418, which is presently nearing completion. Interest has been expressed by western companies in the applications of this work to produce cornea topographic contour maps for use in laser surgery.
- visited the Quant factory complex in Kyiv in September and observed the progress of Project # 386. One of the results of this project pertains to development of new coatings on satellite dishes, which could significantly reduce costs in comparison to existing aluminum dishes.
- toured Observatory UTR-2 radio telescope and visited the Institute of Radio Astronomy in Kharkiv; discussed many proposals submitted by scientists
- visited Tbilisi, Georgia and met with the Chairman and Deputy Chairman of the Department of Science & Technology, Deputy Minister of Foreign Affairs, ISTC office and representatives; visited Institute of Stable Isotopes, Institute of Physics, Institute Optika, Georgia Technology University; presentation to scientists at Tbilisi State University
- visited Tashkent, Uzbekistan and met with the Chairman and Deputy Chairman of the State Committee for Science & Technology; visited the Institute of Material Sciences (Institute of the Sun), Institute of Bioorganic Chemistry, and Institute of Warm Temperature Physics; presentation to scientists at State Committee for Science & Technology

FINANCIAL MATTERS

A serious financial crisis affected the country at the beginning of September and continued into December. The result was rapidly escalating inflation and devaluation of the Hryvnia (ie. gas prices have increased 100%; Internet provider costs >150%; facility rent >100%). Street prices suggest inflation now of up to 100% for many basic items. The Hryvnia has devalued by over 40% since the beginning of this year. New restrictions are being placed on banking operations daily and are now affecting our operations to some degree. The Center responded without requiring an in-year budget increase. Currently, the currency crisis has paused. However, real inflation has affected 4 or 5 specific Center budgetary items and increased costs are reflected in the 1999 proposed budget. Additionally, staff is increasingly requesting a review of their salary levels and feels strongly that after two years of no changes, their arguments merit consideration. The fact that they are paid in \$US which previously may have negated most inflationary effects is less valid in that inflation in many instances is double the currency devaluation rate. As such, a review of salaries as related to job descriptions, as well as the bonus and merit systems previously put into effect is planned as part of the re-structuring exercise.

During the crisis, many project managers requested assistance in regard to significant losses as a result of the rapid currency fluctuations as they affected their grants. An offer was made to provide project payments on a monthly basis until the crisis ended. A minimal number of project managers accepted the offer- most complained that they wanted to be paid in \$US.

Banking Problems - On November 23, 1998, the STCU was informed that all funds in its Bankers House accounts were frozen, as well as funds transferred to scientists accounts, as of **November 17, 1998**. Due to the timing, funds affected totaled in excess of \$370,000. Immediate actions included informing the Advisory Committee, a letter to the Cabinet of Ministers (copies to Minister of Foreign Affairs & Prime Minister), briefing note for Canadian & USA Ambassadors and request for immediate assistance if possible, opening of an alternate account in a different bank to enable day-to-day operations to continue. The problem was resolved on **November 27, 1998**, by the concerted efforts of all involved. A review of the cause of the

situation will be carried out following the Board meeting, prior to a decision on the continuing relationship of the Center and Bankers House.

Overall expenditures to the end of 1998 are forecast to be 10% below budget despite the rapid inflation experienced in the final quarter of the year.

Banking procedures have been finalized for both Georgia and Uzbekistan and will involve direct transfer of funds from New York to corresponding banks in these countries.

MAJOR ACTIVITIES

IPR Seminars

Two one-day seminars were carried out in Kyiv and Kharkiv on October 27 and 28, 1998, respectively. Legal expertise from the USA, Canada and Ukraine was provided on a range of related questions including marketing, intellectual property rights, patenting etc.. Both seminars were very well received by project scientists and were well attended.

Canadian Business Delegation

Representatives of three Canadian companies were brought to Ukraine in October by Mr. Terry Sellen of Canada as part of Canada's associated CIDA project to support partnering projects. The individuals were hosted by STCU and meetings coordinated with potential Ukrainian partners. The financial crisis that hit in September likely reduced the interest in investment at this particular time.

Annual Report

2000 copies of the 1997 Annual Report were received by the Center at the end of June. Reviews have been very positive and many companies and scientists expressed a favorable opinion of the content and appearance of the report. Approximately 1640 have been distributed to date to the Ukrainian science & technology community and government, companies, representatives from the USA, Canada, EU and Sweden. 360 copies of the 1997 Annual Report remain and preliminary planning for the 1998 report has been completed and work started.

Conference Support

Four new conferences were approved for sponsoring by STCU since the last Board meeting, including: 1) Kharkiv Institute of Physics and Technics- a) 6th Conference on the Thermonuclear Controlled Fusion & Plasma Physics, b) 6th Interstate Seminar on Plasma Electronics & New Methods of Acceleration and c) Jubilee Scientific Session dedicated to the 70th Anniversary of the Establishment of the KIPT and 2) International Conference on Modern High Technologies in Lviv. A total of eight conferences were supported in 1998.

The Executive Director was requested to sit as a member of the Former Soviet Union Program Committee for the 13th Annual International Symposium on Aerospace/Defense Sensing, Simulation and Controls AeroSense Conference, **Laser Radar Technology and Applications** in Kyiv, Ukraine in 1999.

New STCU Projects

The patenting-IPR pilot project was implemented successfully. To this date, 18 patents have been approved and funded by STCU (100% of funds committed) and two IPR seminars completed. The new travel grant project funded 10 scientist trips to the USA and Canada (100% of funds committed) and were also very well received by recipients.

ISSUES

Project #62- During routine financial monitoring it was discovered that a member of the project team was ill for the past year and that a new scientist had taken his place without our knowledge or concurrence. Time cards were improperly completed and the replacement scientist not paid the appropriate amount. The issue was resolved with formal replacement of the ill scientist on the project team at the appropriate salary and

restitution for the discrepancy in salary (relatively minor amount) from the project overhead. The problem is resolved.

Partner Project #6 [Coretec/Canada]- The company was negligent in providing timely finances to pay Ukrainian scientists money's owed for completed work as per the terms of the contract. The company without proper notification as per the contract terms, suspended work on the project. Funds have since been obtained from the company to pay invoices and discussions are on-going with the company representative in terms of amending the existing contract to properly reflect delays, start-up date etc..

Project #426- This project was recently monitored in Donetsk. Routine financial questioning revealed that the project manager had verbally enforced payment of a certain percentage of pay from project scientists to refurbish laboratory equipment etc.. The amount of funds involved is less than \$1500. The problem was resolved with a strong letter from the ED in regards to STCU principles and policies and a request to cease this practice.

Partner Project #P-08- Problems were encountered when the company did not follow proper procedures in regard to contract terms as related to project payments, extensions, changes etc.. Center staff was also at fault to some degree in making verbal commitments with no subsequent internal communication. As a result of this practice coinciding with a currency crisis, \$4,714 was lost. Follow-up discussions with company representatives and the STCU resulted in an amicable and fair resolution of the problem and the project was completed as planned.

Customs/ Decree #615- On October 1, 1998, a new Presidential decree was announced which required all foreign entities to register their programs with the National Agency of Ukraine for Development and European Integration. Many STCU project shipments were suddenly held at customs points until necessary documents could be obtained. Much of the material included chemicals requiring specific storage conditions and all incurred daily penalties. The assistance of the Canadian Embassy was requested but the problem was resolved within 2 weeks by the Center.

Work Plan Review- The new system of work plan review implemented by the USA in March of this year is not working as well as planned. When the review was requested, it was determined that reviews would be completed within a 3 week period of receipt of the final work plans in order to not further slow Center activities. Prior to this, it took approximately 3 months to start projects after funding approval. Since the June Board and implementation of work plan reviews, this has fallen to over 6 months. The Center reputation and credibility is falling rapidly as a result. Not only are proposal reviews now taking an excessively long time but also project initiation is falling into the same category.

Partner Approvals Process

At this point in time, 4 "pilot projects" have been approved by B.Paton, which successfully demonstrated the NAS's ability to process these proposals within an acceptable time frame. Subsequently, of four Ministries reviewing the process, 2 were supportive and 2 had unacceptable changes suggested. Mr. Paton prepared a response to these comments for the Cabinet of Ministers decision. I met with Mr. Stanislav Dohey, the new Minister of Science, to describe our activities and express our hopes of implementing a parallel process for partner projects dealing with all non-NAS organizations. The attempt to finalize the Paton process of approval was halted in November but the Ministry of Science recently quickly approved a new partner project. I hope to arrange an informal meeting with these two gentlemen in the near future in an attempt to clarify this issue.

NEW DEVELOPMENTS

Ratification

A representative of the Cabinet of Ministers informed the Center that the Ministry of Justice has ruled that by law, the STCU Agreement signed by the four Parties is valid as of the date of confirmation by Ambassadorial note exchange. No further ratification is required. A letter was subsequently sent to each appropriate Ministry requesting them to work with the STCU to resolve any outstanding difficulties.

Privileges & Immunities

A letter was previously sent to the Minister of Foreign Affairs (May/98) requesting clarification and direction as to means of resolution of a problem in regard to lack of privileges and immunities by the Executive of the STCU as described in the STCU Agreement. In response to the letter, a meeting with a representative of the MFA was held to discuss the issues. This new individual indicated that he had been given the responsibility for coordinating resolution of all STCU problems in regards to our Agreement. He confirmed our interpretation of the diplomatic equivalency status of our Executive and indicated he would try and resolve this issue. This long-standing problem was finally resolved in November. The Executive Director now has the appropriate Ukrainian documents and similar documents have been obtained for the US Deputy Executive Director.

VAT

In regards to VAT, we were informed that a process was finally developed for resuming VAT payments through a rebate program put into place as of June/98. A letter was sent from President Kuchma to the Prime Minister requesting that he ensure that all STCU problems relating to VAT be resolved. A meeting was subsequently held with a representative of the Cabinet of Ministers to verify the next steps. A letter has been sent from myself to the Cabinet of Ministers requesting resolution of this long-standing problem. I presented my thoughts on a possible "payment plan" which was positively viewed at the June Board meeting and it may be something to follow-up when we are at the appropriate stage in the process. This is the first step forward on this issue in two years.

EU Accession

The EU formally acceded to the STCU on December 1, 1998. Final accession documents were signed and delivered and the Bilateral Financial Agreement was signed and funds committed to the 1998 budget on November 26, 1998. A press event was coordinated by the Center and included brief speeches by the Ambassadors of the USA, Canada, Sweden, Austria and EC to Ukraine; an official presentation of accession documents and signing of the BFA; and flag raising. Several members of the press and TV were in attendance.

Japan Status

Japan has transferred \$1 million to STCU following an exchange of letters between the Ambassador of Japan and the Executive Director. Invoices are presently being prepared to access the \$300,000 committed at the June Board to 4 projects.

Partner Program

Four new partner activities recently received Ukrainian government concurrence through the B.Paton "pilot" process. These same four have received approval by the Canadian board member. Two of these four have received concurrence by the US Board member. The National Cancer Institute of the USA, presently funding two existing and previously approved projects, P-003 and P-004, requested an extension of their projects for up to 5 years. The work plans are being amended to reflect these changes but since the objectives have not changed in the projects, an FYI to the Ukrainian Board member is all that is deemed necessary to proceed.

The Board approved three projects this quarter for a total of \$110,000 (P-19, P-22, P-24). Three new projects are presently in various stages of approval. The program continues to receive interest and recently, several EU countries have met to discuss opportunities. Both Uzbekistan and Georgia have also indicated an interest in possible partner projects.

PROJECT PIPELINE

The new screening process was implemented in March. The USA, EU and Canada provided their short list selections, which were subsequently re-packaged by the Center to include all information available and provided to the Parties by September 30, as originally planned. Unfortunately, not all Parties were able to effectively reduce the number selected for detailed scrutiny and it was decided to revert to the previous system of project review. However, the commitment was made to provide a positive or negative response to all

projects (approximately 500) by the June'99 Board meeting at the latest. With this assurance in place, a new Call-for-Proposals is planned for January, 1999.

NUMBER OF PROJECTS REMAINING FROM THE 6TH GOVERNING BOARD AND PRESENTLY UNDER EXTERNAL REVIEW 68
[2 from the 3rd Brd.; 5 from the 4th Brd.; 18 from the 5th Brd. and 40 from the 6th Brd. +3 Georgian projects]

SHORT-LISTED PROJECTS SENT ABROAD FOR THE 7TH BOARD 183

NUMBER OF post-screening PROJECTS SENT ABROAD FOR FOR THE 7TH & 8th BOARDS 68

SUBTOTAL 319

NUMBER OF PROJECTS CURRENTLY AT STCU BEING PREPARED FOR THE 8TH BOARD 188

NUMBER OF PROJECTS CURRENTLY AT THE MINISTRY OF SCIENCE FOR REVIEW 120

SUBTOTAL 308

STATUS OF REGULAR FUNDED PROJECTS

PROJECTS PRESENTLY UNDERWAY 99
NUMBER OF PROJECTS WHICH WILL BE COMPLETED BY DEC. 31/98 49

STATUS OF 6TH GOVERNING BOARD APPROVED REGULAR PROJECTS

SIGNED CONTRACTS 17
CONTRACTS PREPARED AND AWAITING WORKPLAN APPROVAL 9
CONTRACTS PREPARED AND AWAITING OTHER DEVELOPMENTS 2
CONTRACTS UNDER PREPARATION (5th BOARD) 1
CONTRACTS UNDER PREPARATION (6th BOARD) 5

TOTAL 34

Leo Owsiacki
Executive Director
December 9, 1998