

**MINUTES of the SECOND STCU
BOARD OF GOVERNORS MEETING
Kyiv, Ukraine
May 10 - 11, 1996**

Friday, May 10, 1996

OPENING SESSION

Dr. John Boright, US Board Member and designated chair of the Governing Board meetings, opened the meeting. Those present included:

Canada

Wasył Janischewsky, Board Member
Real LaLande, Canadian International Development Agency
Tom Body, Canadian International Development Agency
Janet Scholz, University of Manitoba

United States

John Boright, Board Member
Jim Noble, US Department of State
Angela Jeffries, US Department of State
Pat Paterno, US Department of State
Roger Cowles, US Department of Defense
Steve Gitomer, Los Alamos National Laboratory
Randy Beatty, US Department of Energy
Fred Heineken, National Science Foundation

Sweden

Ambassador Martin Hallqvist, Board Member
Tor Larsson, FOA

Ukraine

Victor Bar'yakhtar, Board Member

STCU Secretariat

Ostap Hawaleshka, Executive Director
Boris Atamanenko, Ukrainian Senior Deputy Director
Frantisek Janouch, Swedish Deputy Director
Bill Luke, (acting) Chief Financial Officer
Lubomyr Baniias, Chief Administrative Officer

Observers

Japan

Ambassador Shoji Suezawa
Takehiko Okubo, Japanese Ministry of Foreign Affairs

Dr. Janischewsky moved to accept the Agenda as presented and the Board adopted the Agenda by unanimous consent. Dr. Boright, chair of the Second Meeting of the STCU Governing Board delivered welcoming remarks. During the welcome, Dr. Boright indicated that the US interests were happy with the

progress made by the STCU since the last meeting (Dec. 1995) and that, to date, no serious problems were evident.

Prof. Hawaleshka made introductions around the board room table. He also presented introductory remarks on behalf of the STCU. Ms. Scholz presented welcoming remarks along with her positive comments as to the number of projects proposed to be funded and the number of signed agreements. Ambassador Hallqvist, Swedish Board Member, presented welcoming remarks and presented good wishes to the Centre's future activities. Dr. Bar'yakhtar, Ukrainian Board Member, indicated in his welcoming remarks that he was happy with the response to proposals and that the STCU has made a great impression on scientists in Ukraine.

Japan's Ambassador, Shoji Suezawa, thanked the STCU for being invited as observers and requested Mr. Takehiko Okubo, of the Japanese Ministry of Foreign Affairs, to outline the Japanese government position. Mr. Okubo indicated that the Japanese Government is fully committed to the ISTC in Russia and the STCU in Ukraine. The Government of Japan has assigned \$20 million US dollars to both centres with \$17 million to ISTC and \$3 million to STCU. Japan is presently involved in fully studying the possibilities of cooperative involvement with the STCU on items such as accession, type of financial contribution, and staff requirements.

COMMENTS ON THE STATE OF THE STCU

Prof. Hawaleshka, Executive Director of the STCU presented a general report on the overall status of the organization.

The organizational status report indicated that the STCU has achieved recognition as being the first legally registered intergovernmental entity in Ukraine and that regardless of the "Resident" status required for registration, the bureaucratic recognition of special considerations as detailed in the Agreement seems to have been achieved.

In reporting on the status of the facilities, it was noted that the facilities are functioning fully. The quality of the facilities was having a positive impact on the work of the STCU staff and clients. Minor difficulties involved furnishing errors and these are to be corrected. Plans have been approved for the add-on of a third floor to accommodate future work space requirements. The STCU computer network is reported to be operational.

The four initial Parties have continued to be fully supportive of the Centre. It is hoped that the European Union, who indicated officially their intentions to seek accession, will do so by the end of the year. It is also hoped that Japan will finalize their deliberations. The USA and Canada have supplied expertise in the area of staffing contracts, project preparation, computer network development, and assistance in preparation for this Board Meeting. For this help STCU is grateful.

Issues regarding the interaction with the Ukrainian Government included instigating the development of a "Postanova" (decision) by the Cabinet of Ministers to clarify aspects of the STCU Agreement which will assist when working with the appropriate bureaucracies. Further, the National Space Agency has received approval to cease being STCU's support agency resulting in STCU being fully independent. The Ukrainian Government allocated the sum of 26 billion karbovantsi - which was identified as a separate

line in the Ukrainian Budget. Finally, STCU and the Parties must rectify the perception that a termination date exists in the STCU Agreement.

The main financial issue has been resolved by finding and selecting a bank (Banker's House) which is fully cooperative with the STCU requirements and is assisting in obtaining all special waivers needed to operate. A formal computerized accounting system has been installed and STCU is operating normally.

The present complement of STCU full time and part time staff is approximately 30 persons. This number is within budget projections. STCU has completed preparation of a Civil Law Contract for the employees, a staffing classification system, a work compensation package, and a staff code of behavior. STCU has been patiently waiting for the US to address the requirements of a Deputy Director and a Chief Financial Officer - both urgently needed. Continued support for the staffing of the Executive Director and the Chief Administrative Officer for purposes of continuity should be provided.

In reporting on projects, it was identified that 92 projects have been considered for donor review of which 30 were considered at the first Board meeting and 62 at the second. The first Board meeting approved 12 for a total funding of over \$1,700,000 which included one Canadian "Cooperation Grant" project. STCU has signed 11 contracts of the 12 projects approved. Some difficulties are being experienced with the contract for the one project. The movement of funding to the 11 contracted projects has begun. The need for Project Officer staff has been identified. Training seminars dealing with proposal and contract preparation are being prepared. One large hurdle overcome by STCU was having the acceptance of various Institute Directors issuing signing and management authorities to project teams and managers of approved projects as required by contract.

Special issues involved preparation of a visit by the Ukrainian Senior Deputy Director to the United States and Canada to work firsthand with the US State Department and DOD in Washington, CMS in Baltimore, Los Alamos, CIDA and NSERC in Ottawa, and the UofM in Manitoba. An English and Ukrainian version of a video showing Ukrainian Technology is being planned to highlight the capabilities of Ukrainian scientists and science. The Executive Director also reported on his receiving an award from the Society of Professional Engineers - partly as a result of his work with the STCU.

Comments arising from the Executive Director's presentation included Dr. Boright indicating support for the proposed publicity which can result from a video on Ukrainian scientists and adding further that similar outreach is very important. Mr. LaLande commented on the proposed trip by the Ukrainian Senior Deputy Director and looked forward to his visit to Ottawa. Dr. Bar'yakhtar commented in favor of STCU's position in supporting the project teams and managers as required by contract, which is a change to the traditional style of management where the Institute Directors had full authority in all matters.

ADMINISTRATIVE TOPICS

Dr. Boright moved to approve the minutes of the First STCU Board of Governors Meeting.

Dr. Janischewsky commented on the minutes raising the point that project funding issues addressed at the first Board meeting carried over items such as time cards, travel, and overhead costs to be discussed at the second Board meeting - and that these items will probably not be addressed at the second Board meeting judging by the adopted Agenda.

Dr. Boright commented on the minutes suggesting that the discussion on Board Procedures regarding the Model Project Agreement referred to at the first Board meeting should include the notion that the terms of reference must be carried out without excessive activity. Specifically, "The general statement of the Board was that monitoring goals should be met without a level of travel that exceeds STCU resources."

The Board adopted the minutes with above considerations to be added.

The Board then proceeded to discuss the items regarding establishing a Management Committee. Mr. LaLande presented a short report on past STCU informal management related meetings that were held at various times in Washington, Ottawa, and most recently in Kyiv. Mr. LaLande proceeded to propose to the Board that a formal STCU Management Committee be approved. Dr. Bar'yakhtar responded with questions regarding the Management Committee - Will a portion or will all parties be represented at the Committee?, What is the purpose and aims of the Management Committee?. He further indicated he was unsure of the role to be played by the Management Committee based on information provided. Mr. LaLande responded by suggesting that the role of the Management Committee was to discuss the manner of STCU operations, help establish performance targets for STCU and recommend how to achieve these targets, carrying out management reviews, and if the Committee becomes formalized - it could make recommendations directly to the Board regarding actions to be taken relative to management. Dr. Bar'yakhtar requested a clarification as to the relationship between the Secretariat and the Committee. Dr. Boright, referring to a document presented by Mr. LaLande generally outlining the proposed Management Committee terms of reference, suggested that the wording should indicate that the Committee is to assist the Board, that it has a degree of independent decision making authority and is primarily to advise STCU management. Prof. Hawaleshka added that his understanding is that the Committee is to assist the Board and help the Secretariat. However, it was pointed out that the wording of the terms of reference suggested the Committee would dictate management rather than assist in management. Dr. Bar'yakhtar added that he would not wish this committee to dictate management to the Secretariat. He further commented that he is still uncertain about the influence and role of the Committee. Mr. LaLande responded that the Committee would work through the Executive Director and that the Committee would advise the Board and recommend on action to be taken. Mr. Noble indicated that the Management Committee may become a meeting of the Parties, but not at the Board level, where issues may be decided without involving Board activity. Ambassador Hallqvist was of the opinion that the need for a Management Committee is real and that he would welcome recommendations from such a Committee for his deliberations. Dr. Janischewsky would like a clarification as to how all parties in the Agreement are represented on the Management Committee. Dr. Boright suggested that the interested parties in creating the Committee should consider all points raised during the discussions, and resubmit a formal document for Board consideration.

The Board continued discussions on the "STCU Partners" document. Mr. Noble presented the document and stating that the document was a set of principles and procedures by which the Board would approve new Party participation. The document outlined various procedures for different conditions. The review procedure for projects by a Partner was not spelled out because an expedited review process was yet to be seen. "The US needs this sort of document for private sector funding". Mr. Okubo requested clarification of page 1, point 1, and asked whether a potential partner needs a recommendation. Dr. Boright responded that a recommendation is not necessary for Japan becoming a Party to the Agreement. Dr. Janischewsky requested clarification of page 4, and asked whether transparency is for participants or for STCU? and further referring to page 10 he asked if the participants have to report to the STCU? Will some of these requirements deter some private sector participants to market ready technologies? Mr. Noble responded that most issues are addressed in the Demonstration Phase set up for the STCU. Dr. Janischewsky recommended to strike the term "market ready technologies". He further questioned the statement that non-parties cannot request an audit, suggesting that perhaps participants may want an audit. Mr. Noble

responded that participants cannot take advantage of the audit provisions of the Agreement, however, they can ask STCU to conduct audits. In order to do this, Mr. Noble suggested that "financially correct" language should be inserted to clarify how participants can get audit access. Dr. Janischewsky referred to document #5, page 11 and requested the insertion of "Article VI (A) of the Statute" in the first paragraph. A question was raised as to Procedure #4, page 11 - does the process require Ukrainian committees review? Mr. Noble responded by saying that this procedure should not be spelled out because it may change, and the process should not be necessarily considered as a sequence of events. Prof. Hawaleshka recommended that the second line in the first paragraph should not have any reference to percentage. He recommended that the STCU Secretariat determine the percentage. The Board approved this recommendation.

The Board proceeded to discuss the next call for proposals. Prof. Hawaleshka presented the Board with items for consideration. He suggested that using dates doesn't work because the window never really closed on the previous call for proposals. All potential applicants are presently requested to submit a three page summary for evaluation. The estimated backlog is approximately 10 months assuming that the State Security Committee will release those in their possession. Because new proposals will require approximately six months to reach STCU Parties, a call for new proposals should be called about September to coincide with the time when previous proposals will be exhausted. Mr. Beatty commented that proposals should be ready three months prior to a Board Meeting. He suggested that there is a backlog of 70-75 proposals which should be available by August 15, 1996. Dr. Boright asked whether the Management Committee schedule can accommodate this. Mr. Beatty responded yes, and added that the Committee is to meet in Stockholm in September of 1996. Prof. Hawaleshka commented that a danger exists that the State Security Committee may not release proposals to the STCU schedule and that such a delay may require a rapid response from all Parties. Dr. Bar'yakhtar indicated that there are obstacles to proceeding more quickly on Security Committee issues and the Board's along with the Secretariat's combined efforts should help to expedite this. Mr. Beatty suggested that the Security Committee should develop a checklist and screening mechanism to more efficiently finalize their work. Dr. Janouch advised that a more active role by the Secretariat may be anticipated in proposal preparation. If the Secretariat is more active in this process, time and money can be saved for reviewers in the West. He further suggested that clearly 10-15% of the proposals do not meet the scientific requirements for security review. Dr. Bar'yakhtar commented that the scientific community in Kyiv is very important and more authority should be delegated to the Secretariat for involvement in the preliminary review. Consensus of three Deputy Directors should be able to prevent a project from being submitted. Prof. Hawaleshka agreed with more involvement but advised that the Secretariat should not be in a position of reviewing projects. He suggested that if a questionable project is presented, the Secretariat can provide confidential comments attached to the document and forward the proposal through normal channels.

The Board then dealt with appointments. Dr. Bar'yakhtar nominated Dr. Boris Atamanenko as the Ukrainian Senior Deputy to the STCU. The Board accepted the nomination and appointment. Ambassador Martin Hallqvist nominated Dr. Frantisek Janouch as the Swedish Deputy Director to the STCU. The Board accepted the nomination and appointment. Dr. Boright commented that US efforts should be accelerated in producing staffers.

PROJECT AGREEMENTS UPDATE

Dr. Janouch gave a presentation on the STCU status and activities. Following the presentation, a discussion was carried out. Dr. Bar'yakhtar suggested that an upper value should be established on the proposals to be submitted. Dr. Boright suggested that possibly instead of formally establishing an upper value, the Board may suggest a "ballpark" figure and that the sentiments of the Board be conveyed to potential applicants. Prof. Hawaleshka suggested that this may create a negative incentive. Dr. Heineken proposed that high value projects may find various funding methods. Dr. Boright again suggested that the Board convey that \$250,000 appears to be a ceiling. Mr. Baniias gave a brief outline of the status of Project Agreements. The outline indicated that project agreements take into consideration conversion to civilian orientated work for Ukrainian scientists. New formats and concepts of joint responsibility on behalf of the project teams and the Institutes are dealt with sensibly and with sensitivity. The agreements recognize the project managers as fundamental to the process of fund expenditure. Problems dealing with a sense of competition within the Institutes, legal concerns, and areas of responsibility have been addressed. The process is to encourage good working relationships with Institutes and project teams as well as developing team responsibility. Dr. Boright responded that the comment about "Who's the Boss" suggested that STCU was "Boss" and may be misinterpreted. Dr. Bar'yakhtar commented that this is an issue of concern, specifically the support of the individual scientists verses the institutes as far as channeling money is concerned. The problem of funneling money through institute directors may be difficult to solve. A general discussion was carried out among Board members as to how to inform scientists about how STCU funds projects.

FINANCIAL TOPICS

Mr. Luke made a presentation about the local banking and taxation. In the presentation, he suggested the use of random calls to assess the reliability of bank payments. He further suggested that future work will assist in gaining confidence in Banker's House and their ability. Mr. Body asked - Are the exchange rates decent? What about the fees? Are they competitive? Mr. Luke responded that they are competitive in all aspects. Mr. Luke further reported on taxation and the value added tax. In response to Dr. Janischewsky's inquiries, Mr. Luke responded that the VAT was 20%. In response to a specific request from Banker's House, Dr. Janischewsky moved that STCU be allowed to maintain a minimum balance of \$100,000 US of administrative moneys in Banker's House. The Board approved the motion.

Mr. Luke continued with his presentation of the first quarter budget report. Mr. Cowles requested to know who will pay for the proposed third floor. Mr. Luke responded by saying that the landlord will pay for the third floor and the Ukrainian Government funds will pay for the additional rent. Following, Mr. Luke reviewed the budget. Mr. Cowles asked where in the budget is the cost of the video movie project. Mr. Luke responded that the item is in public affairs (16/355). Mr. Body asked whether the budget is adequate to complete the year. Mr. Luke responded by saying that projections to the end of the year indicated no budget problems. Dr. Boright requested to know the threshold for informing Parties as to budget difficulties. Mr. Luke responded that 10% is the guideline. Mr. LaLande inquired whether the Management Committee could play a role in budget management. Mr. Luke and Prof. Hawaleshka both suggested that this may be acceptable.

Mr. Luke continued with a presentation on Project Financing. He explained the activity required for grantees to withdraw moneys from the Bank. Further, he indicated the cooperation obtained at Banker's House in establishing a mutually acceptable system for financing projects.

Mr. Luke then presented a status report on STCU auditing and accounting practices. Ambassador Hallqvist presented a letter to the Board outlining that Banker's House currently has over \$600,000 US in deposits and is considered fairly stable. Mr. Luke continued his presentation by briefing the Board on computer hardware and software requirements. Dr. Janischewsky asked whether the 110 volt equipment can be converted to 220 volt. Mr. Luke suggested that this may cost too much - in the order of about \$500. Mr. LaLande congratulated the staff on resolving much of the economic problems, especially the banking and made a motion for the Board to express it's approval. The Board accepted the motion.

THE STCU TWO-YEAR REVIEW

Dr. Boright opened this session by suggesting that the topic of the two year review has spawned much discussion and debate. A draft document of the two year review was circulated which addressed the issue. Prof. Hawaleshka supported the document saying that this will satisfy the review requirements. Changes to specific wording in the document were made by Dr. Janischewsky, Dr. Boright, and Dr. Bar'yakhtar. Following additional discussion by all Party representatives, Dr. Boright concluded that a consensus was forming that indicated more time was required than available on the agenda for redrafting the submitted document. He proposed that the Parties be asked to further consider the document during the break because it was inappropriate to deal with the detailed redrafting during the formal meeting. Therefore, further work on the two year review document was tabled.

Dr. Boright requested the Canadian Delegation for their presentation. Ms. Janet Scholz reported on the progress of the Canadian Scientific Exchange Program. She detailed that four projects were submitted, two were approved, two were pending additional information, and six were in the "pipeline". She indicated her pleasure with the interest of Canadian scientists in this matter.

Dr. Janouch presented his ideas on STCU staffing indicating that in his view, some aspects of the STCU staffing contracts were not consistent with western norms. He suggested that the hiring and contractual process should reflect part of the conversion process. Prof. Hawaleshka agreed that this process may help in influencing the thought processes of our staff. Dr. Boright suggested that a brief status report on this issue may be helpful at the next meeting.

Dr. Janischewsky moved to have the Board approve the submitted Partners Document as revised. The Board approved the Partners Document.

SATURDAY, MAY 11, 1996

PROJECT APPROVAL AND FUNDING

Dr. Boright moved to have the project funding approved by the Board. Prof. Hawaleshka read out the approved projects numbering 37 with one travel grant from Sweden which resulted in a total grant value of \$4,371,584 US. The Board approved the funding. Comments following the announcement started with Dr. Bar'yakhtar, who expressed his satisfaction for the degree of support given to the Ukrainian scientific community. He did indicate a concern that specific larger institutes may be considered several times as recipients of grant moneys. The grant moneys should be diversified. These comments received support from Dr. Boright and Dr. Janischewsky. It was recommended by Dr. Janischewsky that the STCU Secretariat assist in developing diversity in receiving proposals. Dr. Boright added his view of the importance of STCU in understanding the criteria used by the western Parties in considering proposals so that this understanding may assist in targeting a broader scientific interest. Prof. Hawaleshka responded by indicating that in the previous year, the understanding of the Secretariat has matured, but welcomed any information from the Parties relative as to criteria. A short discussion was carried out with thoughts from Dr. Boright, Dr. Bar'yakhtar, and Mr. Beatty about the need for balance of diversity between basic and applied science and its relation to the Ukrainian projects.

A change to the Agenda was approved by the Board so that Mr. Schiller, chairman of Banker's House could be introduced to the Board by Mr. Luke. Mr. Schiller made a short presentation about his Bank and the services it proposed with STCU. Mr. Luke expressed confidence in the STCU's dealings with the Bank and looked forward to a successful association with Banker's House. The Board appreciated the information, and welcomed Mr. Schiller.

FINAL TOPICS

Following a short discussion about recommendations for dates of the next Board meeting, the Board indicated consensus for a meeting to be held about the second week in November, 1996.

The Board approved the Press Release as submitted by the Secretariat.

Dr. Boright moved, and the Board approved acceptance of the revised two year review of the STCU agreement document.

Concluding remarks were presented from representatives of the Science Department of the Ukrainian Cabinet of Ministers, the Ukrainian Ministry of Foreign Affairs, the Ukrainian Ministry of Defense, and the Ukrainian Ministry of Education. All indicated their great support of the STCU and were very grateful to the Parties for the tremendous financial assistance for science in Ukraine.

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Mr. Krug, of the Embassy of the United States of America, thanked, on behalf of the Embassy, the Centre for or its work. Dr. Boright thanked the Staff of the STCU for their efforts. The Board meeting was adjourned by Dr. Boright..