



## Executive Director Report (Reporting Period: 2 December 2005 to 7 April 2006)

### Major Issues

Update on STCU Evolving Strategic Environment. With the close of the STCU Fiscal Year 2005 (31 December 2005) and the completion and auditing of the STCU financial statements for that year, STCU Management could update the facts and figures cited in the white paper “STCU Strategic Environment – A Changing Situation?”. The trends cited in that white paper were confirmed by these 2005 numbers: a further reduction in actual project expenditures, a continued decrease in Regular Project funding, a modest increase in Partner Project funding (which was not significant enough to offset the declines in Regular Project funding), and the appearance of Recipient Party (Ukraine) funding to Regular Projects which put the Recipient Party as the fourth largest source of STCU project funding in 2005.

These continued trends not only served to confirm the white paper hypotheses, but also dramatically highlighted the questions about the STCU's strategic outlook and near-term future, particularly in regards to administrative operating budget requirements for the next few years. Further discussions are needed with the Governing Parties to bring some clarity to the near-term STCU administrative situation and to provide targets in the far term toward which the STCU Secretariat can aim as far as future program planning.

### STCU Discussions with Ukrainian Government

Past Rental Debt/MES Funds. In December, immediately after the 21<sup>st</sup> STCU Governing Board meeting, the STCU ED worked actively with the Ministry of Education and Science of Ukraine, as well as the other Governing Parties and their diplomatic heads in Kyiv, to attempt to make progress on the issue of the MES funds (299,000 UAH) deposited with STCU in May 2004 as a result of the now-concluded Gals-K legal suit, as well as the outstanding US\$139,000 paid by the STCU Parties in 1998-1999 to cover rental payments at a time when the Ukrainian Government was not able or willing to pay these rents. Following the guidance from the 21<sup>st</sup> GBM, the STCU ED and Ukrainian Governing Board member and First Deputy Minister of Education and Science came to the following conclusions: first, there would be no funds available from the 2006 Ukrainian state budget identified for the US\$139,000 in past rental payments, and therefore (2) the best solution would be to propose a joint activity of mutual benefit and interest, whereby MES would contribute the equivalent of US\$139,000 and the STCU would contribute the 299,000 UAH of MES funds it was holding. The Ukrainian Party and STCU Secretariat believe such a scenario fits the “zero solution” scenario as defined during the Governing Board discussions at the 21<sup>st</sup> GBM.

Unfortunately, the political events which took place after 1 January 2006 appear to have distracted the MES and this has delayed their official proposal of a joint activity with STCU. On 10 January 2006, the Ukrainian Parliament (the Verhovna Rada) issued a no-confidence vote against the government of Prime Minister Y. Yekhanurov that threw into question the legal authority of the Cabinet of Ministers. Then, on 26 March 2006, there were parliamentary elections and under the currently amended Ukrainian constitution, this new Parliament (once seated) will choose the next Prime Minister and Cabinet of Ministers.

In this uncertain environment, it is not clear when the MES will be able to focus on developing and proposing a possible joint activity that would satisfy the Governing Board's “zero solution” instruction. In the interim, STCU

still holds the MES funds and has not received and further communication from MES about returning these funds.

Ratification: STCU Deputy Executive Director Michel Zayet assumed responsibility from the departed STCU DED John Zimmerman on the issue of completing the ratification process of the STCU Agreement and its Protocol. Meetings took place between STCU and MES and MFA, but essentially there have been no movement on the part of the Ukrainian government, probably due to the complicated political situation described earlier. STCU received concurrence to take steps in securing a Ukrainian translation of the STCU Statute section that all agreed requires re-translation, but only after this re-translation has been certified by the MFA can the next steps be taken with the Ministry of Justice.

#### STCU in Moldova

Since the 21<sup>st</sup> GBM, only minor steps forward have been taken on starting STCU operations in Moldova. While the STCU and Academy of Sciences of Moldova signed a “user agreement” for placing the STCU Regional Office in the Academy’s main building, it was only in March 2006 that these rooms were finally vacated, therefore no renovation work has started. The STCU Regional Officer for Moldova was able to submit some project proposals from Moldovan scientists and was able to hold a STCU proposal writing instruction workshop for interested Moldovan scientists. But the diplomatic accreditation process of the STCU in Moldova was delayed, apparently because the Moldovan Ministry of Foreign Affairs could not understand why accreditation was needed or what kind of accreditation was being requested. The CAO and DED (EU) traveled to Chisinau in 26 February-3 March to assess the situation and to clarify what the next steps should be. As a result of the trip, a letter was sent from STCU to the Moldovan MFA providing several examples of accreditation granted to STCU by other Member States. A trip by the ED continues to be planned, depending on developments with the accreditation process and Regional Office renovation activities.

#### Uzbek Situation

There has been no change in the STCU’s banking situation in Uzbekistan; STCU is still conducting financial business from outside Uzbekistan because STCU cannot reach agreement with the state-run Uzbek banks. STCU projects and activities continue, but additional Uzbek governmental scrutiny is causing delays (e.g., Uzbek project participants are waiting 4-6 weeks for government approval before they can get their project grant funds or travel grants from their bank accounts).

Several U.S.-sponsored Defense Contract Accounting Agency (DCAA) project audit trips to Uzbekistan had to be cancelled because these U.S. financial from DCAA (Germany) and technical auditors from the United States did not receive timely letters of invitation from the Uzbek MFA. STCU had submitted requests to the MFA in January and February 2006, for these April audit trips. But in spite of a letter from the STCU ED to the MFA alerting it to this situation, a meeting of the STCU CFO and Uzbek Embassy officials in Kyiv, and several meetings between MFA officials and the STCU Regional Officer (Uzbekistan), letters of invitation were not received in time to support the Uzbek portion of these project audits (the DCAA financial auditors and U.S. technical auditors did travel to Ukraine to audit the Ukrainian portions of some joint Ukrainian-Uzbek projects), but did not audit the scheduled Uzbek institutes.

Perhaps of more importance, the STCU diplomatic accreditation expired on 1 March 2006 and has not yet been renewed. In 2005, the Uzbek MFA was slow in issuing a renewal of that year’s accreditation, renewing it on 28 March 2005 retroactive to 1 March 2005. But the Uzbek MFA is now much later now in renewing the STCU accreditation than in the past. Technically, the STCU has no legal basis for operating in Uzbekistan in the absence of a current accreditation. Although as of 1 April, STCU project participants continue to receive their

funding (after much delay at the Uzbek banks), the situation could change rapidly if the Uzbek authorities decide not to renew the STCU accreditation.

The situation is of growing concern for the STCU executive management. The Secretariat continues to monitor the situation and will keep the STCU Parties apprised of all these events.

## **Current Activities**

### Installation of ERP Integrated Financial Software

Installation of the NAVISION integrated financial software package continues, with all new STCU projects being input into the new system. STCU Financial and Administrative Offices continue to work with the NAVISION package and address the minor operational issues that are encountered. The STCU goal is now to begin planning for the move all of the active STCU projects to the NAVISION system. The estimated time for this final transition step is unknown, but it is hoped that it can be completed before the end of 2006.

DCAA and Lubbock Fine Audits. During March, STCU hosted two separate audits of its financial system and financial statements. A financial auditor from the U.S. Defense Contracts Auditing Agency (DCAA) performed and follow-up examination of the STCU financial system, as an update to a similar examination conducted in 2003. Also, the STCU's annual external audit of its financial statements and financial management practices was performed by Lubbock Fine Chartered Accountants. The current status and any findings from the Lubbock Fine Chartered Accountants audit will be reported to the Governing Board by the CFO. The results of the DCAA financial systems audit can be obtained from the U.S. Department of State.

### Targeted R&D Initiatives Activity Update

Ukraine. The STCU and NASU kicked off the 2006 TRDI with a call for proposal on the 1<sup>st</sup> of February, focusing on three technology areas (nanotechnology, information technology and energy conservation / industrial safety). Of the 78 "short form" proposals submitted to the NASU, 23 technical teams were invited to submit "full form" proposals. At the start of April (and on schedule), the NASU transmitted the 23 proposals, together with Host Government Concurrence, to the STCU for final preparation and transmission to the Western STCU Parties. In the original schedule sent to all STCU Parties in February, the intent is that the STCU and NASU will undertake simultaneous review of the proposals as well as establish a Joint Committee that would make final project funding decisions by mid-2006. However, it was determined in March 2006 that the Western STCU Parties could not accommodate the original review/decision schedule, and therefore the Western Parties revised the timeline and delayed the final project decisions until a proposed autumn AC meeting.

Georgia. On the 8<sup>th</sup> February 2006, the Director of the Georgian National Science Foundation notified the STCU of their readiness to sign an "Intent to Cooperate" and proceed with the Georgian TRDI with a firm commitment of \$250,000 in 2006. Information technology & communication and biotechnology & life sciences were identified as the priority areas. The mechanism to implement such a TRDI had been agreed earlier and the Georgians are awaiting a response from the STCU. The Secretariat, in turn, is waiting for clear signal to proceed from the Governing Parties (financing for this Georgian TRDI was approved by at the 21<sup>st</sup> Governing Board meeting in December 2005). An important difference from the Ukrainian TRDI is the willingness of the Georgians to transfer their funding to the STCU which would become the sole administrator of the program.

Ministry of Environment (Ukraine). On the 5<sup>th</sup> April 2006, Mr. Stepan Lyzun (First Deputy Minister of the Ministry of Environmental Protection of Ukraine) transmitted to the STCU a signed statement of "Intent to Cooperate" for a Ministry-STCU TRDI. However, discussions on the details of the process and mechanisms for implementing such a TRDI were intentionally delayed until after the "Intent" was signed by STCU. The Secretariat, in turn, has put this issue to the Governing Parties so as to receive concurrence with STCU signing this joint statement and a

clear signal to proceed with further planning. Presumably, the signed "Intent to Cooperate" and any annexes on the agreed implementation mechanisms would form the basis whereby the Ministry would make a budget request to the Ukrainian Parliament.

#### Update on STCU-NATO Commercialization Workshop.

The Workshop scheduled to take place a year ago is now planned to take place on 11 and 12 October 2006. DED (EU) Michel Zayet has taken primary responsibility for organizing the event, and will be assisted by DED (US) Victor Korsun once Mr. Korsun assumes active duty. The focus of the Workshop has been restricted to Ukrainian scientists, in order to better focus and manage the event. In practical terms, Day One will gather about 200 pre-selected local scientists to hear various presentation and speeches by keynote speakers, mostly from the Funding Parties. The themes selected are: technology transfer issues, IPR protection, mechanisms of commercializing research results and methods for attracting financing to research, A Press Conference is scheduled as well, and participants will be walked through a Technology Exhibition on ground floor of Workshop venue. Day Two will be used for a reduced number of invited local scientists (no more than 100) to participate in five panel sessions focused on innovative technologies and commercialization success stories in the following areas. These are: - Medical instrumentation and Biomedical Technology, - New materials and Nanotechnology, - Aerospace, - Renewable Energy and Energy-Conversion Technologies, - Nuclear Energy and Safety.

For the Technology Exhibition, STCU will select 30-50 scientists whose technology profiles are deemed promising for commercial technology customers. In preparation to the event, STCU will organize trainings for these selected "presentation" scientists in form of distant learning sessions on IPR Protection, Basics of Technology Commercialization and Transfer, Market Strategy Development and Sales in the Scientific Sector, and finally on "Strategy of Effective Presentations of a Project to the Business Community". The main outcome will be a one-page Technology Profile Form for each scientist presenting their capacities, skills and equipment available for R&D. The TPF will be displayed as posters during the Technology Exhibition, which will occur during both days of the Workshop.

#### Actions Taken to Streamline/Standardize Regular Project Agreement and Workplan Processing

At the 1 December 2005 Advisory Committee meeting, the Parties instructed the Secretariat to identify ways to reduce the average 300 days it takes for a project to move from GB decision to final ED signature and commencement. A Temporary Process Action Team to Standardize Project Lifecycle Process was identified with two experienced Senior Specialists and IT personnel in charge of both the database of projects and the Web interface. As a first step, the STCU's internal Project Agreement preparation process needed to have a universal definition of each of the necessary steps. A standard step-by-step procedure to be followed by all the Senior Specialists and other STCU Departments involved (including Management) was developed in the form of a "Contract Signature Routing Slip". This routing slip establishes the STCU internal steps/milestones for moving an approved project from final workplan preparation to Operative Commencement Date. Additionally, the routing slip contains indicative deadlines for the maximum allocated time to fulfill the required tasks at each identified step, for instance a Senior Specialist is given a maximum number of weeks to complete all the actions necessary in compiling the Project Agreement and its annexes. In concrete terms, this process will yield a tracking/accounting system for each signatory stage, with clear indication of time spent to complete. This routing slip process can also be easily converted to an electronic-based process, which is already planned as part of the STCU's move toward a "near paperless" proposal/project agreement internal concurrence process. Thus, STCU Management will soon have a fully on-line supervision tool to monitor and rapidly identify bottlenecks in the STCU project processing system.

**Two issues remain in this Secretariat effort to streamline the STCU project processing system.**

1. The longest time delays in Project Agreement preparation are due to the fact that the recipient Project Manager has no established deadline for submitted an updated, final project workplan file to the STCU. If a Project Manager fails to submit a final project workplan, Can the Parties provide the Secretariat a common position on what the consequences might be to an approved Regular Project if the Project Manager is late in his/her final workplan submission? Perhaps the possibility of changing the funding decision from approval to disapproval?
2. STCU Regular Project proposals often sit in "Open – Under Review" status for several GBMs because not all STCU Parties have rendered a final "yes-or-no" funding decision. The longer a proposal sits in "Open – Under Review" status, the more time it takes the Project Manager to update a project workplan, if that proposal is ultimately approved for funding. Can the Parties agree to a common policy that fixes the length of time an active STCU Regular Project proposal can be considered for a final GB funding decision? Perhaps no longer than three GB meetings (i.e., a minimum of 18 months)?

Update on Performance Measures Study with National Academy of Sciences of Ukraine

The "Performance Measures Study Project" with the National Academy of Sciences of Ukraine was completed on 17 April. The STCU/NASU-designed questionnaires were sent to 80 institutes that were implementing 270 STCU projects in 2005. NASU/STCU received responses from 70% of the institutes/technical units that were asked to participate in the survey (58 institutes, 186 technical units). A package of applied programs (Software Package for Social Sciences, or SPSS) was used by STCU and NASU to organize and sort the responses and data gained from the questionnaire (SPSS is a well-known data manipulation package usually used in sociology & social sciences studies and is known all over the world). STCU received the NASU preliminary report on the results of the survey taken by institutes and technical units, and based on this report and questionnaire structures, STCU believes it can now organize its own survey projects to answer specific questions tailored to Secretariat and Party interests.

**Important Visitors/Meetings**

Ministry of Environmental Protection of Ukraine (27 December 2005). The STCU ED met with Mr. S. Lyzun, First Deputy Minister of Environmental Protection of Ukraine, to clarify the understanding between the Ministry and STCU on possible future cooperation, including the proposed STCU-Ministry Targeted Initiative in specific areas of R&D need for the Ministry.

National Space Agency of Ukraine (16 February 2006). Mr. Y. Alexeev, Director General of the National Space Agency of Ukraine, visited the STCU Headquarters, along with Eduard Kuznetsov, Deputy General Director, and Oleg Fedorov, Head of the Department for Space Programs and Scientific Research. Noting the past successful cooperation between NSAU and STCU, the meeting focused on current STCU programs and on possible future areas of targeted cooperation (including possible joint cooperation STCU and the National Space Agencies of Ukraine and of Georgia).

Kiev Polytechnic Institute (22 March 2006). Academician M. Zgurovsky, Rector of the Kyiv Polytechnic Institute (KPI), hosted STCU ED for a short meeting and tour of the university. KPI is establishing a modern research park within the university, called Technopolis "Kyivska Politechnica", which will combine business incubator, technopark, research institutions and faculties into a synergistic complex for S&T innovation and high-technology development for commercial applications. Among the items discussed were possible KPI-STCU cooperation in jointly promoting innovative S&T development and beneficial technology transfer using STCU's programs and KPI's technology research park.

World Bank Representative (6 April 2006). ED Andrew Hood and DED (EU) Michel Zayet met with Mr. Paul Bermingham ( World Bank Director for Ukraine Belarus and Moldova) to discuss potential cooperation between the Center and World Bank Programs. With a goal to find additional linkages to internationally funded assistance, the foreseen collaboration could result in new perspectives for scientists to attend trainings and benefit from exchange of experience and knowledge.

### **Conferences/Workshops**

International Conference on Control and Security of Nuclear Materials in Ukraine and the G8 Global Partnership Agenda (26 January 2006, Kyiv). The STCU Executive Director made a presentation on STCU to this international conference which was organized by Ministry of Foreign Affairs of Ukraine, the Finnish Radiation and Nuclear Safety Authority, Gessellschaft fur Anlagen-und Reaktorsicherheit, and the Swedish Nuclear Power Inspectorate. In 2002, the G-8 members established the "Global Partnership Against the Spread of Weapons and Materials of Mass Destruction", the multilateral effort committing \$20 billion over 10 years to address WMD non-proliferation priorities, including nuclear safety and security. In 2004, the G-8 included Ukraine as a Global Partnership recipient status. This Conference was designed to focus attention and encourage future activity on Ukraine's Global Partnership participation.

Preparation Workshop (13 February 2006, Kyiv) for BIO 2006 Conference (9-12 April 2006, Chicago). The STCU hosted a preparatory workshop "Biotechnology Research and Industry in Ukraine: Exhibiting at BIO 2006" for Ukrainian scientists, some of whom will attend BIO 2006 Annual International Convention on April 9-12, 2006 (see Sustainability Section for highlight on the BIO 2006 Roadshow). The Workshop provided an overview of recent advances in the area of biotechnology in Ukraine and facilitated further improvement to technology presentations. The Workshop brought together not only the research representatives but also representatives from industry and Ukrainian government.

IPR Training Seminar (14 March 2006, Kyiv). The STCU held the seminar for scientists entitled "Strategy of Intellectual Property Management: Building Business on Your Ideas". The seminar was designed in the framework of the STCU training programs assisting scientists in their sustainability efforts. Over 60 project managers and patent specialists from all over Ukraine participated in this event. The seminar featured both tutorial and practical lectures, presentations and case studies. Ukrainian scientists who successfully commercialized their technologies also shared that experience with their peers. Further, a representative of the State Enterprise Ukrainian Institute of Industrial Property (Ukrpatent) attended the seminar and provided the participants with the information on special legislation of Ukraine in the field of intellectual property.

STCU Proposal Writing Workshop in Moldova (2 March 2006, Chisinau). The STCU held this workshop "Strengthening Ability to Compete for Science and Technology Center in Ukraine Grants", with the support of the Academy of Sciences of Moldova. The event brought together about 40 scientists from the Institutes under the authority of the Academy of Sciences of Moldova and International Academy of Agricultural Development. The Workshop focused on familiarizing Moldovan researchers' with the processes, formats, requirements and selection criteria of STCU's proposal submission processes. The STCU workshop's primary objective was to engage researchers who were new to the program or desired to get a better understanding of STCU project application process.

## Activity Update

### Project Activity

The number of active STCU projects underway between the 21<sup>st</sup> GBM and 1 April 2006 remained at roughly the same level of just above 200 projects (approximately 145 Regular and 55 Partner). Between 21<sup>st</sup> GBM and 1 April 2006 (the cutoff date for accepting proposals for the 22<sup>nd</sup> GBM Project Funding Sheet), STCU forwarded 68 proposals to the Parties for review. Between 1 October and 1 April, STCU sent out 101 proposals for Party review, which appear on the 22<sup>nd</sup> GBM Project Funding Sheet along with the 135 proposals carried over from earlier GBMs and still awaiting final Party decisions.

Between 3 December 2005 and 1 April 2006, the STCU started a total of 41 new projects (24 Regular, 17 Partner) and completed a total of 35 projects (23 Regular, 12 Partner).

### Sustainability Activity Update

Much of the Sustainability Activity was put on hold due to the vacancy in the DED (US) position, which has the lead responsibility for managing and advancing the Sustainability Promotion programs. In the meantime, already existing STCU Sustainability Promotion activities continued.

One noteworthy event in early 2006 was the first-ever fee-paying commercial license to come from an STCU Regular Project. While the steps taken were not quite as originally foreseen, it is the first known example of an STCU recipient scientist making use of a Financing Party's resources and STCU assistance to secure commercial financial benefits from an STCU Regular Project. Based on the patented technology from a U.S.-financed STCU Regular Project, officials from the U.S. Department of Energy (acting on behalf of the U.S. Party) helped scientists of the Lileya Enterprise (Ukraine) negotiate a commercial use license with a U.S. company. Lileya was formed in 1992 by ex-military scientists and has been involved in several STCU projects. Using an STCU Patent Support grant, the Lileya scientists filed for Ukrainian and U.S. patents via a PCT application in both countries. With the assistance of the U.S. Party and STCU staffs, the U.S. DOE was able to negotiate the commercial use license, with 85% of the license fees going directly to the Lileya scientists and the remaining 15% paid to the U.S. Government (in recognition of the Regular Project funding and other assistance provided by the U.S. Party). The Lileya scientists have also attracted Non-Governmental Partner Projects that will further explore other commercial applications of their technologies.

STCU also took another step in its Institute Sustainability Development activity with the invitation to 13 Ukrainian institutes to participate in the next phase of the STCU "Chief Technology Commercialization Officer (CTCO)" project. STCU and its consultant (the International Technology Commercialization Institute of the University of Missouri-Columbia, USA) evaluated information, data, and held meetings with the leaders of 18 institutes identified by STCU (with inputs from the Parties) in mid-2005. Of this list of 18 institutes, 13 were determined to have the willingness and the need to establish a chief technology transfer officer within the institute's organization. For those institutes that accept the STCU invitation, the next phase of the CTCO project will be to agree on plans of action to implement training and "experience-building" activities focused on bringing the CTCO candidates up to speed on technology transfer issues and approaches that would fit their institute's strengths and needs.

Between the 21<sup>st</sup> GBM and 1 April 2006, a total of 19 new Partners (1 Governmental and 18 Non-Governmental) received Partner status (to be confirmed at this 22<sup>nd</sup> GBM). This brings the total number of STCU Partner organizations to a total number of 143 (20 Governmental, 123 Non-Governmental).

Since the 21st Governing Board, 26 new or extended Partner Projects commenced, totaling over US\$6.17 million and over EUR 21,000: 17 Governmental Partner Projects (totaling almost US\$4.0 million) and 9 Non-Governmental Partner Projects (totaling over US\$2.169 million and EUR 21,240). This is an unusually large number of Partner Projects to be approved between Governing Boards. Further, in the first three months of 2006, the US\$2.0 million/EUR 10,000 of new Non-Governmental Partner Project funding already exceeds the entire total of new NGP Project funding for 2005 (which was US\$1.78 million/EUR 58,000). While this is certainly an encouraging sign for STCU Partners Program (and Partner Fees to the Center), this current jump is primarily due to one particularly large-3 year private-sector Partner Project of US\$1.26 million.

In Partner Promotion, the STCU sponsored a delegation of Ukrainian, Uzbek, and Azeri biological scientists to participate in the "BIO 2006 Annual International Convention" (9-12 April 2006, Chicago). This delegation (which joined a similar delegation from ISTC) was jointly sponsored by the U.S. State Department's Bio Industry Initiative Program. The BIO 2006 international convention is sponsored by the business consortium, Biotechnology Industry Organization (BIO), and is the largest annual event in the life sciences community, bringing together more than 1200 biotechnology companies from more than 20 countries.

In Patent Support, there was a hiatus in discussions between STCU and the Ukrainian patent authorities to which were working on a standard process for passing invention disclosures and patent application to the Financing Parties in ways consistent with Ukrainian law. The hiatus was due in large part because of the vacancy in the DED (US) position, but also the change in Ukrainian government due to the March parliamentary elections contributed to this hiatus. The DED vacancy also prevented STCU from participating in the most-recent ISTC-hosted IPR working group meeting in March. STCU hopes that when the DED vacancy is filled, it will pick up its coordination with ISTC on common IPR issues.

In the meantime, the STCU Patent Support program continues to support patent applications. Since the 21<sup>st</sup> GBM, the STCU provided grant support to 6 patent application grants (4 grants for patents in Ukraine, 1 grant for Uzbek patents, 1 for patents in U.S./Canada). This brings the total number of Patent Support Grants given to 235 (223 grants for national patent applications, 12 grants for applications in STCU Financing Parties, and 20 of the 235 being used for PCT applications).