

NCURA Neighborhoods Online Chat
International Subcontracting Issues
September 17, 2008

Featured Guests: *Jim Casey*, Univ of Texas at San Antonio, *Brian Warshawsky*, Northwestern University, *Marianne Woods*, Univ of Texas at San Antonio
Contributions by *Malcolm McBratney*, Partner, McCullough Robertson (Australia)

Moderator

Welcome to today's chat on International Subcontracting Issues, sponsored by the international neighborhood. We will begin shortly. If you have questions for the panel please type in rectangular box below.

Moderator

Jim Casey is Director of Contracts and Industrial Agreements at The University of Texas at San Antonio. A Wisconsin attorney since 1990, he is presently Chair of the International Neighborhood Subcommittee, co-Editor of the NCURA Magazine, and a member of the International Commission.

Brian Warshawsky serves as the Senior Contracting Officer for Northwestern University's Office for Sponsored Research. Brian is an attorney licensed in Illinois, Michigan, and Florida (currently active in Illinois), and focuses his role on contract negotiations and export controls compliance. Prior to joining Northwestern University, he served in a similar capacity for the Gas Technology Institute, and energy research think tank, in Des Plaines, Illinois.

Marianne Rinaldo Woods, Ph.D., J.D., is the Senior Associate Vice President for Research Administration at The University of Texas at San Antonio. In this position she is responsible for all aspects of research administration including the Office of Sponsored Programs (pre and post award); the Office of Research Integrity and Compliance; the Office of Contracts and Industrial Agreements; the Office of Laboratory Science and Facilities; and, the Office of Commercialization Initiative and Innovation. Marianne is a former co-editor of the NCURA Newsletter, former member of NCURA's Professional Development Committee and Membership Committee, and a former member, both elected and Presidential appointee, of NCURA's Board of Directors. She is a past recipient of the NCURA's National Distinguished Service Award and NCURA's Region V, Distinguished Service Award. In 2006, Marianne and her team of negotiators won the prestigious Licensing Associates Society (LES) Deal of Distinction Award.

Also contributing was Malcolm McBratney. Malcolm is a Partner in McCullough Robertson's Corporate Division. He is the head of the firm's Intellectual Property Group and the Biotechnology Group. As head of the Intellectual Property Group, Malcolm advises on trade marks, patents, designs and copyright, internet and e-commerce strategies and issues relating to media and broadcasting. He also has expertise in business structuring and transactions, including acquisitions, joint ventures, strategic alliances, contracts and trade practices issues. Malcolm also has particular expertise in the IT industry. He has acted in many significant information technology transactions, both nationally and internationally, and has conducted a number of detailed intellectual property due diligences. He regularly acts for overseas technology companies establishing in Australia. In the biotechnology sector, Malcolm advises on issues relating to business structuring and transactions and agreements relating to research and development and commercialisation. Welcome to Brian, Marianne and Jim.

Marianne Woods
Welcome to y'all!

Jim Casey
Welcome to all our participants.

Brain Warshawsky
Hello from the Windy City

Moderator
First question to the panel: What are the some of the international subcontracting issues that research administrators should be concerned about?

Jim Casey
Though this list is not completely exhaustive, here is a starter list: export controls; currency valuation in contracts; the impact of time zone differences in negotiating contracts and project implementation; cultural differences; language differences and their impact in negotiating subcontracts; and the normal suspects (intellectual property, liability, indemnification, and publication).

Jim Casey
Another dimension that we'll get to in this session is the role of technology in facilitating subcontracting.

Marianne Woods
Technology in terms of negotiation of contracts or clauses pertaining to technology?

Jim Casey
Technology like Skype to facilitate negotiations over great physical differences.

Moderator
Panel: So, what percentage of contracts/agreements today have international component?

Marianne Woods
At a university as culturally diverse as UTSA I would say 10-15%.

Jim Casey
In fact, we have a group from Portugal on campus tomorrow to negotiate an agreement with us (UTSA).

Moderator
What about others joining us--how many international contracts are you seeing on a regular basis?

Moderator
Panel--what's the reason behind the rise?

Brian Warshawsky
What we see happening more and more is that with reductions likely in federal sponsorship, industrial sponsorship and in particular, international sponsorship may be necessary to maintain the level of sponsorship we currently see.

Moderator

Brian--With the growth of the Internet, are there any new tools available which help facilitate international negotiations?

Brian Warshawsky

Many of our international partners prefer using Skype, which is a free Internet communications service. It allows real time voice over Internet protocol as well as video concerning, group chat and other features making long distance conference calls not only easier, but significantly less expensive - if not free. The only real drawback we have found so far is that it does nothing to address the time differences across time zones. Skype maybe downloaded for free at www.skype.com

Moderator

Have other used Skype or other similar tools?

Jim Casey

Skype is also available as a free program on many flash drives, such as those from Sandisk.

Moderator

What about issues for translation??

Jim Casey

Translation and currency conversion are important issues.

Moderator

Panel: How do you handle the issue of currency value in contracts? Do you accept a "float" range or a "hard" converted value that is definitively stated in the agreement?

Jim Casey

As a practical matter I always insist on a hard conversion value when executing a contract. This is the best way to protect a faculty member from currency fluctuations that reduce the "in-country" value of their award.

Debbie Bolick

I'm curious if other Universities are handling their own international contracts or having a template generated by someone with int'l legal background.

Brian Warshawsky

Google offers translation tools as well as other tools available online, but translation tools may often be of more use to contract review tasks rather than negotiations.

Marianne Woods

We handle our own international contracts and a contracts division within the Office for Research. The content is specific based on the transaction.

Marianne Woods

However, we do use a template that has some of the major points.

Debbie Bolick

I've heard that International treaty laws trump state law and this of particular concern, or is it?

Marianne Woods
The treaty trumps state law.

Moderator
Are there resources you can share with the group for any contract templates? If so where can you find them?

Brian Warshawsky
Regarding agreement templates for international use, there is seldom an opportunity for a "one-size fits-all" panacea, as each one ideally would be a one-off directly related to the specific transaction, and the party/country in question.

Kerwin Lawrence
How are the issues of local taxes and fees handled when federal dollars involved?

Marianne Woods
Yes, federal dollars cannot be used to pay for local taxes.

Marianne Woods
Kerwin: You need to include a clause excluding these payments in the subcontract.

Karl Hereim
What about the fact that international subawardees will not (or cannot) agree to U.S. terms as they would be surrendering sovereign authority? I'm thinking even the NIH GPS.

Brian Warshawsky
Karl, the real question might not be answered by forcing the recipient to accept "US Laws" as a blanket statement, but rather to flow down those regulations as spelled out in the sub agreement, and then decide upon how enforcement will be handled, such as with international arbitration through the international chamber of commerce, for example.

Moderator
Jim: If you're not an attorney--should you stay out of this area?? That is, is it too complicated and specific?

Jim Casey
Moderator--If you are not an attorney, you should know the limits of what you can do. At some point you will have to turn it over to your attorney or your outside counsel.

Marianne Woods
Moderator: I would say that at some point you may have to turn it over to your attorney but not always.

Moderator
What if you are a PUI?

Jim Casey
PUI always have their unique circumstances with limited resources, and international subcontracting is no exception.

Mark Gallyoun
Going back to the proportion of international research agreements, my experience with an academic health science center is that the level varies considerably depending on the type

of agreement. Proportionally, I've observed there are many more international material transfer agreements than other types. Have others seen similar variations across the spectrum?

Jim Casey

Mark-I think the variation occurs naturally as a result of different projects.

Debbie Bolick

My experience is mostly issuing subcontracts and receiving only a couple int'l awards

Debbie Bolick

Do you generally do international as fixed fee?

Brian Warshawsky

Debbie, are the awards you receive from industry, or foreign government sponsors?

Marianne Woods

Debbie: We do both fixed fee and cost reimbursable. We, of course, would prefer fixed fee.

Moderator

Many potential collaborators have expressed fear of American lawsuits and the American legal system which can result in substantial judgments. What steps may be taken to minimize an international company's exposure to liability?

Jim Casey

Arbitration both domestic and international is available, however, a university usually does not have funds available to cover the expenses associated with arbitration proceedings in say, London. Many universities will consider a firm cap on liability which can protect a potential collaborator from the risk and exposure to large judgments.

Debbie Bolick

Federal funds directly to us

Marianne Woods

Debbie - For sending money out we prefer cost reimbursable, with milestones built in and other terms and conditions.

Debbie Bolick

Well one was to a foreign entity, then sub'd to us, and we sub'd to another foreign agency

Brian Warshawsky

Debbie, one general rule to be aware of is that for subs issued internationally, only put the amount of funds out which you could stand to lose, as contract enforcement and auditing rights are tenuous at best.

Moderator

Brian: How do you enforce international subcontracts?

Brian Warshawsky

While you want your subcontracts to reflect a good balance between protecting your legitimate institutional interests while still arriving at mutually agreeable terms, international agreements may be even less enforceable than those with small businesses here in the U.S. It is always good policy to limit your institution's exposure knowing that the

enforceability aspect may be the weakest link. International collaborators may not maintain a legal presence within the U.S. for purposes of compulsory legal process, and even if you have the resources to prosecute an enforcement action overseas, its a safe bet that the court systems in the venue will not mirror U.S. procedures.

Brian Warshawsky

Bottom line: Limit your exposure accordingly. A signed subcontract like any international agreement may offer only limited enforceability, and may ultimately be little more than a piece of paper unsuitable for framing.

Your institution should always be prepared to walk away and cut its losses.

Moderator

Marianne: Do I need to include a clause which will allow me access to research data produced by my international subrecipient?

Marianne Woods

With international issues arising in the area of misconduct in science it is important to have a clause that will allow you to access your subrecipient's research data. Although, such clauses may not be enforceable, they lay the ground work for making the request for data access and through negotiation accessing the data.

Moderator

Jim: With respect to Export Controls: How does the conviction of University of Tennessee at Knoxville Professor J. Reece Roth change the potential relationships between US Universities and international research collaborators?

Jim Casey

Although ostensibly, the conviction dealt more directly with deemed exports rather than actual exports, a component of the case did involve transfers of information which occurred outside the U.S. The most significant effect from this case might be in the attitudes of U.S. universities who previously held a cavalier attitude that their efforts may have automatically qualified for the "fundamental research" exclusion and they were therefore exempt from compliance. As a result, collaborations should mostly continue as before, however expect universities to actively monitor projects and take precautions which previously may have been an afterthought. One unintended consequence may be that more international collaborators will simply look elsewhere to avoid the ITAR issue entirely.

Brian Warshawsky

Jim, very astute answer. European projects are already touting being "ITAR free"

Marianne Woods

I always look at the award to guide the inclusion of export control clauses. Many times they are needed, especially if the contract is for research.

Moderator

Panel: How can administrators identify if a contract has potential export issues?

Marianne Woods

You start by looking at the scope of the project and statement of work. You identify what country you are going into and identify if the subject matter is restricted or the persons or entities involved are restricted.

Jim Casey

I think you need to look at the tell tale signs of location, foreign students, equipment overseas, those sort of things.

Kerwin Lawrence

what efforts are being made by US Dept. of Commerce and others to address the issues the international collaborators are having with ITAR?

Debbie Bolick

When shipments are going overseas, are export shipping documents being completed and who handles this?

Brian Warshawsky

Kerwin, ITAR is not handled by Commerce, but by State. BIS (Within Dept. of Commerce) has been conducting outreach visits and offering training.

Marianne Woods

Unfortunately, enforcement of the export control regulations are getting more stringent.

Marianne Woods

Debbie-At my university these documents are handled by disbursement and VPBA.

Moderator

Jim: What misconceptions on the part of international collaborators lead to needless contracting delays?

Jim Casey

The most common misconceptions are shared by both potential international collaborators as well as US based commercial industrial sponsors, and these consist of the belief that an American university may simply offer a better deal to a sponsor if they wish to. The truth is that U.S. regulations such as the Internal Revenue Code, OMB circulars, EAR/ITAR, etc., govern what an American university may do. For example, if a university were to agree to a publication restriction, or an unusually long publication delay, some of the fallout may include: Losing the tax exempt status on the cost-accounting for the project (501 (c) (3)); violating the terms of the tax-free bonds which financed the laboratory building; losing the fundamental research exclusion allowing the participation of foreign nationals without an export license; and losing the ability to include graduate students.

Another misconception is that a sponsor is paying the true cost of the research [we paid for it, we own it]. The U.S. government is effectively a silent partner, indirectly subsidizing much of the actual cost.

Jim Casey

Mark--At your prior institution, how many international agreements were done?

Mark Gallyoun

Jim: Specifically for material transfers, a rough estimate is that we had about 20% international. Collectively for other types, I estimate they were only between 5% and 10%.

Moderator

Marianne: Should I put clauses in my agreement for start-up costs or should I restrict payment under a cost reimbursable basis?

Marianne Woods

This is a point of discussion and it largely depends on the entity you are subcontracting with, the scope of work and your ability to have the funds spent appropriately. If you send money in advance you will need to make sure that the milestones are in writing and that such milestones are met during the specified time period. I would caution sending funds before milestones have been established. In addition, you may need to send a university representative to work with the subrecipient and to gather the receipts and other expenditure data needed to justify the subrecipient expenditures. If they don't perform you need to make sure that you have documented the milestones not completed and have termination clauses that allow you to quickly end your subcontract relationship, especially if you are dealing with federal funds.

Karl Hereim

I assume you all check for parties who are not able to do business with us via Visual Compliance or some other such list checking device, yes?

Marianne Woods

Karl: We do check through visual compliance. We check, procurement also checks (as we have given them access) and the VP for Business Affairs office also checks for incoming foreign visitors.

Jim Casey

Marianne's answer illustrates an important point: It is important for different university offices to work together.

Brian Warshawsky

Karl, We have been testing Visual Compliance along with several others, but many of the lists are available online.

Moderator

Jim: I know your colleague from Australia, Malcolm also offered some information--What laws are relevant to research and development in Australia?

Jim Casey

Various legislation is relevant to research and development in Australia. We have the Therapeutic Goods Act 1989 (Cth), the National Health and Medical Research Council Act 1992 (Cth) and various guidelines, compensatory and otherwise, established by bodies such as Medicines Australia and the NHMRC which determine how research is performed and conducted. Australia's principles of Good Clinical Practice are largely consistent with those published in Europe by the International Conference on Harmonisation. In addition, there is also legislation such as the Trade Practices Act 1974 (Cth) which deals with anti-competitive behaviour and consumer protection. Otherwise, contract law principles generally apply to any contract developed between the parties.

Karl Hereim

Also, I was not aware of NIH clearing international subs through the State Department until a troublesome issue came up recently. It's not outlined in any of NIH's guidelines or GPS. What can anyone tell me about why it's done but not described?

Debbie Bolick

Just to note one sticky situation. Russia shipped deliverables in weak packaging, the shipment was lost and they filed the claim for which no money was seen. This was with another agency. We put stipulations that we paid for the insurance and handled pick up of

all deliverables with our courier and paid those costs. Then we could issue claim for lost shipments and not reissue or reissue work to them.. The contract stipulated packaging requirements for the foreign agency.

Brian Warshawsky

Karl, are you referring to funding involving select agents?

Jim Casey

Thanks for noting that, Debbie.

Marianne Woods

Karl: I would hope it's an oversight but I am inclined to believe it is because they do not feel it is their responsibility.

Karl Hereim

No. Just straight-ahead issue of international.

Brian Warshawsky

The export regs are really independent of any agency, be that NIH or DoD, so the caveat is that any "exporter" must comply with these regs, and universities must think of themselves as exporters.

Moderator

Panel: how can you facilitate increasing international subcontracting on your campus? Should you?

Jim Casey

We should increase international subcontracting, but in a smart responsible manner. The funding climate is getting increasingly contentious.

Jim Casey

How can we facilitate increased international subcontracts and collaboration? By using our connections, by helping faculty use their connections, attending international conferences where connections can be made.

Marianne Woods

Karl: The problem becomes very apparent when dealing with a subawardee, as no indication is provided by NIH that the award falls under export controls.

Brian Warshawsky

For what it's worth, I feel that the issue of deemed exports is a more significant issue, as the flow of technology on campus is much more difficult to manage than packages shipped overseas.

Karl Hereim

Before award posted in-house, one PI moved from US university to AUS. Though NIH knew, there was no clear procedure for changing institutions pre-award. We thought that the correspondence was clear on our part. So, after the fact, we were told that this must be cleared by the State Department. News to us about State involvement.

Brian Warshawsky

Karl, there wasn't some clear indication that the work was controlled?

Marianne Woods

Karl: This is typical. However, whenever you move a PI you need to be cautious.

Karl Hereim

None whatsoever. Invertebrates - C. elegans, that they grew themselves - no material transfer. I know now about caution - extra caution. My thought - assume EAR/ITAR unless proven otherwise.

Brian Warshawsky

Its important to bear in mind that the "fundamental research" exclusion is intended for work performed on campus in the U.S., so if work proceeds outside the US, this would no longer be an issue for NIH so much as the agency handling exports, be it State or Commerce.

Brian Warshawsky

Karl, perhaps State was required to provide NIH with assurances that there were no ITAR/EAR issues? This may be a new trend.

Karl Hereim

That's what I thought - but why is it not stated as such, instead of assuming we should know this stuff?

Marianne Woods

Karl: Unfortunately, your thought is correct. When a PI moves out of the country you suddenly have to comply with export control.

Brian Warshawsky

Karl, You've hit on one of the foundational rules of federal regulations. You remain responsible to know the rules, whether assistance is available or otherwise. Its a matter of proceeding at your own risk, and its strict liability - intent is not an issue.

Moderator

Panel: What are the top 2 challenges you face in international subcontracting?

Marianne Woods

Moderator: IP and duty to perform.

Jim Casey

Top 2 challenges for me would be language/translation and intellectual property. Indemnification and insurance are always major issues in international transactions.

Kerwin Lawrence

Is there any requirement or responsibility by the PI's previous institutions to assist in determining the requirements before the PI goes international

Marianne Woods

Kerwin: Only if the PI is returning to US institution.

Jim Casey

To the Audience--what countries have you contracted with?

Debbie Bolick

Korea, Russia, Australia, Switzerland

Karl Hereim
Syria, believe it or not (Education). Australia, England, Mozambique.

Debbie Bolick
Also Nigeria which held a limit of payment

Kerwin Lawrence
Brazil, England

Jim Casey
Jennifer Crockett just wrote an article in the last NCURA Magazine issue about her work in Tanzania. Her article is worth reading and includes tips on project management overseas.

Kerwin Lawrence
I believe we've also had one with Kenya

Mark Gallyoun
France, Switzerland, Australia, Germany, Mexico, Japan, Korea, China, Spain . . .

Karl Hereim
The Tennessee conviction has raised awareness, even amongst faculty, nationwide. PI's just need to keep trying to collaborate abroad, but keep training them on the export rules.

Brian Warshawsky
Karl, one point regarding the Tennessee Knoxville conviction: As I understand it, the major violation involved the foreign grad students on campus, rather than international collaborations.

Moderator
Thanks to Jim, Brian, Marianne (and Malcolm) for sharing your time and expertise. We will post the transcript in the neighborhoods in the next week. We hope to see you in November for the 50th Annual Meeting.
If you would like to join the international neighborhood listserv please email info@ncura.edu

Marianne Woods
Bye now. Thanks to all.

Brian Warshawsky
Goodbye everyone, and thanks for your time!

Jim Casey
Thanks for joining us.

Moderator
Good afternoon. There will be sessions dealing with international collaborations at our upcoming Annual Meeting, November 2-5 in Washington, DC. The next chat will be 12/3, *Assessing the Sponsored Programs Office*, sponsored by PUI neighborhood.