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# intellectual property in government research contracts

guidelines for public sector purchasers  
of research and research providers

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# INTELLECTUAL PROPERTY IN GOVERNMENT RESEARCH CONTRACTS.

## GUIDELINES FOR PUBLIC SECTOR PURCHASERS OF RESEARCH AND RESEARCH PROVIDERS

### EXECUTIVE SUMMARY

1. These Guidelines deal with the ownership, utilisation and commercial exploitation of Intellectual Property (IP) generated in publicly funded research work. They are directed at Government Departments and Agencies in their capacity as purchasers of research, and at Public Sector Research Establishments (PSREs) as providers and, in some circumstances, purchasers of research. The Guidelines follow publication in August 1999 of The Baker Report "Creating Knowledge Creating Wealth - Realising the economic potential of Public Sector Research Establishments".
2. These Guidelines are relevant to all research work carried out on behalf of the UK Government, including its Non-Departmental Public Bodies. This applies whether the work is done in PSREs or outside the public sector, for example by universities or other research institutions.
3. The purpose of the Guidelines is to promote the more effective utilisation, management and exploitation of IP generated in publicly funded research, to the benefit of the Government, the UK economy and taxpayers, in consistency with the needs of Government as purchaser of the research and its needs to disseminate information relating to the conduct of Government business.
4. The key points are as follows:
  - (i) ownership of the IP generated in publicly funded research should in general be vested in organisations that actually do the research ("the research providers"), rather than being held by a public sector purchaser; this is on the basis that those close to the research are in principle better placed to identify the potential for some form of economic exploitation, subject to their having available, *inter alia*, the right skills and management capability;
  - (ii) those Departmental research bodies which lack an independent legal identity should normally be given delegated authority to exploit intellectual property approximating to that of an independent owner;
  - (iii) public sector purchasers should ensure that they protect Government interests in the IP generated in publicly funded research through suitable contractual provisions; they will need to secure rights to permit the purchaser to make full use of the IP for the policy and business needs of the Government, and to permit publication of information as appropriate in accordance with Government policy as set out in OST's Guidelines on *Use of Scientific Evidence in Policy Making* and *The Code of Practice on the Discharge of the Functions of Public Authorities under part 1 of the Freedom of Information Act 2000*;

- (iv) the rights of ownership need to be accompanied by its responsibilities, specifically a responsibility for research organisations to identify, protect and manage IP effectively and to pursue commercial exploitation diligently; the terms of research contracts should set out these responsibilities, and may need to include some means of addressing a shortfall in performance;
  - (v) public sector purchasers of research should retain a strategic responsibility for monitoring the extent of exploitation that is undertaken by research providers; there may be circumstances in which they should intervene if the exploitation is not being pursued diligently;
  - (vi) public sector research providers charged with owning and managing IP must ensure that they have access to the skills and management capability needed to handle this task effectively, whatever the level at which the IP ownership is held; but it does not make sense for every organisation undertaking research to try to reproduce this capability - some pooling or sharing of resources is likely to be more effective, particularly for smaller organisations; there may be need for external advice in discharging the responsibilities of owning, managing and exploiting the IP;
  - (vii) public sector parties in the research supply chain (Departments or NDPBs purchasing research; PSREs or others supplying or purchasing it) should recognise the effective exploitation of IP as a core mission, alongside their existing public functions; public sector purchasers and suppliers of research should have a clear understanding of their responsibilities in relation to exploitation, and have clear plans for discharging these, within the resources available; these plans should be kept under review;
  - (viii) public sector purchasers should consider the case for some kind of revenue sharing arrangement in relation to the value generated by exploiting IP; but arrangements should not be so onerous that they discourage exploitation; the priority should be to ensure that IP is used effectively, to benefit the economy and quality of life; it is essential that those owning IP (including Departmental PSREs treated as owners) should benefit from its successful commercial exploitation, so that they have the incentive to support this;
  - (ix) public sector providers of research, such as PSREs and NHS Trusts, should also consider the need to incentivise their staff to identify potentially valuable IP and the scope for its exploitation; the Civil Service Management Code has been amended to permit civil servants to benefit from incentives linked to the commercial exploitation of IP; guidance on incentive schemes has been published by OST (see para 70); other changes to employment terms may also be needed.
5. These Guidelines inevitably cannot cover all circumstances. There is a tremendous diversity in the research activities undertaken for Government, and in the nature of the organisations buying and supplying them. Purchasers and providers of research in the public sector should, however, ensure that they have a clear and compelling rationale for adopting a different approach from that set out here.

6. The basic imperatives underlying the Guidelines are:
  - (a) the need for IP to be identified, managed and exploited effectively, as a major potential source of value to the economy, and like other assets whose creation has been funded by the taxpayer;
  - (b) the need to recognise that the management of IP is complex and can be difficult, both in terms of identifying its potential value and the pattern of incentives and resources required to achieve its exploitation. Departments, NDPBs, PSREs and others can expect to be held to account for how they have implemented these Guidelines and for their response to the imperatives set out above.

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## **1. SCOPE OF THE GUIDELINES**

1. These Guidelines are aimed at all Government Departments, agencies, NDPBs etc (“public sector purchasers”) who fund any form of research under contracts, or similar arrangements, performed by Government establishments, PSREs, NDPBs, NHS Trusts, academic institutions, private companies or individual researchers (“research providers”).
2. The Guidelines are also aimed at PSREs (including NDPBs) both in their role of performing publicly funded research work for Government Departments and where they contract private sector organisations to carry out publicly funded research.
3. These Guidelines apply both to contract and similarly directly funded research activities, and to grant funding schemes.
4. These Guidelines apply to research and related work within the Frascati definition of research and experimental development, i.e.

“Research and experimental development (R & D) comprise creative work undertaken on a systematic basis in order to increase the stock of knowledge, including knowledge of man, culture and society, and to the use of this stock of knowledge to devise new applications”.

## 2. INTRODUCTION

5. These Guidelines introduce a new Government policy for the ownership, management and exploitation of the Intellectual Property (IP) generated in publicly funded research. They provide guidance to public sector purchasers of research and PSREs (in the role of research providers) on the implementation of this policy.
6. The Guidelines reflect a new approach to Government policy regarding publicly funded research, which places greater emphasis on the need to ensure that there are effective arrangements to support possible commercial exploitation of IP. This is in line with recommendations of the Baker Report <sup>1</sup>, the Government's Science and Innovation White Paper <sup>2</sup>, the Biotechnology Clusters Report <sup>3</sup>, the Treasury Wider Market Guidelines <sup>4</sup> and the Cross Cutting Review of the Knowledge Economy: Review of Government Information <sup>5</sup>.
7. The Government wants to see the IP generated in Government-funded research exploited more effectively, to the maximum extent consistent with achieving other important policy goals including the publication of information as set out in OST's Guidelines on Use of Scientific Advice in Policy Making and complying with the obligations on public bodies set out in the Freedom of Information Act. The Government believes this is most likely to happen when the IP is under the control of research providers, as they are more likely to have an appreciation of its significance and potential for exploitation. But it is also essential for the research providers to recognise the importance of exploitation, to have incentives to achieve it, and have access to the skills and management capabilities required to manage the process successfully. As the Baker Report and other studies have shown, the skills required for technology transfer and exploitation have a number of different dimensions, but they can be assembled successfully, often from a mix of internal and external sources.
8. It should be recognised that public sector purchasers of research do not need to own the IP generated in the research they fund in order to secure freedom to use it for Government purposes. Indeed such ownership by Government Departments can be an impediment to successful commercial exploitation of the IP. The Guidelines suggest that in most cases, the ownership of the IP generated in publicly funded research should reside in the research provider, subject to the public sector purchaser securing adequate freedom to use those results for its purposes, but they recognise that there will be cases when this is not appropriate.

<sup>1</sup> "Creating Knowledge Creating Wealth - Realising the Economic Potential of Public Sector Research Establishments" Published by HM Treasury August 1999.

<sup>2</sup> "Excellence and opportunity- A Science and Innovation Policy for the 21<sup>st</sup> Century" published by the DTI July 2000

<sup>3</sup> "Biotechnology Clusters"- report of a team led by Lord Sainsbury, Minister Of Science. Published by DTI August 1999.

<sup>4</sup> "Selling Government Services into Wider Markets" Published by HM Treasury July 1998

<sup>5</sup> "Cross Cutting Review of the Knowledge Economy: Review of Government Information" [www.hm-treasury.gov.uk/sr2000/associated/knowledge/index.html](http://www.hm-treasury.gov.uk/sr2000/associated/knowledge/index.html) published by HM Treasury, December 2000

9. There is no requirement to vest ownership of IP in research providers in all cases. But there is a requirement for public sector purchasers to consider the best strategy towards ownership, taking into account the need to ensure an effective strategy supporting exploitation where appropriate.
10. Under the Guidelines, research providers are to be given responsibility for identifying, protecting and exploiting the IP that they own. However, the responsibilities of public sector purchasers do not cease when IP rights are vested in research providers. Public sector purchasers should retain a strategic responsibility for monitoring the extent of exploitation that is undertaken by research providers. This is consistent with recognising exploitation as a core mission of their research programme, the need to ensure that Government rights to use the results of research are retained, and the need to monitor the potential for returns to the taxpayer through revenue-sharing.
11. To achieve these goals, public sector purchasers will need to have clear IP strategies and management plans which should be reviewed regularly. One aspect of this responsibility will be to ensure that research providers have the capability to manage IP effectively. This is particularly relevant where the research provider is in the public sector. Systems for the protection of IP and mechanisms for exploitation can be complex and it will be essential for publicly owned research organisations to seek expert advice in these fields. When it is not financially viable or possible for a research provider to source this advice in-house they will need to obtain expert advice from advisory bodies in Government or the private sector. Some sources of information are identified in section 4 of these Guidelines.
12. The Baker Report makes it clear that the primary goal of PSREs must remain the advancement of knowledge in pursuit of the Government's policy, regulatory and other official objectives. Exploitation of research is a secondary goal, but it is still highly important to ensure that the benefits of research are maximised for the economy and quality of life. Exploitation and technology transfer should be seen as core missions of research funded by Government Departments and carried out in PSREs in much the same way as for research funded in universities by the Research and Funding Councils.
13. These primary and secondary goals can, in some circumstances, come into conflict. However, the trade-off between the two is rarely a simple zero-sum game. If conflicts do arise between the two goals then they need to be considered thoroughly, in light of the range of possible ways of managing that conflict effectively, without damaging either objective.
14. The value for money achieved by public spending on research needs to be considered against the two goals set out above. However, it will also be important to consider the circumstances in which the taxpayer should receive some return from the exploitation of Government-funded research, for example through some kind of share of net revenue. But arrangements should not be so onerous that they discourage exploitation, as this will reduce the benefits to society.

### **3. GUIDELINES ON INTELLECTUAL PROPERTY**

#### **3.1 Statement of the new policy**

15. Ownership of the IP generated in publicly funded research (which will extend to rights of confidence in information resulting from this work and to all other IP generated in the work) is to reside with the research provider, as the body best placed to secure exploitation, unless there are valid and compelling reasons to the contrary.
16. When ownership of IP is placed with the research provider, arrangements must be made to secure rights to use the IP for the purchaser's purposes, including the appropriate publication of information in accordance with the OST Guidelines on use of scientific advice in policy making.
17. PSREs should have an explicit mission to promote exploitation of IP generated in the research they perform, and management procedures for dealing with its identification and exploitation.
18. Public sector purchasers of research should have a system in place to ensure that they can monitor, at a strategic level, the effectiveness of exploitation by research providers and that there is a means of addressing a clear shortfall in exploitation performance by the research provider.
19. The policy should be applied for all new arrangements for work entered into from the date of these Guidelines. There is no need to apply this approach retrospectively to existing research contracts.
20. In applying this new policy to research which is performed by a PSRE which is not legally separate from a parent Government Department which commissions it to perform the work, it will not be possible to vest ownership of IP in the PSRE. In these cases, wherever possible, the PSRE should be given authority to make its own decisions and take its own actions, in the name of the parent Department, regarding the protection of the IP and its commercial exploitation, subject to having the management capabilities to do this and access to the required skills. In general it should be arranged that the PSRE will take the principal benefit from commercial exploitation income. It should also assume financial responsibility for the protection and exploitation effort.
21. Public sector purchasers of research and Departmental research providers should be able to show that they have followed this policy or be able to justify deviating from it as part of normal audit procedures. Guidance for public sector purchasers and Departmental research providers on the implementation of this policy is given in the following sections.

#### **3.2 What is Intellectual Property (IP)?**

22. Intellectual property is the term used to describe intangible assets resulting from creative work carried out by an individual or organisation. They form the basis of legal rights which afford protection to the creator of the original material. They can be traded in the same way as physical assets such as buildings, materials and stock and can be extremely valuable.

The legal rights comprise:

- patents which are concerned with the technical and functional aspects of products and processes;
  - designs which are concerned with the appearance of an item;
  - trade marks which identify the products or services of a trader;
  - copyright which arises from the creation of original literary, dramatic, musical or artistic works; and
  - database right which protects the contents of databases.
23. For the purposes of these Guidelines the term IP extends to cover original unpublished technical information, which can be held as a trade secret and protected by the laws of confidentiality. All original research results are therefore intellectual property and held under an obligation of confidence to the owner in the absence of agreement to the contrary, unless and until they are published.
24. IP rights allow the proprietor to control what is done with the material he has created. He can however grant permission through licences to allow a third party to exploit the IP in return for a fee and/or a royalty.
25. In making arrangements to implement these Guidelines on the ownership of IP and the Government's entitlement to use this, provision should be made for the information generated by the research and for all relevant statutory rights which might arise from the work, particularly patents, designs, copyright and database right.
26. Further information on Intellectual Property systems is available from the Patent Office website [www.patent.gov.uk](http://www.patent.gov.uk) and on Crown copyright from [www.hms.o.gov.uk/guides.htm](http://www.hms.o.gov.uk/guides.htm).

### **3.3 Guidance for Government Departments and other public sector purchasers of research**

#### Responsibilities and management

27. Government Departments and other public sector purchasers of research have the primary responsibility for implementing the policy set out in this guidance. They should apply the policy directly when they act as purchasers of research and indirectly when they act as sponsors of PSREs or other public bodies.
28. The first responsibility of all public sector purchasers of research is to ensure that they secure adequate freedom to use the IP generated in the research work, for their own public purposes including any requirement for publication of information.
29. The purchasers' responsibility to create an environment that promotes exploitation does not disappear with the transfer of IP ownership. Public sector purchasers of research should review their IP management needs and document their policy and procedures.

They are also responsible for monitoring the efforts and effectiveness of the research provider in securing IP protection and pursuing commercial exploitation.

30. The statement of policy in these Guidelines recognises the special position of those Departmental research providers which lack an independent legal identity. In all circumstances in which the Departmental research provider would be given ownership of IP under the new policy but for the lack of independent legal status, it should be placed in a position which is as far as possible analogous to that of a legally separate contractor. The responsibility for achieving this will fall to the parent Government Department, who should ensure that the Departmental research provider has, or has access to, the necessary expertise in identifying, protecting and commercially exploiting the IP generated.
31. The required authority to deal in IP may be given in an umbrella arrangement or given in individual conditions of order. The essential requirements are that the PSRE should have the following:
  - a. responsibility for securing IP protection;
  - b. authority to commercialise and deal in the IP on its own account; and,
  - c. financial authority to benefit from the commercial exploitation income that they secure.
32. The parent Government Department has the responsibility for ensuring that the PSRE and its chief executive have a mission to manage the IP that it controls and to support its commercial exploitation.

#### Considerations affecting ownership of results by the research provider

33. The new policy states that the IP generated in publicly funded research work should be owned by the research provider unless there are valid and compelling reasons to the contrary. In the majority of cases, the research provider will be best placed to secure commercial exploitation of IP. However, there may be circumstances in which this arrangement will not lead to the most effective exploitation route, or in which factors other than exploitation require different ownership arrangements.
34. Public sector purchasers of research may adopt different arrangements where there are valid and compelling reasons to do so. Some guidance on this is given below:
  - **National security** - In some instances there is a national security sensitivity or other similar sensitivity regarding the work or the information it produces which requires the IP to be owned by Government and kept under tight control. Examples might include the defence field, particularly in regard to work on nuclear technologies or on chemical or biological defence.
  - **Dissemination of information** - In certain circumstances public sector purchasers want to encourage wider use of data and information. This might be the case with research informing public health policy (such as the human genome project) and

with data and information from social and economic policy research. In such instances the purchaser concerned might take ownership of the IP to ensure that they are available for complete disclosure. Also, public sector purchasers should be mindful of their obligations under the Freedom of Information Act 2000, to release information to the public. The freedom to make a complete disclosure of the results of the research work is particularly important in the case of work which is central to the formulation of Government policy or which relates to the workings of Government. Again, this might justify the public sector purchaser taking ownership of the IP resulting from contracts for work of this nature.

- **Aggregation of work** - There might be instances in which the research work is part of an aggregation of work performed by different parties, and where the IP is best commercially exploited at the aggregate level. If the public sector purchaser stands at the centre of this activity and funds all the individual parts of the activity it may be justified in seeking ownership of the IP generated in individual contracts. There would then be a concomitant duty on the public sector purchaser of research to pursue commercial exploitation actively.
- **Standards or regulatory work** - Some public sector purchasers may fund work in support of their standards or regulatory responsibilities. They may need to ensure that the IP generated does not allow one particular supplier to establish a monopoly in supplying goods or services required to meet the standard or regulation.
- **Research provider resources** - Some research providers may not have the resources to protect and exploit IP that is generated, and might decline to take ownership as a result. Public sector purchasers should consider whether to take ownership of the IP. An alternative might be to consider ways of strengthening the capability of the research provider to manage exploitation.

#### Securing freedom to use the results of work under the new IPR ownership policy

35. It is not necessary to own the IP generated in research work in order to be able to use it. The intention under the new policy is that the ownership of IP will fall to the research provider and be licensed for the use by Government. The public sector purchaser of research will need to ensure that the licence rights are set out in the research contract from the start and these are adequate to cover the legitimate business needs of Government. However, this change in policy brings with it the danger that public sector purchasers might fail to secure licence rights adequate for their needs. Accordingly, no public sector purchaser should enter into an arrangement which vests the ownership of IP in any external entity without establishing what, if any, rights to use this IP are needed for the conduct of its business. This must be determined before the contract is negotiated. Any mistake in this regard is likely to be costly to remedy after the event.
36. The licence rights required by the public sector purchasers should be secured by including suitable, specific clauses in the research contract. It is essential that this contract, including the required licence clauses, be concluded prior to the start of work or commitment of public funds.

37. No reliance should be placed upon the statutory provisions for the ownership of patents, copyright, designs etc. for commissioned works, for these are not adequate in themselves to protect the needs of Government.
38. The licence rights should be perpetual and irrevocable. They should preserve the licence entitlement in the circumstances of assignment of rights by the research body and of its reorganisation, merger, take over or dissolution. The licence rights clauses will be a critical part of the research contract and it is important that public sector purchasers are properly advised in framing these clauses. Some of the possible issues are identified below:
- **Confidentiality of information** - The treatment of confidentiality in the research contract will depend strongly on the purpose of the research.
  - For research designed to support policy making and regulatory decisions, the presumption must be that the conclusions, underlying data and methodology should all be published (this is in line with the OST Guidelines on the “Use of Scientific Advice in Policy Making”. The implications of the Freedom of Information Act will also need to be considered.
  - For research funded in support of industry or the development of products for Government use, the requirement for government to require publication of information at a time of its choosing, and in full detail, may be somewhat less.
  - Where ownership of the results has been vested in the research provider, and in the absence of specific provisions about publication, all new, unpublished information within those results will be confidential information which is the property of the research provider. In this case it must remain unpublished and be held in confidence by all to whom it is disclosed - including the Government Department. Consequently, all requirements for Governmental publication of information resulting from the work should be reflected in the licence secured under contract. Usually, it would be possible for the public sector purchaser to agree to a provision entitling the research provider to seek a short delay in publication to permit the filing of a patent application.
  - **Scope of entitlement to use** - Public sector purchasers should not generally seek an “any purpose” licence or any other licence of unreasonably wide scope in relation to Government needs - as this would undermine the commercial value of the IP to the research provider. In essence what the purchaser should secure is an entitlement to use the IP as dictated by the Government’s policy and other business needs and a term such as “Government business” or “Government purposes” can be used to delimit the freedom to use results.

The nature of official business will vary from Department to Department, so it might be that the contractor or the purchaser will require further clarification of what is required in order to avoid confusion. This would be particularly important for the purchaser if there was an intention to publish in full the information resulting from the work. Such publication might erode the prospects for commercial exploitation so it would be important for the research provider to know this prior to acceptance of contract. Also clarification would

be required if Government's own use of the results in providing supplies to related organisations were likely to take away a substantial part of the market for UK exploitation of the results. This could be the case in regard to any use of the results by the Department of Health for the supply of products to the National Health Service, or use of results by the Home Office for the supply of products to the Police Forces.

- . **Use of IP by third parties** - The licence rights should entitle Departments to make the IP available to third parties and to authorise use by them where this is necessary for Governmental requirements or delegated functions. This will be needed if the IP is needed for the purpose of allowing third parties to tender for the supply of goods and services to Government, and for the purpose of any contract subsequently awarded. Also it is needed if there is a requirement to make the IP available to non-departmental bodies such as police forces, local authorities etc.
  - . **Payment for use of results** - In general the licence rights should be provided free of charge if the work which gave rise to them has been publicly funded. However, licence payments may be justified in certain circumstances, for instance if the licence provides an entitlement to use background rights (see below) or if the work has not been fully-funded from the public purse. Sometimes it might be arranged that payment is involved only in the event that the Government exercises a subset of the licence rights. In all cases it is essential that the clauses defining the licence rights make it clear whether or not any payment is required and, if payment is required, when it is required and how much it will be.
  - . **Intellectual property covered by the licence right** - The licence should specify exactly what is licensed for Government use. In general, the licensed material will be all the results of the work (i.e. all the information it generates), together with all intellectual property generated in the work. It is important to make sure that intellectual property such as patents and copyright are not overlooked. Sometimes, it will be impossible for Government to make the intended use of the results of work without securing a licence to use some of the research provider's previously created intellectual property. These are known under the term "background rights". If this need is identified, suitable provisions covering background rights should be included in the contract for work - not left for later resolution. It might be possible to negotiate a limited free licence in respect of the background rights, in recognition of the commercial benefit to be derived by the research body from the exploitation of the results of publicly funded work. In many instances payment will be required for any licence in respect of background rights.
39. The contract should also ensure that the research provider will own the results, rather than individuals actually doing the work on behalf of that organisation. Particular caution will need to be exercised when there is the possibility that the research work will be carried out by people who are not employees of the contracted body, e.g. by university undergraduates, who might otherwise own the results of that work. Public sector purchasers have a legitimate interest in this to ensure that they secure the licence rights that they require and to ensure that the prospects for exploitation of the IP are not frustrated by split ownership. The contract should also cover ownership of IP and licence rights in respect of any work to be performed by a sub-contractor.

### Controlling the research body

40. It might be necessary for the public sector purchaser of research to exercise some control over the research provider's exploitation of the IP generated in the work.
41. For instance, it may be the case that the purchaser must ensure that the IP is made available to all companies for commercial use, not licensed exclusively. This might be the case if the research work was directed towards some generally applicable enabling technology, rather than a specific product. If such a need existed, the purchaser would have to include a provision in the research contract banning the exclusive licensing of the results and requiring the research provider to license the results on a non-discriminatory, non-exclusive basis to all companies which request a licence. Any control of this nature which is required must be secured by terms in the research contract, but any such controls should be kept to the absolute minimum because they would undermine the commercial freedom and income prospects of the research provider.

### Revenue sharing

42. Under the new policy all revenue from the commercial exploitation of the results of publicly funded research work will fall to the research provider, in those instances where the research provider is to be the owner of the results, unless agreed otherwise in the research contract. In all cases, public sector purchasers of research should consider whether some royalty or share of the revenue generated should be secured for the public purse in consideration of the public funding of the work which will give rise to those results. If such payments are required by the purchaser, entitlement clauses must be included in the contract. Usually such payments will take the form of a sharing of income in defined proportions, net of the expenses of protection and commercialisation. (See paragraph 45 for the case where the research provider is a Departmental body.)
43. In considering the justification for a revenue sharing or other payment provision, purchasers might consider the extent of public funding, the investment required of the research provider in protecting IP and in its commercialisation, the level of risk associated with the research provider's investment, and the level of returns expected from the commercialisation. In general there is more justification for taking a share of exploitation income for the purchaser if the exploitation revenue will be large, or in instances where exploitation will follow from the funded work without large investment or risk to the research provider.
44. In any instance in which the research provider is the owner of the results of publicly funded work, it should be arranged that the provider has sole responsibility for making any payments required to members of staff both under local reward or incentive schemes and under statutory provisions. In situations where there is any revenue sharing with a public sector purchaser of research, any such payment might be considered as a legitimate expense to be deducted before the revenue sharing formula was applied.
45. In any instance where a Departmental research provider is given delegated authority to commercially exploit the results of its work, it should be free to take the principal benefit from the income from commercial exploitation.

### Mandating the research provider

46. In order to secure the increased emphasis on commercial exploitation that the new ownership policy requires it will be necessary for public sector purchasers to mandate the research provider to perform certain actions. All such requirements should be stated in the provisions of the research contract. The sort of requirements which are likely to be needed are listed below:
- a. an obligation to identify exploitable results and to report them to the purchaser;
  - b. an obligation to secure IP protection for the results of the work, as necessary to promote commercial exploitation of the results or the IP;
  - c. an obligation to notify the purchaser of all patent applications made for the results and of patents and any other species of IP protection secured and of any assignments of these to a third party;
  - d. an obligation to report to the purchaser on the progress of commercial exploitation and of all licences granted; and,
  - e. an obligation to keep accounts of revenue and make payments to the purchaser where there is a revenue sharing or similar provision in the contract.

### Risk and liability

47. In vesting ownership of IP and responsibility for its commercial exploitation in the research provider, the public sector purchaser of research should make sure that it is properly isolated from any liability which stems from the exercise of these results. The purchaser may wish to include a provision in the research contract which specifically denies any responsibility or liability on its part. If appropriate an indemnity clause in favour of the purchaser may be included, but it should be recognised that any requirement for an indemnity clause introduces a risk for the research body which is costly to insure against.

### Failure to secure commercial exploitation

48. Even though the principal responsibility for securing commercial exploitation of IP generated in research passes to the research provider under the new ownership policy, public sector purchasers of research retain a responsibility to monitor performance in securing exploitation and for taking action to promote exploitation insofar as possible under the new regime. One option is to secure a compulsory licence provision which may be invoked in the event that the research provider fails to secure adequate commercial exploitation of the results. Another, more contentious option is to secure what is known as a "march in right". This would entitle the purchaser to take assignment of the rights owned by the research provider in the event of some provable failure to take action to promote commercial exploitation. In such an instance the research provider would normally retain a non-exclusive free licence to use the results, on assignment of these to the purchaser. Such an entitlement would be of most benefit if the results had been patented but not exploited. If the results had been published and no patent protection secured there would be no possibility of remedying the situation.

49. In all instances, public sector purchasers of research should monitor the commercial exploitation performance of the research provider and seek to aid and, if necessary apply pressure, to promote commercial exploitation. One step which might be taken to penalise poor performance in commercial exploitation, short of exercising compulsory licence or march in rights would be to rate research providers in the light of past performance and to use this rating either as a factor in determining whether to award new contracts to the research provider, or as a factor which would justify making alternative arrangements for commercial exploitation (including the possibility that the public sector purchaser might take ownership of the IP for exploitation by itself).

### **3.4 Guidance for PSREs**

50. The change in policy on ownership of the IP generated in publicly funded research could potentially affect PSREs as either a research purchaser or a research provider.

#### PSREs as purchasers

51. When purchasing research work from any other provider, PSREs will be subject to the same responsibilities as any other public sector purchaser. PSREs will need to ensure that research providers are pursuing exploitation appropriately and that Government rights to use the IP generated in the research are secured. The guidance provided under heading 3.3 is generally applicable to PSREs when working in this role.

#### PSREs as the Research Provider

52. These Guidelines reflect a change in Government policy such that ownership of the IP generated in publicly funded research work will usually reside with the research provider as the body best placed to ensure its commercial exploitation. PSREs should accept this ownership arrangement unless there are compelling reasons to the contrary. Where the PSRE is not legally separate from its parent Government Department it cannot take ownership in its own right but it can be placed in a position which is analogous to that of a separate entity by administrative arrangements. In these situations the PSRE should ensure that it is given authority to deal in IP and to benefit from income from its commercial exploitation.
53. Ownership (or control) of the results carries with it responsibility for exploiting the results of that research. The Government intends to ensure that PSREs are given an explicit mission to engage in commercial exploitation in order to give the increased emphasis that the Government requires. This is a changed environment and PSREs will need to consider the mechanism for exploitation.
54. There are three stages in the process of exploitation:
- a. identifying potentially exploitable results,
  - b. deciding what to protect, how to protect it and defending rights (usually including bearing the cost of obtaining expert advice on seeking protection), and
  - c. seeking an appropriate exploitation mechanism.

55. PSREs will be responsible for the costs, risks and any potential liability involved in protecting, exploiting and enforcing the IP generated.
56. Not every piece of research carried out by PSREs will yield results that are exploitable and or warrant IP protection. PSREs will have to make commercial decisions over what to protect and exploit by balancing the potential financial benefits against the costs incurred in doing so. They may wish to consult NAO Guidelines on sensible risk management.
57. The three stages in exploiting research IP can be complex, particularly stage “b”. Expert advice in what can be a very complex field can be costly but it is vital that PSREs realise the importance of obtaining such advice. Mistakes made in recognising and protecting exploitable research work are usually irretrievable and often extremely costly. Whilst some PSRE’s will have sufficient exploitable IP to sustain an in-house source of exploitation advice, many will not. Where this critical mass does not exist, it is essential for PSREs to seek expert advice elsewhere. In some cases it may make sense for PSREs to work together to manage their IP more effectively.
58. PSREs should resist the temptation to reduce short term costs by not seeking expert advice, whether from advisory bodies in Government or the private sector. The aim should be for stage “b” to become self-funding with the cost of protecting the results of research being covered by the proceeds of exploitation.
59. Whilst responsibility for exploitation is largely transferred to PSREs along with the ownership of the associated IP, public sector purchasers of research retain a responsibility to ensure that PSREs they fund implement acceptable exploitation systems. This will require PSREs to provide regular feedback on their systems for exploitation and their exploitation activities.
60. If a PSRE intends to assign the ownership of the results of publicly funded research (e.g. by selling it on or by the creation of spin-out companies) it should inform the purchaser of the research to secure any necessary authority from the purchaser and to give the purchaser the opportunity to record the new owner. A similar obligation to inform the research purchaser of changes to ownership should be passed on to the new owner. Government access rights to use the IP should also be transferred by the research provider to any new owner of the IP.
61. It should be the norm for a PSRE to own the results of the research it performs. However, if at any point after the research contract is awarded the PSRE wishes to transfer ownership to the research purchaser, it can do so. This might be justified where the PSRE is unable to bear the cost of exploitation or protecting the results. The PSRE will remain liable for any use it has made of the IP while it was legal owner.
62. PSREs must respect the rights of the Government to use the results of the research for Government business.

### Publication Policy

63. PSREs will need to establish a publications policy to ensure that a balance is struck between fulfilling their primary purpose in support of Government policies and ensuring that potentially valuable results are not compromised by precipitate or over detailed publication. Results should be considered for patent protection before publication. It is too late after publication to remedy the situation if patent applications have not been made. Also, where there is commercially valuable detail in the results, consideration should be given to whether it is possible to exploit this commercially as confidential information. If so, it needs to be kept out of published material.
64. In instances where the public sector purchaser of research seeks freedom to publish the results of PSRE work, the PSREs should engage with the purchaser in deciding what material needs to be published and in what time scale. If full publication of results is required then there will be a reduced prospect for commercial exploitation revenue for the PSRE unless there is some patentable invention and a patent application has been made before publication.

### Crown copyright

65. There are special considerations which apply to dealings in respect of Crown copyright of which PSREs should be aware. Copyright applies to original material such as films and photographs, written works, graphical works, and computer software. Crown copyright applies to all copyright material produced by Crown employees in the course of their official duties. This includes value added information, data, products and services. Government Departments are Crown bodies, as are the specific Agencies listed on the HMSO website ([www.hmso.gov.uk/crownbod.htm](http://www.hmso.gov.uk/crownbod.htm)). Not all PSREs are Crown bodies. Research Councils and their units, centres and surveys are not Crown bodies and are not therefore subject to Crown copyright.
66. Sole responsibility for the control and administration of Crown copyright is vested with the Controller of HMSO. Some freedoms are given to Government Departments on an across the board basis but, in the main, it is Government policy to centralise the licensing of Crown copyright through HMSO. From 1 April 2001, users of Crown copyright material have been able to apply for a free class licence (the "Click-Use Licence", see [www.clickanduse.hmso.gov.uk](http://www.clickanduse.hmso.gov.uk)) enabling the use and reproduction of Crown copyright material for five years. These broad licences have some exceptions (set out in the class licence), including "value added information", information which is exempt under sections 23 to 44 of the Freedom of Information Act 2000, photographic and film archives, material where the reused versions must be approved by a Department, and computer programs and software. HMSO will be able to issue tailored licences for this type of information. Fees may be charged for tailored licences, and these will be determined in consultation with the Department or Agency which created the information. The class licence regime does not apply to trading funds, which can apply to HMSO for a delegation of authority to issue licences for the use of all information produced by, or on behalf of, the trading fund. All dealings in Crown copyright must conform to the policies of the Government of the day, as reflected in the individual delegations of authority, and the general HMSO policy statements.

67. PSREs should note that:
- a. without the appropriate delegation from HMSO a Department or PSRE does not have the authority to license or refuse reproductions of Crown copyright;
  - b. except in exceptional circumstances, HMSO will not delegate to a Department or PSRE, other than a trading fund, the authority to:
    - (i) assign Crown copyright or offer exclusive licences;
    - (ii) commence litigation in respect of infringement of Crown copyright.
68. A PSRE may only refuse to grant licences in respect of Crown copyright in line with policy issued by HMSO.
69. All PSREs should therefore ensure that they have appropriate authority, under individual or Departmental delegation from HMSO, before dealing in Crown Copyright material. They should ensure also that their dealings in Crown Copyright material conform to the terms of the delegated powers.

#### Staff Incentive Schemes and Management of Conflicts of Interest

70. Guidance on Staff incentive schemes and management of conflicts of interest is available separately.<sup>6</sup>

#### Terms of employment

71. PSREs should ensure that the staff engaged to work on research for Government Departments are employed on suitable terms and properly tasked in regard to the work to ensure that the results of work can vest in the PSRE or, in the case of in-house PSREs, can vest in the Department. Without this the PSRE might not fulfil its obligations to the Department and might not be in a position to own or control results for exploitation.
72. PSREs should also ensure that they have staff reward schemes for inventors and those engaged in technology transfer, in accordance with Government best practice instructions. Statutory arrangements offering the possibility of payments to employee inventors also exist and PSREs should be aware of these. The PSRE will be responsible for any such payments required, whether under Departmental or statutory arrangements.

<sup>6</sup> "Good Practice for Public Sector Research Establishments on Staff Incentives and the Management of Conflicts of Interest" published by OST July 2000 available from <http://www.dti.gov.uk/ost.htm>

#### **4. SOURCES OF INFORMATION**

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|----------------------------------|---|
| Patent Office Web site           | <a href="http://www.patent.gov.uk">http://www.patent.gov.uk</a>   |
| IP Portal                        | <a href="http://www.intellectual-property.gov.uk">http://www.intellectual-property.gov.uk</a>                               |
| Office of Science and Technology | <a href="http://www.dti.gov.uk/ost">http://www.dti.gov.uk/ost</a>   |
| Scheme Finder website            | <a href="http://www.schemefinder.oakland.co.uk">http://www.schemefinder.oakland.co.uk</a>                                   |
| Partnerships UK                  | <a href="http://www.partnershipsuk.org.uk/widemarkets/index.htm">http://www.partnershipsuk.org.uk/widemarkets/index.htm</a> |
| Her Majesty's Stationary Office  | <a href="http://www.hmsso.gov.uk/guides.htm">http://www.hmsso.gov.uk/guides.htm</a>   |

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