

Guide on Intellectual Property Arrangements for Research and Development Projects Funded Under the Innovation and Technology Fund

Purpose

This Guide sets out the general policy and arrangements pertaining to intellectual property (IP) and related matters for research and development (R&D) projects funded under the Innovation and Technology Support Programme (ITSP), the Midstream Research Programme for Universities (MRP) and the Partnership Research Programme (PRP)¹ of the Innovation and Technology Fund (ITF).

Background and Scope

ITF

2. The ITF was established in 1999 to provide financial support for R&D projects that contribute to the promotion of innovation and technology upgrading in Hong Kong. There are five major funding programmes under the ITF, namely –

- (a) ITSP – to support R&D projects undertaken mainly by universities, R&D Centres and other designated local public research institutions;
- (b) MRP – to support universities funded by the University Grants Committee (UGC) to conduct theme-based midstream R&D projects in key technology areas;
- (c) PRP – to support collaborative R&D projects undertaken by universities, R&D Centres and other designated local public research institutions with private companies;
- (d) General Support Programme (GSP) – to support non-R&D projects that contribute to the upgrading and development of our industries and fostering an innovation and technology culture (e.g. conference, seminars, etc.); and

¹ PRP was launched on 28 January 2019 by merging the collaborative stream of ITSP and the former University – Industry Collaboration Programme (UICP).

- (e) Enterprise Support Scheme (ESS) – to provide dollar-for-dollar matching fund for enterprises to undertake R&D projects on innovation and technology.

3. There are separate guidelines promulgated on the IP arrangements for projects under the ESS and GSP. This Guide is only applicable to projects under the ITSP, MRP and the PRP.

ITSP

4. The ITSP is currently the largest funding programme under the ITF. It aims to support R&D projects undertaken by local research institutions (lead applicants). At present, these institutions include –

- (a) local universities engaged in R&D on technology and designated as local public research institutions;
- (b) five R&D Centres set up by the Government, namely the Hong Kong Automotive Parts and Accessory Systems R&D Centre, the Hong Kong Applied Science and Technology Research Institute (designated as the R&D Centre for Information and Communications Technologies), the Hong Kong Research Institute of Textiles and Apparel, the Logistics and Supply Chain MultiTech R&D Centre, and the Nano and Advanced Materials Institute; and
- (c) other designated local public research institutions, including self-financing degree-awarding institutions registered under the Post-Secondary Colleges Ordinance (Cap. 320), the Hong Kong Productivity Council (HKPC), the Vocational Training Council (VTC), the Clothing Industry Training Authority (CITA) and the Hong Kong Institute of Biotechnology (HKIB).

5. Under the ITSP, there are two types of projects -

- (a) platform projects, which are intended for the benefit of the industry collectively or certain sectors of it. They require industry contribution of at least 10% of the project cost from at least one private company; and

- (b) seed projects, which are in general more exploratory and forward-looking in nature, and as such may have a less immediate potential for commercialisation or realisation than platform projects. Industry sponsorship is not a mandatory requirement for seed projects.

MRP

6. In June 2016, the MRP was established through a HK\$2 billion injection into the ITF as endowment capital for generating investment income to support the programme. It aims to encourage UGC-funded universities to focus more on theme-based midstream researches in key technology areas, so that more research outcomes could be made available for further downstream research or development of new products or services. The MRP also fosters more collaborative efforts among local and overseas universities and research institutions. Industry sponsorship is not a mandatory requirement under the MRP.

PRP

7. To achieve synergy and enhance flexibility, the PRP consolidates the former UICP and the collaborative stream of ITSP into a single programme. Launched on 28 January 2019, the PRP aims to provide funding support for collaborative R&D projects undertaken by an R&D Centre or a designated local public research institute (i.e. the lead applicant) in partnership with a private company (i.e. the industry co-applicant).

8. In general, the Innovation and Technology Commission (ITC) would defer to the local research institutions to decide on the mix of different types of projects having regard to their own circumstances and strategies, needs of the industry they serve, the client profile they intend to develop, etc. For the R&D Centres, they also need to comply with the targets set by ITC on industry contribution and other performance indicators.

IP and Related Matters

9. The majority of ITSP, MRP and PRP projects would entail the creation or use of IP. ITC's policy is to encourage local research institutions to take active steps to disseminate their R&D results widely and encourage transfer, realisation or commercialisation of relevant technologies or IP to the industry for application and further development, fostering improvements for the industry or community. This Guide sets out the arrangements on IP and

related matters, in particular with regard to –

- (a) ownership;
- (b) licensing; and
- (c) benefit-sharing arrangements.

**IP Arrangements for Platform Projects
(including Seed Projects under the ITSP and MRP Projects)**

(a) Ownership

10. As a general rule, the IP of platform and seed projects under ITSP as well as those under MRP would be vested with the lead applicant (i.e. local research institution). This will allow the lead applicant to assume a more proactive role in disseminating the R&D results and promoting commercialisation.

11. We understand that there are ITSP projects undertaken by the R&D Centres for which the majority of R&D work is carried out by a local university. Depending on the circumstances of the case, at times there may be a better chance for realisation/commercialisation if the IP is vested with the university instead of the R&D centre. R&D Centres therefore have the flexibility to negotiate with concerned universities and decide on the appropriate IP ownership and commercialisation arrangements for such projects. Notwithstanding this, the R&D Centre should normally retain a royalty-free right to use the IP and work with the universities to commercialise the R&D results regardless of IP ownership. The terms and any alternative arrangements should be specifically set out in the funding application to ITC and are subject to **prior approval**. Joint ownership should generally be avoided to minimise potential dispute in future.

(b) Licensing

12. There are two types of licensing arrangements for platform projects, namely –

- (a) non-exclusive licensing; and
- (b) exclusive licensing.

While the usual licensing arrangement for platform projects should be non-exclusive, lead applicants may enter into exclusive arrangements under special circumstances.

Non-exclusive Licensing

13. Platform projects are intended for the benefit of the industry as a whole. The guiding principle for platform projects is to enable the use of technology and R&D results by interested parties in an **open, transparent and non-exclusive manner**. To facilitate information dissemination, the ITC maintains a dedicated web page which includes key information of all projects funded by the ITF, listing the project proponents, project titles and dates, progress and major milestones, project results, etc.

14. Whilst ITC has not set any formulae for the level of licensing fees and other terms for licensing, the lead applicants should ensure interested companies are treated on an **equitable** basis, and that the licensing fees are set at a reasonable level and in accordance with their respective policies and practices (as determined by the Boards of Directors in the case of R&D Centres, and the management of the universities or other designated local public research institutions, etc.). In addition, we encourage the lead applicants to adopt terms of payment which are simple and easy to administer (e.g. one-off, upfront licence fees, etc.) so as to avoid protracted negotiations on the terms of payments as well as to minimise unnecessary administrative work. We also suggest that the lead applicant and its industry sponsor(s) should, as far as possible, agree on the licensing arrangements in writing before the commencement of the R&D project.

Exclusive Licensing

15. According to past experience, a non-exclusive licensing regime may sometimes not provide sufficient commercial incentives for companies to acquire certain technologies and R&D results generated from platform projects, e.g. need for substantial upfront investment in manufacturing facilities, small market size, etc. There may be circumstances requiring an element of exclusivity in order to encourage more industry interest. However, proposals for exclusive licenses should be handled carefully to minimise the possibility of abuse. Moreover, if exclusive licences are frequently allowed for platform projects, companies may be discouraged from undertaking collaborative projects.

16. Lead applicants should seek **prior approval** from the ITC with full justifications (and after consulting their Boards/management) if they wish to enter into exclusive licensing arrangements. ITC will consider such requests on a case-by-case basis having regard to factors such as –

- (a) the time since the project has been completed, the technology development trend in that particular industry and relevant technology/product life cycle;
- (b) whether in the particular circumstances, the arrangement would increase the chance of commercialisation of the R&D results, weighed against the need for other companies or the relevant industrial sectors to have access to these R&D results; and
- (c) most importantly, the overall benefits to the community as a whole.

17. Upon approval, lead applicants should duly comply with the conditions specified by ITC, which normally require a competitive process to select the eventual licensee. They will also be required to submit a report to ITC after awarding the exclusive licence or rights to a third party. In general, the lead applicant should provide information about the details (e.g. means and duration of invitation) and outcomes (e.g. interested parties) of the competitive process, the commercialisation process as committed by the licensee and the progress achieved, and/or the future plan of commercialisation. ITC may ask for further information as deemed necessary. Where possible, the lead applicants should retain a royalty-free right to use the R&D results.

(c) Benefit-sharing

18. Benefit-sharing refers to the payment and sharing of licensing fees, royalties and other form of commercialisation income arising from an R&D project. ITF projects are meant to bring benefits to the industry and community. While monetary return is not ITF's primary consideration, it is nonetheless a useful performance indicator of commercialisation efforts as it demonstrates whether the R&D results are relevant to the industry.

19. To recognise industry sponsors and other parties for supporting a platform project and to assist the R&D Centres to build up a good client base, the R&D Centres may offer more favourable terms to the industry sponsors (when compared to companies which have not acted as sponsors) and parties providing other financial contribution commensurate with their level of contribution. Examples include early access to the R&D results, discount in future licensing fees, etc.

20. While ITC has not set any formulae for benefit-sharing, we anticipate that all proposals should be set on an **equitable and proportional** basis and having taken into account the following factors –

- (a) the amount of ITF funding provided;
- (b) the contribution of project results to the final product/services launched;
- (c) market forecast, business practices (including pricing of products and services in individual industry sectors, etc.); and
- (d) the efforts made by parties concerned, e.g. in the case of an R&D Centre, project carried out by another implementing organisation, which is usually an university.

As mentioned in paragraph 14 above, we also suggest that the lead applicant and its industry sponsor(s) should, as far as possible, agree on the arrangements in writing before the commencement of the R&D project.

21. For universities and other designated local public research institutions (self-financing degree-awarding institutions, HKPC, CITA, VTC and HKIB), the Government does not request a share of the commercialisation income. It can be retained by the institutions for further R&D and other public causes. R&D Centres may also retain their commercialisation income for use in strategic activities to be endorsed by ITC, such as technology and market analyses, infrastructure building, staff development or experimental projects etc. We encourage the respective Boards of Directors of the R&D Centres to, having regard to this Guide, develop their own commercialisation policy and procedures, and deliberate on the IP arrangements for individual projects taking into account their unique circumstances and other relevant considerations, e.g. prevailing Government policies.

IP Arrangements for Collaborative Projects

(a) Ownership and Licensing

22. Under the PRP, the industry co-applicant should contribute, in the form of industry sponsorship, at least 50% of the total project cost (or 30-50% in the case of R&D Centre projects with exceptional approval from ITC). As a general rule, an industry co-applicant having contributed at least 50% of the project cost will be entitled to the ownership of the project IP unless otherwise

agreed between the lead applicant (i.e. local research institution) and the industry co-applicant. The lead applicant should seek prior consent of its industry partner on any plans to promulgate the R&D results for non-commercial purposes (e.g. academic journals).

23. With exceptional approval by ITC, R&D Centres may also undertake collaborative projects with a lower level of industry contribution amounting to 30% - 50%. For projects which involve industry contribution of less than 50%, the relevant R&D Centre should retain the IP ownership, and the industry partner should only be granted an exclusive licence or exclusive right to use the R&D results for a limited period (which should be shorter than the expected life span of the technology or product involved). At the same time, the R&D Centre should encourage its industry partner of a collaborative project to raise the level of its contribution to at least 50% within a reasonable timeframe (say, within the first nine months of the project period) in order for the latter to own the IP. If after reasonable negotiation, the industry partner indicates that it will not proceed to raise its contribution to at least 50% of the project cost, the Centre should be free to license the relevant R&D results to other companies after the expiry of the exclusive licence.

(b) Benefit-sharing

24. The basic principle of benefit-sharing for collaborative projects will be the same as in the case of platform projects as we have set out in paragraphs 19 and 20 above, except that such arrangements must be agreed between the lead applicant and its industry partner before the commencement of the project.

Application

25. This Guide provides general guidance in handling IP-related matters. There may be special circumstances which may not be covered, e.g. spin-offs. In such cases, the local research institution concerned should seek the advice, and where appropriate, approval from ITC. Each case will be considered on its own merit.

26. In all cases, ITC retains the right not to approve any particular IP arrangement in exceptional circumstances.

27. This Guide supersedes the “Guide on Intellectual Property Arrangements for Research and Development Projects Funded under the Innovation and Technology Support Programme and the Midstream Research

Programme for Universities of the Innovation and Technology Fund” dated September 2018, and will be effective until further notice.

28. For any enquiries, please contact the ITF Secretariat –

ITF Secretariat
Innovation and Technology Commission
21/F, West Wing, Central Government Offices
2 Tim Mei Avenue
Tamar, Hong Kong
Tel : (852) 3655 5678
E-mail : enquiry@itc.gov.hk

Innovation and Technology Commission
January 2019