

# **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) of research and development (R&D) projects funded under the Innovation and Technology Support Programme (ITSP), the Guangdong-Hong Kong Technology Cooperation Funding Scheme (TCFS), the Mainland-Hong Kong Joint Funding Scheme (MHKJFS), the Midstream Research Programme for Universities (MRP) and the Partnership Research Programme (PRP) 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 six major research funding programmes under the ITF, namely –

- (a) ITSP – to support R&D projects undertaken by R&D Centres, universities and other designated local public research institutions;
- (b) TCFS – to support R&D projects undertaken by R&D Centres, universities and other designated local public research institutions that include an element of Guangdong/Hong Kong or Shenzhen/Hong Kong cooperation;
- (c) MHKJFS – to support R&D projects undertaken by R&D Centres, universities and other designed local public research institutions in Hong Kong with partners in various provinces in the Mainland;
- (d) MRP – to support universities funded by the University Grants Committee (UGC) to conduct theme-based midstream R&D projects in key technology areas;
- (e) PRP – to support collaborative R&D projects undertaken by R&D Centres, universities and other designated local public research institutions with private companies; and

- (f) 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. This Guide is only applicable to projects under the ITSP, TCFS, MHKJFS, MRP and PRP.

#### *ITSP*

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

- (a) 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;
- (b) eight universities funded by the UGC and designated as local public research institutions; 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 as a whole or its certain sectors. 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 less immediate potential for commercialisation or realisation than platform projects. Industry sponsorship is not a mandatory requirement.

#### *TCFS*

6. Launched in 2004, the TCFS aims to enhance the level of collaboration on R&D between organisations in Hong Kong and Guangdong/Shenzhen. It provides funding support for both platform and collaborative R&D projects. Projects funded by the TCFS have to demonstrate an element of Guangdong/Hong Kong or Shenzhen/Hong Kong cooperation (e.g. collaboration between research institutions and enterprises in Guangdong/Shenzhen and Hong Kong).

#### *MHKJFS*

7. Launched in April 2019, the MHKJFS aims to support and encourage R&D collaboration between Hong Kong and various provinces in the Mainland. It provides funding support for both platform and collaborative R&D projects. Applications under MHKJFS must be submitted simultaneously by the Hong Kong and Mainland institutions to the Innovation and Technology Commission (ITC) and the Ministry of Science and Technology (MOST) respectively, and R&D work must be conducted in both places. ITC and MOST will provide funding to the Hong Kong and Mainland applicant organisations respectively, and will monitor project progress according to their own requirements.

#### *MRP*

8. 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 aims to foster more collaborative efforts among local and overseas universities and research institutions. Industry sponsorship is not a mandatory requirement.

#### *PRP*

9. To achieve synergy and enhance flexibility, the PRP consolidates the former UICP and the collaborative stream of ITSP into a single programme. Launched in January 2019, the PRP provides funding support for collaborative

R&D projects undertaken by an R&D Centre or a designated local public research institution (i.e. the lead applicant) in partnership with a private company (i.e. the industry co-applicant).

10. In general, 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**

11. The majority of ITSP, TCFS, MHKJFS, 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 to the industry for application and further development, thus fostering improvements for the industry or community. This Guide sets out the IP arrangements, in particular with regard to –

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

<b>IP Arrangements for Platform Projects (including Seed Projects under the ITSP and MRP Projects)</b>
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### **(a) Ownership**

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

13. We understand that there are ITSP/TCFS/MHKJFS platform 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 the universities concerned and decide on the appropriate IP ownership and commercialisation arrangements for such projects. Nevertheless, 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 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**

14. 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*

15. 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.

16. 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 payment 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*

17. 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 stimulate 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.

18. 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.

19. 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**

20. 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 of lead applicants and whether the R&D results are relevant to the industry.

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

22. 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, whether the project is carried out by another implementing organisation (which is usually an university).

We suggest that all parties concerned should, as far as possible, agree on the IP benefit sharing arrangements in writing before the commencement of the R&D project.

23. For universities and other designated local public research institutions (i.e. 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. As for R&D Centres, they may also retain their commercialisation income arising from ITF projects since 2017-18 for use in strategic activities to be endorsed by ITC, such as technology and market analyses, infrastructure

building, staff development or experimental projects, etc.

## **IP Arrangements for Collaborative Projects**

### **(a) Ownership and Licensing**

24. Under the PRP and the collaborative stream of TCFS and MHKJFS, 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. the local research institution) and the industry co-applicant. The lead applicant should seek prior consent of its industry co-applicant on any plans to promulgate the R&D results for non-commercial purposes (e.g. academic journals).

25. 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 co-applicant 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 co-applicant 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 co-applicant indicates that it will not proceed to raise its contribution to at least 50% of the project cost, the R&D Centre should be free to license the relevant R&D results to other companies after the expiry of the exclusive licence.

### **(b) Benefit-sharing**

26. 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 paragraph 22 above, except that such arrangements must be agreed in writing between the lead applicant and its industry co-applicant before the commencement of the project.



## **Application**

27. 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 advices and, where appropriate, approval from ITC. Each case will be considered on its own merit.

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

29. This Guide supersedes the “Guide on Intellectual Property Arrangements for Research and Development Projects Funded under the Innovation and Technology Fund” dated January 2019, and will be effective until further notice.

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

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