Guide on Intellectual Property (IP) Arrangements for Research and Development (R&D) Projects Funded Under the Innovation and Technology Support Programme (ITSP) of the Innovation and Technology Fund (ITF)

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) 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 four major funding programmes under the ITF, namely –

(a) ITSP – to support applied R&D projects undertaken mainly by universities, R&D Centres and other designated local public research institutions;

(b) University-Industry Collaboration Programme (UICP) – to support projects undertaken by private companies in collaboration with local universities;

(c) 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

(d) Small Entrepreneur Research Assistance Programme (SERAP) – to provide financing to support technology entrepreneurs and small enterprises to carry out R&D on innovation and technology.

3. There are separate guidelines promulgated on the funding arrangements for projects under the UICP, SERAP and GSP. This Guide is only applicable to projects under the ITSP.

ITSP

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

(a) six local universities engaged in R&D on technology and designated as local public research institutions, namely the Chinese University of Hong Kong, City University of Hong Kong, Hong Kong Baptist University, the Hong Kong Polytechnic University, the Hong Kong University of Science and Technology and the University of Hong Kong;

(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 R&D Centre for Information and Communications Technologies under the Hong Kong Applied Science and Technology Research Institute, the Hong Kong Research Institute of Textiles and Apparel, the Hong Kong R&D Centre for Logistics and Supply Chain Management Enabling Technologies, and the Nano and Advanced Materials Institute; and

(c) other designated local public research institutions, including 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).

Platform versus Collaborative Projects Under the ITSP

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

(a) <u>platform projects</u>, which require industry contribution of at least 10% of the project cost from at least two private companies. The industry sponsors will not be entitled to own the project IP; and

(b) collaborative projects, which require industry contribution of at least 30% (for R&D Centre projects) or 50% (for projects undertaken by universities and other designated research institutions) of the project cost. Depending on the amount of its contribution, the industry partner will be entitled to an exclusive right to utilise the project IP for a defined period or to own the IP.

6. The two types of projects have different objectives and funding models. Platform projects are intended for the benefit of the industry as a whole or certain sectors of it and a lower level of industry sponsorship - at least 10% - is required from at least two industry sponsors. Since up to 90% of the project funding is to be paid from public funds, it is natural that the project IP would be vested with the local research institutions; and upon completion of the projects, these local research institutions will have the responsibility to widely distribute the knowledge and the IP so generated. On the other hand, collaborative projects are intended to provide targeted support to the industry (or a company) in conducting R&D, realising/commercialising the IP and taking the R&D results to the market (or pushing these R&D results further towards realisation/commercialisation). These projects require a much higher level of industry contribution (at least 30% for those conducted by the R&D Centres or at least 50% for those conducted by other local research institutions), but the industry partner will either be entitled to an exclusive right to utilise the project IP for a defined period or own the IP outright. The ownership of the project IP will be vested with the industry partner if it contributes over 50% of the project cost, unless negotiated otherwise.

[Note: Under platform projects, there is also a special funding arrangement for Tier 3 (for local research institutions other than R&D Centres) and Seed projects (for R&D Centres) which are more exploratory and forward-looking in nature. Industry contribution is not required for these projects, and the IP arrangements are the same as those of platform projects.]

7. In general, the Innovation and Technology Commission (ITC) would leave it 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 IN REGARD TO ITSP PROJECTS

8. The majority of ITSP projects would entail the creation or use of IP. Our 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, so as to making a real impact to the industry/community. This Guide sets out the basic policy and arrangements pertaining to IP and related matters, in particular in regard to –

(a) ownership;

(b) licensing; and

(c) benefit-sharing arrangements.

We will elaborate further under the respective categories of platform versus collaborative projects, given their distinct objectives and funding arrangements. We hope we can on the one hand, provide a clear, transparent, fair and consistent framework for IP arrangements, and on the other, allow reasonable flexibility for local research institutions to tally with their own special circumstances.

IP ARRANGEMENTS FOR PLATFORM PROJECTS (INCLUDING SEED AND TIER 3 PROJECTS)

(a) Ownership

9. As a general rule, the ownership of the IP generated from platform projects should be vested with the local research institution concerned which is normally also the project applicant. This will allow the institutions to assume a proactive role in disseminating the R&D results and promoting commercialisation. Nonetheless, we understand that there are 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 actual circumstances of the case, at times there may be a better chance for realisation/commercialisation if the IP is vested with the university (but at others, vice versa). As such, we will provide the R&D Centres with the flexibility to negotiate with the universities and decide on the appropriate IP ownership and commercialisation arrangements

for such projects. Notwithstanding, the R&D Centre should normally retain a royalty-free right to use and commercialise the R&D results regardless of IP ownership, and these terms should be specifically set out in the funding application to ITC. Joint ownership should generally be avoided to minimise potential dispute in future. Local research institutions should seek special approval from ITC for other arrangements not set out above.

(b) Licensing

10. 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, this Guide also provides for local research institutions to enter into exclusive arrangements under special circumstances.

Non-exclusive Licensing

11. 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**. In fact, to facilitate information dissemination, the ITC maintains a dedicated web page which includes key information of all projects funded by the ITF, including the project proponents, project titles and dates, progress and major milestones, project results, etc.

12. Whilst ITC has not set a fixed formula for the level of licensing fees and other terms for licensing, the local research institutions should ensure interested companies are treated on an **equitable and proportional** basis 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 local research institutions 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 a local

research institution and its industry sponsors should, as far as possible, agree on the licensing arrangements in writing before the commencement of the R&D project.

Exclusive Licensing

13. 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. Circumstances may require an element of exclusivity in order to encourage more industry interest. However, this is an issue which should be handled carefully as we would need to minimise the possibility of abuse - if exclusive licences are frequently allowed for platform projects, companies may be discouraged from undertaking collaborative projects.

14. Local research institutions 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 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.

15. Upon approval, the local research institutions should duly comply with the conditions laid down by ITC, which normally require a competitive process to select the eventual licensee. Institutions will also be required to submit a report to ITC after awarding the exclusive licence or rights to a third party. Where possible, the local research institutions should retain a royalty-free right to use the R&D results for future research and educational purposes.

(c) Benefit-sharing

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

17. For universities and other designated local public research institutions (HKPC, CITA, VTC and HKIB), the Government does not request a share of the industry income. It can be retained by the institutions for further R&D and other public causes. However, in the case of R&D Centres, given their operation is funded entirely by the Government/ITF, their income will need to be ploughed back to the Government/ITF. 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.

18. To recognise industry sponsors 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) commensurating with the latter's level of contribution. Examples include early access to the R&D results, discount in future licensing fees, etc.

19. While ITC has not set any formula 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 12 above, we also suggest that the local research institution and its industry sponsor should, as far as possible, agree on the above arrangements in writing before the commencement of the R&D project.

IP ARRANGEMENTS FOR COLLABORATIVE PROJECTS

(a) Ownership and Licensing

20. As a general rule, provided that an industry partner contributes more than 50% of the project cost, it will be entitled to the ownership of the IP under the arrangements of a collaborative project unless otherwise agreed between the local research institution and its industry partner. The local research institution concerned should also seek prior consent of its industry partner on any plans to promulgate the R&D results for non-commercial purposes (e.g. academic journals).

21. As mentioned above, R&D Centres may undertake collaborative projects with a lower level of industry contribution, i.e. at least 30%. For projects which involve industry contribution of 30% up to 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 more than 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 more than 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

22. 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 16 to 19 above, except that such arrangements must be agreed between the local research institution and its industry partner before the commencement of the project.

APPLICATION

23. 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.

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

25. This Guide supersedes the 'Interim Guidelines on Commercialisation of ITF Projects' dated January 2007 and 'Guidelines on IP Arrangements' dated October 2007 and will be effective until further notice.

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

ITF Secretariat (ITSP Section)
Innovation and Technology Commission
21/F, West Wing, Central Government Offices
2 Tim Mei Avenue
Tamar, Hong Kong
Tel : (852) 3655 5725
E-mail : enquiry@itc.gov.hk

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