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

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) and the Midstream Research Programme for Universities (MRP) 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 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) MRP – to support universities funded by the University Grants Committee (UGC) to conduct theme-based midstream R&D projects in key technology areas;

(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

(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 funding arrangements for projects under the UICP, ESS and GSP. This Guide is only applicable to projects under the ITSP and the MRP.

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) 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 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).

MRP

5. 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.

Platform versus Collaborative Projects

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

(a) platform projects, which require industry contribution of at least 10% of the project cost from at least one private company. 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.

On the other hand, all MRP projects are platform projects with special funding arrangements under paragraph 8.

7. The two types of projects have different objectives and funding models. Platform projects are intended for the benefit of the industry collectively or certain sectors of it, and an industry sponsorship of at least 10% is required from at least one industry sponsor. Since up to 90% of the project is to be paid from public funds, the project IP would be vested with the local research institutions. Upon completion of the projects, these local research institutions are entrusted with the responsibility to widely disseminate or transfer 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 with a view to realising/commercialising the outcome and related IP. These collaborative 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), and the industry partner will either be entitled to an exclusive right to utilise the project IP for a specified period (subject to negotiations with the collaborating R&D centre or local research institution) or own such 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.

8. Tier 3 (for local research institutions other than R&D Centres) and Seed projects (for R&D Centres)[1] under the ITSP, as well as MRP projects (for

[1] Tier 3 and Seed projects are in general more exploratory and forward-looking in nature, and as such may have a less immediate potential for commercialisation or realisation than collaborative or platform projects.

UGC-funded universities), do not require industry contributions, and the IP arrangements are the same as those of platform projects.

9. 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

10. The majority of ITSP and MRP 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 in regard to –

(a) ownership;

(b) licensing; and

(c) benefit-sharing arrangements.

IP Arrangements for Platform Projects (including Seed and Tier 3 Projects under the ITSP and MRP Projects)

(a) Ownership

11. As a general rule, the ownership of the IP generated from platform projects should be vested with the local research institution concerned, who is also the lead applicant under the ITSP or the MRP. This will allow the lead applicant to assume a more proactive role in disseminating the R&D results and promoting commercialisation.

12. Nonetheless, 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, and vice versa. 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, 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. These 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

13. 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

14. 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.

15. 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

16. 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.

17. 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.

18. 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 third party 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

19. 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 ITF projects, which is to bring benefits to the industry and community, it is nonetheless a useful performance indicator of commercialisation efforts as it demonstrates whether the R&D results are relevant to the industry.

20. 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.

21. 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 commensurating 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, project carried out by another implementing organisation, which is usually an university.

As mentioned in paragraph 13 above, we also suggest that the lead applicant and its industry sponsor(s) 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

23. 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).

24. R&D Centres may also undertake collaborative projects with a lower level of industry contribution not less than 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

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

Application

26. 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.

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

28. This Guide supersedes the 'Guide on Intellectual Property Arrangements for Research and Development Projects Funded under the Innovation and Technology Support Programme of the Innovation and Technology Fund' dated August 2013, and will be effective until further notice.

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

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Innovation and Technology Commission
October 2017