Government and academic issues on IP rights and licensing in Europe

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Areas of comment

• Is there an expanding market for IP licensing in Europe?
• Who is licensing the IP, and why?
• Who owns the IP?
  – IP generated in academia
    • inventorship issues
  – EU-wide research funding and technology transfer activities
• Licensing, technology transfer and anti-trust issues in Europe
Is there an expanding market for IP licensing in Europe?

• Who knows?
  – Licensing agreements are, by their very nature, confidential
    • details are rarely collated into public domain databases (subscription or non-subscription)

• Anecdotal evidence exists, that “licensing is more popular now”, but little hard evidence

• Some information for specific industry sectors collated in niche products (e.g. Thomson DOLPHIN, RecapIP.com, Prous), but few national statistics
Sources of information on licensing activity

• US
  – RoyaltySource ® (based on SEC filings)
    • Royalty rates searchable database
    • Agreements database (subscription)
  – royaltystat ® (based on SEC filings)
    • database (subscription) of royalty rates and license agreements
    • Searchable by SIC
  – IP Research Associates Inc. (ipresearch.com)
    • Range of reports on typical royalty rates across industry sectors
Sources of information on licensing activity

• Non-US
    • Licensing activities at U.S. and Canadian universities, hospitals and research institutions

• LES Britain & Ireland knows of no corresponding sources for the UK

• National patent registers may contain details, but only accessible on a per-record basis; unsuitable for statistical study
INPADOC legal status codes pertaining to licensing

- Standard INPADOC PRS codes exist for
  - Australia, Brazil, Germany, “EPO”, Finland, France, Hungary, Ireland, Israel, Lithuania, Netherlands, New Zealand, Portugal, Slovenia, Spain, Switzerland, United Kingdom and USA

- No guarantee on timeliness of coverage or completeness of data
  - presence of field is no indication of how completely it is populated
Single-authority files

- IFICLS (STN), CRXX (QuestelOrbit), File 123 (Dialog)
  - Re-assignment, disclaimer, dedication to the public
- FRANCEPAT (STN)
  - Field for “Licensing Information” is available; completeness/timeliness unknown
Who is licensing the IP, and why?

  - company-level study across Germany, Switzerland and Austria
  - cites “Markets for technology: the economics of innovation and corporate strategy”, Arora A. et al. Cambridge: MIT Press, 2001 as providing data at the aggregate industry and country level
Lichtenhaler’s study

- Survey of 154 companies (42% automotive/machinery, 28% chemistry/pharma, 18% electronics/semiconductors, 12% other)
  - average c.15,000 employees
  - average revenues c. EUR 3,900 m.
- Why licence? Top three motivations:
  - 1. to gain freedom to operate, through cross-licensing agreements
  - 2. to gain access to another company’s technology portfolio
  - 3. to obtain entry into foreign markets
- “Generating revenues” ranks only 7th out of 11 listed motives for seeking license agreements
Did it work?

- Approx. 75% of firms surveyed obtained licensing revenues of less than EUR 5m. in their most recent financial year (median represented 0.5% of operating revenues).
- Development is not evenly spread
  - most firms reported “some increase” in licensing activity over the last 5 years
    - more than 50% of firms characterised this as “small or none”
    - but about 40% considered it “major”
Who owns the IP ? (Part I)

• “Cujus est dare, ejus est disponere” ?
  – “He who pays the piper, calls the tune”

• Raises questions of funding sources for research in Europe, and consequent ownership/disposition of the intellectual property rights arising therefrom.

• Public (tax) funding supports large amounts of academic and (particularly SME) commercial research in Europe
**Scale of public funding for UK universities**

- Most Ph.D. level research & a large proportion of post-doctorate research is supported by a network of Research Councils (administered by DIUS, Dept. for Innovation, Universities and Skills)
  - Support for chemistry
    - EPSRC (Engineering and Physical Sciences Research Council) ; £51.7m 2006-07
    - BBSRC (Biotechnology and Biological Sciences Research Council) ; £108.4m (all subjects, not differentiated) 2006-07
  - Unknown further amount comes direct from industry sponsors…
Source of funds for chemistry Ph.D tuition fees, UK universities 2005-06

- 32% Institutional waiver of support costs or no fees
- 25% Research Councils (EPSRC, BBSRC, other)
- 18% No award or financial backing
- 17% Other
- 5% UK industry/commerce and charitable foundations
- 3% Overseas government

Source: Higher Education Statistics Agency
University – business collaboration

• Newly formed DBERR (Dept. for Business, Enterprise & Regulatory Reform)
  – takes on responsibilities for productivity, business relations, competition and consumer rights (previously Dept. of Trade and Industry)
  – hosts a ‘toolkit’ for universities and companies wishing to undertake collaborative projects
    • ‘Lambert Agreements’; model contracts and guidance notes
Five “Lambert models”

- Models 1 to 3: University owns IP in results, plus
  - (model 1) grants a non-exclusive licence for the Sponsor to use the results in a specified business area (field) and/or a geographical area (territory), or
  - (model 2) licenses the Sponsor to use the results in a specified field and/or territory; Sponsor has option to acquire an exclusive licence in relation to certain results, or
  - (model 3) licenses the Sponsor to use the results in a specified field and/or territory; Sponsor has an option to take an assignment of the IP in certain results.

- Models 4 and 5: Sponsor owns IP in results, plus
  - (model 4) rights are reserved to allow the University to use the results for academic purposes (including academic publication) provided that patent filing is not jeopardised, or
  - (model 5) University has no right to publish the research results (Research Services Agreement)
Moving towards commercialisation

- Higher Education Funding Council for England (HEFCE) (+ equivalent bodies for Scotland, Wales and Northern Ireland)
  - Supported university “Challenge Funds” to promote commercialisation of university IP
  - HEFCE conducts annual HE-BCI (Higher Education-Business & Community Interaction) survey

- HE-BCI report for academic year 2005-06
  - over 9,000 active patents held by UK Higher Education Institutions (HEIs)
    - over half protect intellectual property outside the UK
  - commercial companies were granted nearly 1,400 licences to exploit IP from UK HEIs (including software licences)
  - licensing to non-commercial partners was at about the same level (accounts for c. 17% of IP income)
Spin-off companies

- HE-BCI report for academic year 2005-06
  - reported > 3,200 invention disclosures from HEIs
  - 187 spin-off companies were formed based on IP from UK HEIs
  - Number of new companies being formed is increasing
    - Survival rate (> 3 years) also increasing; up by c. 100 to 746
  - Formal spin-offs employ estd. 16,000 people with annual turnover of more than £500m.
- New companies formed:
  - Graduates 1,172; turnover c. £85m
  - Faculty staff c.58; turnover c. £27m.
IP licences granted by UK universities

Generated c. £36m; further £16m by sale of shares in spin-offs

Source: HE-BCI 2007 report, Part B, Table 4b
Success factors

• “Chemical science spin-outs from UK universities; review of critical success factors.”
  – Chemistry Leadership Council/ Royal Society of Chemistry 2005 report
  – majority of spin-outs showed only limited growth over three years; too many were dependent upon a single idea or patent, leaving a weak base for further expansion
  – there is a maturing approach to commercialisation, but most TTOs still lack credibility and expertise
  – lack of seed capital funding is a major problem
  – lack of clarity on IP ownership deters many small businesses from seeking collaboration with spin-outs
  – university long-term budgets required to administer expanding patent portfolios are not in place; maintenance and defence issues may be “a crisis…already in the making”
Who owns the IP? (Part II)

• The scale of funding for science and technology within the EU raises related, but more complex, issues
  – support for commercialisation may be influenced by national policy/procedures, even when funding comes from the EU level
    • e.g. differing employee-inventor laws, particularly for academics
  – trans-national research budgets may impose specific inter-national commercial relationships
    • e.g. “Framework” programme (run since 1984) requires multiple national partners as part of the grant application; the EU has 23 official languages
### The EU Framework programmes

- **Seventh Framework round, 2007-2013**
  - Overall budget of EUR 50,521m
    - Co-operation programmes EUR 32,413m (Council Decision 2006/971/EC)
      - to stimulate cooperation and improve links between industry and research
      - nine targeted research areas
    - Typically require partners from >1 member state to collaborate one each project
  - See [http://ec.europa.eu/research/fp7/index_en.cfm](http://ec.europa.eu/research/fp7/index_en.cfm) for details

- **Earlier Framework rounds revealed a lack of awareness amongst grant recipients of the IP implications of the work**
  - led to the development of the IPR Helpdesk during the Sixth round, now run as an semi-independent organisation
IPR HelpDesk
(www.ipr-helpdesk.org)
SME advice page – IP issues in the Framework programmes

IP issues in the Framework Programmes

Participation
- Critical issues for SMEs’ participation in FP6 projects
- The New Definition of Small and Medium-Sized Enterprises (SMEs)
- Co-operative and Collective Research Projects within FP6

Before the project starts
- FP6 - Intellectual Property-related issues at the proposal stage
- Confidentiality Agreements
- FP7 - Intellectual Property-related issues at the proposal stage
- Confidentiality Agreement Model
- How IP rules work in FP7
- Issues of confidentiality under FP7

Implementation of the project:
- Protection and Exploitation of Patents and Utility Models in the FP6
- Affiliates’ Access Rights under FP6

After the project ends
- Requirements and ways of disseminating knowledge
- Community financial contribution for the use of FP6 project results
- Survey of technology transfer means for the exploitation of project results under FP6
- Core Content of Licensing Agreements
- Entities in charge of the exploitation of RTD results
- ‘Spin-offs’ as an option for exploiting research results
- European Economic Interest Grouping (EEIG)
- Alternative Dispute Resolution systems as means to solve IP-related conflicts
Licensing, technology transfer and anti-trust issues in Europe

• Since 1992, the EU has been considered one territory for the purposes of trade in goods
• The European Court of Justice (ECJ) has clearly stated that intellectual property rights are exhausted Community-wide when a patented product is brought on the market in one member state; parallel importing can occur between member states of the EU.
• Implication: complex interplay between IPR, licensing and (un)lawful inter-company agreements in Europe
EU anti-trust: Article 81 EU Treaty

• Article 81(1) prohibits actions and agreements between companies which may prevent, restrict or distort competition, particularly:
  – (a) price fixing cartels
  – (b) production controls (including limits on technical development)
  – (c) market-sharing or product-sourcing arrangements
  – (d) discriminatory pricing
  – (e) tying arrangements (cf. Illinois Tool Works Inc -v- Independent Ink Inc.)

• Article 81(3) declares that Art. 81(1) will **not** apply if such actions and agreements can be shown to “improve production or distribution of goods” or “promote technical…progress”, subject to certain restrictions.

• Result:
  – Agreement-makers need guidance on whether their (proposed) agreement will be caught by 81(1) or exempted by 81(3)
  – Evolving EU policy on IPR licence agreements dates back to 1962
  – Several cycles of “technology transfer block exemption regulations” (TTBER)
Commission Regulation (EC) No. 240/96

• Updated and replaced earlier ‘block exemption regulations’
  – Designed to exempt most license agreements from Art. 81(1) prohibition, by bringing them within the ‘beneficial effects’ arguments of Art. 81(3) criteria.
  – Constructed several sets of model clauses
    • ‘white list’ – contractual obligations not normally restrictive of competition
    • ‘black list’ – contractual obligations which took the license agreement outside the scope of block exemption
      – individual EU clearance procedure required
    • ‘grey list’ – any other contractual obligations not specified in the white list
      – parties to agreement notified Commission and could claim benefit of block exemption if Commission did not oppose within 4 months

• Considered the application of Art. 81(3) to research and development agreements
• Covers products and processes up to the stage of industrial application, including contractual provisions for exploitation of results
  – rarely gives rise to competition concerns, except where parties may agree not to carry out R&D in the same field
• Will remain in force until 31 Dec 2010

- Introduces a ‘safe harbour’ element
  - Block exemption for certain agreements entered into “by undertakings lacking market power”
    - involves complex assessments of ‘market power’
  - Only covers bilateral agreements (not multi-party licenses)
  - Now covers patent, know-how and software licenses
    - ‘patents’ defined to include designs, utility models, semiconductor topographies, SPCs and plant breeders rights
Commission Regulation No. 772/2004

- Technology transfer agreements which come within the safe harbour of the TTBER are presumed valid and enforceable
  - no further compliance procedures.
- If the agreement falls *outside* the safe harbour, it is not automatically assumed to be infringement of Art. 81(1)
  - parties to the agreement must undertake a ‘self-assessment’ exercise to determine whether Art. 81(3) criteria are satisfied
    - if they get it wrong, and the agreement is challenged, it may be rendered void and unenforceable.
    - the ‘failsafe’ procedure of Regn. 240/96 is no longer there
Further reading

Summary

• There is some evidence to suggest that IPR licensing is becoming more common in Europe – but the benefits are unevenly spread
• Much research work in academia is ultimately funded by public taxation – ownership of IP rights needs to be clarified
• Industrial research may have EU backing – SMEs need guidance on ownership of results
• Licensing regime in Europe is complicated by EU ‘single-market’ regulations
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