

PARTNERING FOR COMMERCIAL ADVANTAGE

Developing intellectual property
with others





Contents

Introduction	4
1. Collaboration	5
What are the pros and cons of collaborating?	6
What legal documentation should we be considering?	6
What IP ownership aspects should we be considering?	8
Summary	9
2. Concepts in collaborative working	10
What are the typical terms to describe IP in collaboration agreements?	11
Can I 'ring-fence' my background IP?	12
What about background IP that isn't owned by a collaborator?	12
Why is IP searching important, and what searches should I perform?	13
Are there risks after the project has finished?	14
Summary	15
3. Transfer of IP rights	16
What types of ownership and usage arrangements can be negotiated for my IP?	17
How do assignments and licences differ?	17
What are the different types of licences?	18
What flexibility do I have in terms of how licences are formulated?	19
What sort of complications typically arise with licensing?	20
Summary	22
5. Master checklist for collaborations	23
Making sure you cover all the basics	24
6. Where do I get help?	25

Introduction

Many businesses find the process of innovation difficult to execute single-handedly. Some do not have all the resources in-house to take an idea through research and development to commercialisation. For others, the challenge lies in successfully incorporating external inventions that meet a market need within an existing product or service portfolio. Whatever your motivation for working with others: how can you gain and retain control to make sure your collaboration is a success?

Where security and confidentiality are important, as is often the case with ideas that are rich in intellectual property, it can be tempting to try to manage the innovation process in-house from start to finish. However, unless you are very well resourced, this may simply be too slow a route to market. Accordingly, both mature businesses and early-stage companies with financial constraints find it a more successful strategy to seek out enterprising ways of meeting market demand, and stay ahead of their competitors, by working with external partners.

Collaborations may take many different forms. You may wish to tap into academic research expertise, license-in external IP, license-out your own IP rights, or work with a sub-contractor (such as a manufacturer, designer, software engineer, photographer or website developer). In such cases, you will find that although IP rights are intangible assets, they can be used to leverage commercial value in a company just like tangible assets.

Whenever you are collaborating with others, it's important to manage the knowledge brought to or created by your project with care. Otherwise, it may be difficult to speak openly about, protect, commercialise or prevent future use of this knowledge.

Overall, trust and knowledge are key to any successful relationship. It is important to choose your partners wisely, conduct some basic due diligence before entering into a partnership and, wherever appropriate, put in place professionally drafted legal agreements. Every collaboration is different—but this guide, in conjunction with others in this series, will help you get the basics right.

Produced by IPOS International, these intellectual property management (IPM) business guides aim to deliver a suite of IP solutions for enterprises based on industry best practices. As the expertise and enterprise engagement arm of the Intellectual Property Office of Singapore (IPOS), IPOS International helps enterprises and industries use IP and intangible assets for business growth. Some of these engagements may be eligible for Enterprise Singapore (ESG) funding, such as the intangible asset audit and strategy development aligned with business goals. IPOS International's business portal www.iposinternational.com also contains case studies and videos of enterprises leveraging IP to gain a competitive edge in their innovations. Should you have questions on IPM matters or wish to speak with our Intellectual Property Strategists, do email us at enquiry@iposinternational.com or call +65 63308660.



Collaboration



01



1. Collaboration

What are the pros and cons of collaborating?

Innovation is becoming increasingly collaborative. It is often the case that a single organisation does not have all the resources and skills required for the end-to-end delivery of a product or service, and partners are required. Businesses, industrial corporations, lone inventors and academia can all be involved in getting ideas to market.

There are many benefits of collaborating, including the ability to bring in new ideas and approaches, combine technical expertise, pool IP rights and shorten the time needed to bring an innovation to market. In many cases, due to limitations of a company's size, reach or expertise, some sort of joint working is essential for commercial success.

However, in respect of IP and ongoing ownership rights, collaborations complicate the situation. No longer are you the only company with rights. In particular, joint development can introduce risk, as two or more parties may split the rights to the IP that is developed. Depending on how ownership is divided up, this can lead to difficulties over exploitation.

Some IP collaborations may be envisaged as long-term business partnerships from the outset, such as research partnerships, licensing, manufacturing or franchising agreements. There is nothing wrong with starting off a project with fairly tactical, short-term aims; however, if such a project discovers something significant and IP is generated, then the relationship could well last as long as the IP, with all parties having a stake and a degree of ownership in the outcome.

As well as ownership, discussed in the following sections, it is important to set out how any IP to be developed in a collaborative project will overcome problems or limitations with the current 'state of the art'.

“Collaborations have a number of benefits but can complicate IP ownership”

It is also critical to identify suitable partners for your intended project, conduct appropriate background checks, understand and address risks that may arise during the collaboration and actively manage the protection and exploitation of any IP generated.




What legal documentation should we be considering?

Given the importance and closeness of the relationship in a productive collaboration, it is wise to anticipate that a number of legal agreements may be required. As well as the collaboration agreement itself, you will probably want to perform background checks and use non-disclosure and materials transfer agreements where appropriate.

“ It’s worth taking time and effort to get the right documentation in place at the outset, as it can prevent disagreements downstream ”

Trust and knowledge are just as important in a business partnership as they are in any other relationship, so it is important to choose your partners wisely and investigate their credentials before entering into a formal agreement. Make sure you know the standing and status of the legal entity with which you are dealing; for example, a company or subsidiary with no assets will offer little in way of security, no matter how tightly your contracts set out consequences of breach of contract or enforcement of terms, such as non-payment/delivery.

In addition to due diligence work, it is good practice to sign certain agreements at an early stage.

 Non-Disclosure Agreements (NDAs), Memoranda of Understanding (MoUs) and even Material Transfer Agreements (MTAs) are often helpful to both parties in mitigating risks during negotiations.

Signing a mutual non-disclosure agreement (NDA), in particular, before any serious negotiations begin will reduce the risks of possible leakage of valuable information for both parties. It will also allow participants to speak more openly about their objectives. Use of an NDA is particularly important if there is a possibility that the information may form the basis of a patent or registered design application, as prior public disclosure in such cases may make the obtaining of such rights impossible.

Ensuring NDAs are in place early also allows collaborators to disclose and share IP, know-how or other information that may be commercially important, but not protectable using IP rights, such as relevant market research findings. Details of what is contained in a typical NDA, and why its use is important, are covered in an accompanying guide—**Managing Your Most Valuable Assets**.

A collaboration agreement should be agreed also before the start of a project. A typical collaboration agreement addresses the following points (not exhaustive) (Figure 1):

PARTIES	<ul style="list-style-type: none"> • Set out parties to the agreement, including any subcontractors.
DEFINITION OF IP	<ul style="list-style-type: none"> • What is the nature of the background IP?
SUBJECT MATTER OF COLLABORATION	<ul style="list-style-type: none"> • Identify each party’s expected contribution (financial; research; dissemination).
FINANCIAL/MANAGEMENT/RESPONSIBILITIES AND DELIVERABLES	<ul style="list-style-type: none"> • Include details of who is responsible for filing and costs for IP registration (for example Patent). • Include parties expected contribution to project.
DEALING WITH RISKS	<ul style="list-style-type: none"> • Internal conflicts / disputes — include means of dealing with consortium disputes (mediation / get-out clause).
OWNERSHIP OF IP	<ul style="list-style-type: none"> • Background and foreground — this should include declarations of possible third-party rights to earlier and future IP.
PROTECTION, USE AND EXPLOITATION OF IP	<ul style="list-style-type: none"> • Who owns what in relation to foreground IP? • Who covers costs for filing? • Who owns foreground IP (applicant name)? • Who has the right to exploit (license or sell)?
CONFIDENTIALITY	<ul style="list-style-type: none"> • Set out the confidentiality terms to be adhered to by parties, party employee and subcontractors.

Figure 1. Typical elements within a collaboration agreement

1. Collaboration

What IP ownership aspects should we be considering?

It is important to work out not only who will own what during the period of active collaboration, but also what access parties will have to IP that they do not own—both during the project and afterwards.

Failure to define ownership and permitted usage of IP rights at the outset of any collaboration can cause future problems. There are

variations amongst national laws on the question of 'default' ownership of IP rights when contracted or collaborative work is involved, as well as different rules for each type of IP right. Additionally, collaborative research funded by grants may carry standard contractual terms on ownership, which, unless re-negotiated at the outset, may be unduly favourable to one party.

It is therefore important to include specific clauses in any collaboration agreement clarifying the intended ownership of future rights over creative or inventive work that results from the agreement and to do this at the start.

There are a few more general points worth considering when entering into new collaborations, especially if these start to involve joint development of IP (commercial or academic). In many jurisdictions, we have observed that when IP is owned by more than one party, parties tend to own such IP in equal parts. This means that one entity owns half of the IP outright and the other party owns the other half, rather than both parties owning all the asset simultaneously.

The practical consequence of this ownership position is that, unless there is an agreement to the contrary, neither party can exploit, license, assign or otherwise make use of the IP in question without the agreement of the other party. This is why ownership by more than one party is generally seen as something to be avoided if at all possible — it makes prosecution, protection and enforcement of your rights much harder. It is recommended that parties should negotiate and agree in advance on the ownership and how IP may be managed during the course of commercialisation. For example, which party will own the IP right, how to finance and manage the prosecution or enforcement processes, how may a party use the IP etc.



“Even though you pay for a piece of work, you may not own the resultant IP due to variations in national laws on ownership”

Legal agreements in academic collaborations should cover individual university-employed inventors, undergraduates and the institutions themselves, to be sure ownership is not ambiguous. Such agreements should also be clear on who will take responsibility for filing/prosecution of any patent filing or other application for IP rights (including costs), who decides what IP protection will be sought in which countries, and who has the right to sue for infringement.



SUMMARY

The following summary highlights guidelines to bear in mind when looking to maintain your competitive advantage with IP:

Choose your collaboration partners carefully

Do your due diligence

Use legal agreements appropriately

Agree on IP ownership early on

Consider IP ownership by university undergraduates



Concepts in collaborative working

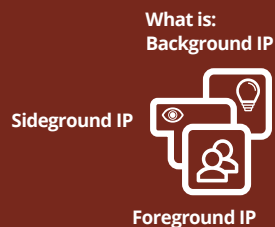


02

What are the typical terms to describe IP in collaboration agreements?

During any creative or inventive process involving different parties, you need to know who controls which IP rights. This is important so that you can take appropriate action to manage your ownership, and work out how to avoid possible future disputes over new IP created in the course of collaborating.

Formalised collaborations can take many forms, such as consortium, franchise, manufacturing, subcontracting or licensing agreements. Whilst the purpose and outcome of these agreements may be different, they often have standard terms and definitions for the management of IP rights in common, in particular, the use of three key terms: background, foreground and (occasionally) sideground IP. These are especially likely to feature in joint development agreements or R&D projects with research institutions, so it is important to understand what they mean and what usage and ownership rights are being requested or proposed.



Background IP is the IP of a party that has been generated before the collaboration commences. It may also cover IP that is generated outside, but during the term of the collaboration (unless this is separately described as sideground IP—see below). This may relate to registered IP rights, copyright (such as software) or unregistered intangible assets such as know-how.

It is important to set out the nature of the background IP (in a suitable section of a collaboration agreement) at the outset, to ensure there is no confusion over ownership or access to things you already know and use, either during or after the proposed project. Your background IP is what you are bringing to the table: your collaborator's background IP is what they are bringing.

Foreground (or resulting) IP is often defined as IP rights of any description arising from and developed in the course of the collaboration or project by any of the parties. It is treatment of these rights (and the background IP required to use/access these rights) that will be important for the parties to agree, in terms of protection, use and exploitation rights. For the reasons outlined in the previous chapter of this guide, it may make sense for protection of the rights to be overseen by one party (and one applicant) to avoid complications later, and for exploitation rights to be limited to a particular sector or territory for the parties.

Sideground IP is IP developed during the term of a collaborative project that is not part of the project scope, and so is not foreground IP (and is therefore not subject to any undertaking agreed in respect of foreground IP). It is advisable to include a clause in a collaboration agreement to emphasise that parties must seek the right of use of such sideground IP directly in writing from the owner, to ensure there is no confusion with background or foreground IP rights.

“Once you are clear on the terminology, make sure you understand what you expect ‘background’ and ‘foreground’ IP to mean in practice”

2. Concepts in collaborative working

Can I 'ring-fence' my background IP?

You may own IP that is critical to the success of a collaborative project. You will want to maintain control over what's yours—but you also want to make sure that you have access to background IP belonging to your fellow partners. They will feel the same way about your IP and theirs.

For the most part, all parties will wish to ensure they are not prevented from using any foreground IP rights generated in a collaboration agreement once the project has stopped because someone owns essential background IP to which there is no longer access. Appropriate terms are needed to set out access rights to both foreground and background IP. If the background IP is particularly important, the parties may conduct due diligence on each other's assets to confirm that their future use will not be compromised, for example by an existing exclusive licence or assignment with a third party.

Background IP should be defined in a collaborative agreement, in order to ensure the parties to the agreement understand what IP was in existence before the start of the project and, importantly, who owns it. It is worthwhile setting out details of the background IP, as well as any rights to use and access the background IP for the project (for example, you may want to limit use of the background IP just to research and development, and exclude commercial uses). Access may also be limited to the duration of the project only, or if not, should state for what purposes it is permitted, and for how long.

Access to the background IP will often be contained in a separate licence agreement (exclusive or non-exclusive). It may be limited by time, sector and/or geography.

What about background IP that isn't owned by a collaborator?

Often, different parties to the collaboration will bring IP to the agreement. However, sometimes, they may not own the IP outright—some of it may be licensed in from other sources.

External IP may be required that is crucial to a collaboration. For example, a party with exclusive

rights to IP (by way of an exclusive licence from an external party) may offer to bring and use these rights in your collaboration. However, do they have permission to use the IP for this particular purpose? Their exclusive licence may limit use of the IP to a particular sector or territory that does not cover the scope of your proposed collaboration.

“Ensure adequate protection for any background IP before it is disclosed to another party”

“Make sure that you have the licence to use your collaborator's existing IP for the purposes of the collaboration—and for exploitation of the resulting product or technology”

This example illustrates why it is important to conduct due diligence on all IP to be used during a collaboration. Just because someone says it is their IP to use—have you taken time to check?

Obtaining IP ownership of background IP is not necessarily essential for your project. It is possible that the goals of a project can be met simply by being able to use a piece of IP and therefore the terms on which access rights are granted are critical. IP agreements should, therefore, be negotiated for key background IP on a case-by-case basis.

Why is IP searching important, and what searches should I perform?

Conducting market research for your business plan is commonly accepted to be part of developing an effective strategy, and the same applies to IP. It is important to understand the landscape and assess the state of the art before you invest collaborative time, money and effort developing IP that may already exist. It may already be protected heavily by others, putting you at risk of future infringement of their rights.



Patent databases

Patent databases such as Espacenet offer free access to more than 90 million patent documents worldwide, containing information about inventions and technical developments from 1836 to today. This is an invaluable source of intelligence: just because a product is not available on the market, it does not mean that it has not been patented (or published) previously. There is no point in ‘reinventing the wheel’ when you may be able to access an innovation more easily and cheaply by licensing access to or buying IP rights from the IP holder.

“ Use of IP databases can help you to identify IP of interest, design around prior IP rights, avoid infringing acts and keep track of competitor activity. ”

Additionally, it is commercially important to detect any risks presented by existing third-party rights by conducting basic IP checks before you become guilty of an infringing act (which may include making, disposing of, offering to dispose of, using or importing a product, or keeping it—whether for disposal or otherwise) and which may have criminal or civil law consequences. Another guide in this series covering IP intelligence gathering details how you can perform searches of patents and other registered IP rights, to discover whether the proposed subject of the collaboration is actually novel, and also to access the IP landscape of the area that is going to be investigated.



If you seek a grant or other finance to fund any collaborative research, your evaluator will generally seek proof of how innovative your proposed collaboration is likely to be. To help with this, it is important to set out the state of the art. This typically involves searching patent databases, scientific literature and market data to analyse the landscape and potential market for your proposed innovation, in order to check the quality of your proposed collaboration—as well as whether there is a genuine market need.

2. Concepts in collaborative working

An evaluator will also require a description of the collaborative project's objectives, the problems to be overcome and details of how (and by whom) your resulting IP will be protected and exploited. It is important, therefore, before any collaboration commences, to determine how the results of any collaboration differ from the prior art as well as how you propose to overcome likely hurdles during development.

Are there risks after the project has finished?

You may have negotiated access to your collaborators' background IP during the collaboration and used it, together with your own efforts, to produce some very useful foreground IP to which you now have rights. Once the collaboration finishes, though,

can you use your foreground IP without infringing your collaborators' background rights?

It is not uncommon to find that once a collaboration ends, you no longer have any rights to use your collaborators' background IP and this may, in turn, make it impossible to use the foreground IP you generated during the project without permission or a license from your (now former) collaborator. If this situation is not anticipated and accommodated early on, it could leave you in a weak negotiating position, having to accept harsh conditions to be able to continue to use the results from the collaboration.

For this reason, R&D collaboration agreements should always establish what IP access rights and obligations each party will have to the other on an ongoing basis after the project has finished. It is common for the agreement to state that during the project, a royalty-free licence to each party's background IP will be provided, and that once the project has finished, a licence will be provided on fair, reasonable and non-discriminatory (FRAND) terms—i.e. a licence cannot be refused, although a payment may be insisted upon.



“It is important to consider whether you will still need access to your collaborators' background IP once the project has finished”

This provides what is generally regarded to be a fair way of ensuring that there is some financial compensation for the ongoing contribution made by other people towards the project's outcomes, even if they are no longer directly involved in it.



SUMMARY

The following summary is a reminder of the three key types of IP involved in collaborative working. You need to understand their meaning and be able to determine how they apply to your particular situation, at the time that you formulate collaborative agreements.

Background IP

- IP owned by one of the collaborators that existed before the project starts or is generated outside the project
- Essential for the project
- Access may be required for all collaborators both during the project and afterwards if the results of the project are to be exploited

Foreground IP

- IP arising from the project
- All collaborators need to agree on who owns and who has which rights to use/exploit and sell going forward
- Best practice is to avoid shared ownership if possible

Sideground IP

- New IP generated while the project is running by one of the parties to the collaboration
- Not developed during the collaboration itself
- Other collaborators have no access or rights to sideground IP



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