Drafting techniques – and how to write a good IP-provision

Transcript of video

By Jannicke Persen, UiT The Arctic University of Norway

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Often contracts go back and forth between the parties and it often takes time to conclude a research contract. This is not just mere wordsmithing. Even minor drafting revisions in the contract can shift the risk between the parties.

The party drafting the contract has significant advantage over the party receiving the contract. When drafting, keep the contract simple – in terms that people with no legal background will be able to understand.

Representations, warranties, covenants and conditions are all risk allocation mechanisms in the contract.

The first example of shifting risk is when drafting the obligations of the parties.

In version 1, the university shall secure finance from the EU for the project. This is equivalent to a flat representation. It is the university's absolute promise to obtain finance from the EU for the research project. The promise is very high risk for the university, as it has no control over the outcome. The EU has no obligation to provide finance to the project, and an application for finance could easily be rejected. Because the university has no control, the university risks breaching the obligation.

Therefore, when drafting for the university, you would want to reduce the risk by reducing the degree of obligation. However, from the other party's perspective, this is a terrific obligation, because if the university does not secure EU finance, the other party has the right to sue for damages.

Version 2 changes the university's risk, because it is no longer a requirement that the university will secure finance. Instead, the university must have tried to secure finance and must have used its best efforts in that endeavour. Nonetheless, it still sets a high standard of performance for the university.

Version 3 eliminates the obligation for the university to secure finance. Instead, the university now simply has to apply for finance.

As you see in this example, changing a phrase will also change the standard of liability. If the standard is not met, the other party may sue the university.

Securing finance for a research project is important in order for the project to be carried out. Because of this, contracts are often not entered into by the parties until finance is secured. However,

it is often useful to enter into contract arrangements before finance is secured. It might be necessary to exchange confidential information in order to work on the application, or the parties will have some costs associated with the application. Then it can be practical to make the provision regarding finance as a condition for further collaboration like we have done here:
"If the University secures finance from the EU for the project, the parties will enter into a research collaboration".

A condition is a state of fact that must exist before a party is obligated to perform. If the state of facts does not exist, the obligation to perform is not triggered. In order for it to be a condition, it cannot be certain to occur. By agreeing to a condition, the parties have agreed that there is no duty to perform if the condition is not satisfied.
The difference in drafting a provision as a condition rather than an obligation, is that if an obligation is breached, the other party is still bound to the contract but is entitled to damages. However if the provision is a condition and the condition is not met, then the contract is terminated without any right to claim damages.

Another familiar aspect with research projects is reporting obligations.
Version 1 is a high risk for the university as the standard of 'satisfactory to the sponsor' is an unfettered discretion for the sponsor in deciding whether the report is acceptable.
Version 2 is somewhat less risky for the university, as the standard has changed to what a reasonable person would think is acceptable. Therefore, it is no longer just the sponsor's opinion in what is acceptable.
Version 3, however, substantially reduces the risk for the university, as the university now knows exactly what is required.

Researchers should expect to be able to build on the results of their own research in further research. On the opposite side, industry partners and sponsors may want the rights to results of the research because they want to license an application that uses the results.
When negotiating intellectual property on behalf of the university, you should try to obtain full rights to the results in order to be able to use them in further research and education. You can then allow industry partners and sponsors as much commercial advantage as possible, subject to a reasonable revenue return to the University. For example, you could allow the industry partner to use the results exclusively within their specific commercial field, but make sure that you are not granting exclusivity without limiting the field, as this may prevent you from licensing the results in other areas.
Intellectual property is sometimes defined in the definition provision of the agreement. A definition

states the meaning of a word or a phrase, and is used to ensure that the word has the same meaning throughout the agreement.
Although definitions are not legally binding standing on their own, a definition may expand or limit the dictionary meaning of a word. Therefore, it might be drafted strategically in the contract and each time a definition changes, so does a party's rights and obligations.

Let's look at an example:
In this agreement, 'invention' was defined in the definition provision. The definition included 'any new derived substances'. Later in the agreement, it was stated that the collaborator would gain all rights to inventions in the project. Here it was a question of how the definition should be interpreted as 'any new derived substances' could have several meanings. It could be interpreted as something that could be made from the original substance. This understanding would limit the rights of the collaborator and was not very problematic for the university. It could, however, also be interpreted as something that is similar to the original substance. This understanding would extend the rights of the collaborator substantially and limit the university in any new projects on similar substances.
When speaking of intellectual property rights, you will often meet division of IP rights into Background Intellectual Property and Foreground Intellectual Property or results.
Background IP is intellectual property already created by the party before the research project, which the party will bring into the research collaboration in order to carry out the project.
Foreground IP or results are the tangible and intangible results which are generated within the research project. It includes results that can be patented or otherwise protected, and results that cannot be protected, like unprotected know-how. Results generated outside the research project are not foreground IP. Such results that have been created after the commencement of the research project but outside of the project, are defined as 'sideground IP'.
When the agreement has a division between background and foreground IP, it is important that you define your background in the agreement or in an annex to the agreement. The reasoning behind this is that the agreement generally states that each participant owns its own background IP, while ownership of foreground IP will vary from contract to contract.
Background IP that you fail to identify will in some cases be interpreted to be foreground IP, which may lead to you losing ownership of your background IP.
There are several ways to decide who owns the results created in the project. It is also one of the key issues in the negotiation process.

Let's look at some examples commonly used in contracts.

In the EU's standard agreements they use two options:
The first option states that results are owned by the party that generates them. It might be difficult to determine who has generated the results if they are done in collaboration with others. If it is not clear, the other option is joint ownership. Unless otherwise agreed, all joint owners can then use the results as they wish for non-commercial purposes without requiring prior consent from the other owners.

Other options are to give the rights to results to:
- The party who has contributed with dominant background
- The party who already has IP that covers the results, or
- The party who has commercial interest in the results

All these options are unclear on which party will own the results, and it will have to be decided during the research project. Dominant background, IP that covers the results and commercial interest are vague terms and can lead to different interpretations.
Another way to decide is to let the board decide on ownership of results. If you go for this option, you will lose all control in deciding ownership of the results, as it may be given to other parties even if you have done the majority of work. If you go for this option, at least ensure that the university has members in the board.
To avoid ambiguity, the best solution is to name the party who will have the rights to the results. This is a typical provision regarding ownership of results. It states that "Each consortium participant will have the ownership rights to the Project results produced by that participant, its employees or suppliers."

It is an unproblematic provision if it's easy to decide who has produced the results. The challenge is when several participants have contributed to the project result.
In this example, the agreement gives you the choice of two options. The first option passes the ownership to the participant that has made the largest professional contribution to the results. The other option passes the ownership to the participants that have contributed to the project result in collaboration, i.e. 'joint ownership'.
Both these alternatives leave the discussion of ownership to a later stage in the process. It may be difficult to decide on who has made the largest contribution in the project. In both options, it is necessary to enter into a new agreement.
Some examples of clear and unambiguous solutions are to either let the university own the results, but let the commercial party have an exclusive user right to the results in a specific area, or

let the commercial party own the results, but keep user rights for the results for further education and research for the university.