

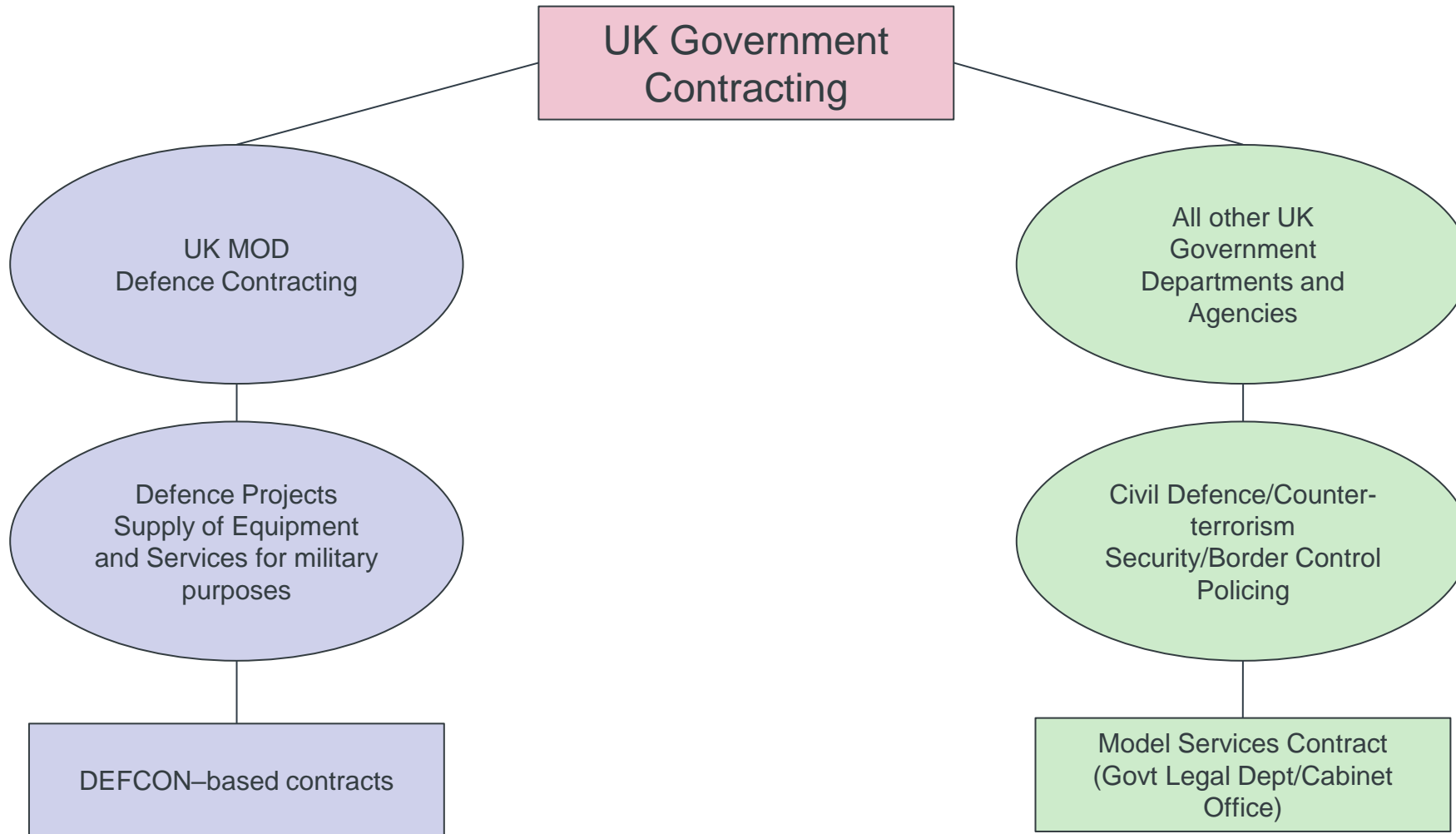
Bird & Bird

An overview of UK government's approach to IP contracting

28 June 2022

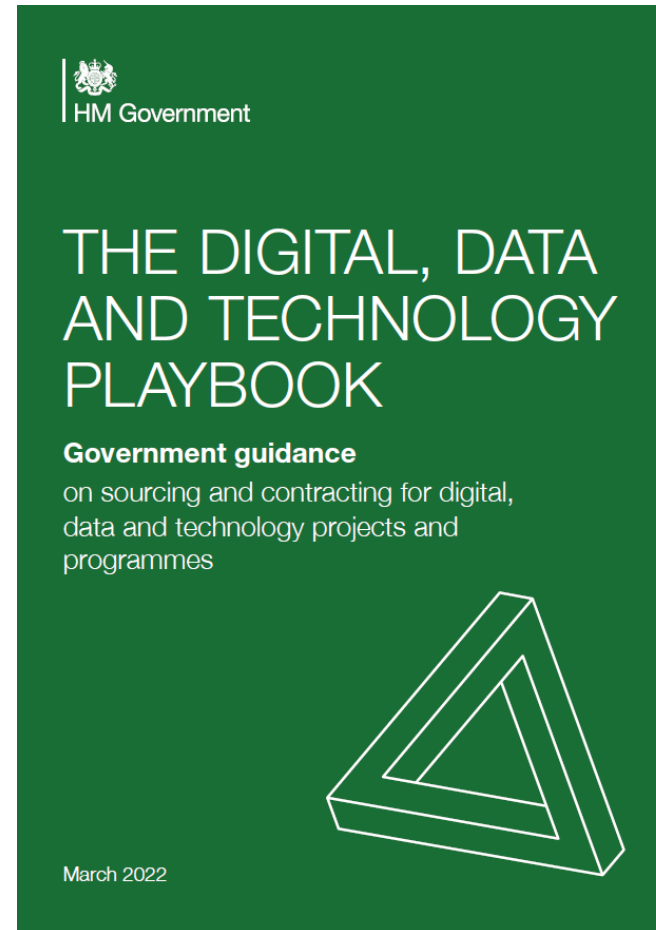


Defence and Non-Defence Contracting



Digital Data and Technology Playbook

- Cabinet Office guidance (published in March 2022) on contracting for digital, data and technology projects and programmes.
- Designed to encourage adoption of best practices and consistent approaches across government.
- Approach is reflected in new edition of Model Services Contract (published in April 2022) in many areas, including IP
- Growing influence in MOD contracting



Key aspects of Playbook's approach to IP contracting

- Key emphasis on to **maintaining a competitive market**. Ownership/licensing rights must be sufficient to allow effective re-tendering and avoid being locked in to a single supplier solution
- **IP ownership** – a more agnostic approach?
 - IP should be owned by party best able to exploit it...
 - but encourages a move away from binary interpretations (i.e. that this means Contractor should always own). Benefits and risks should be assessed on a case by case basis.

"Government needs to move away from binary interpretations of IP ownership and instead consider this on a case-by-case basis to maximise long-term value. Strategies for IP should consider possibly contradictory commercial benefits, risks and unintended consequences."

Ownership of IP –weighing commercial benefits and risks

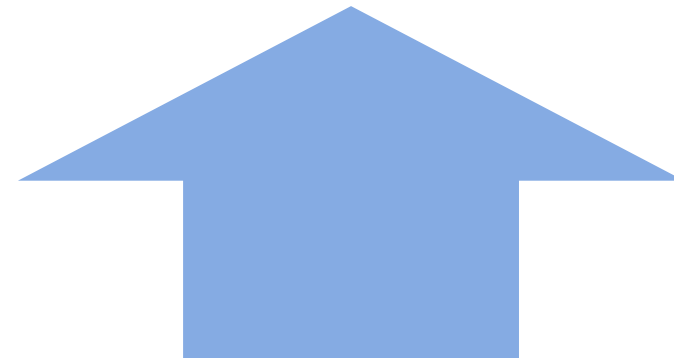


Authority owns foreground IP

- Security concerns
- Allows close management and control
- More pragmatic where Authority contributing IP
- Wider public benefit

Contractor owns foreground IP

- Lower bid/contract price
- Encourages delivery of best solutions and ideas
- Royalty sharing opportunities for government



Key aspects of MoD's Policy on IP



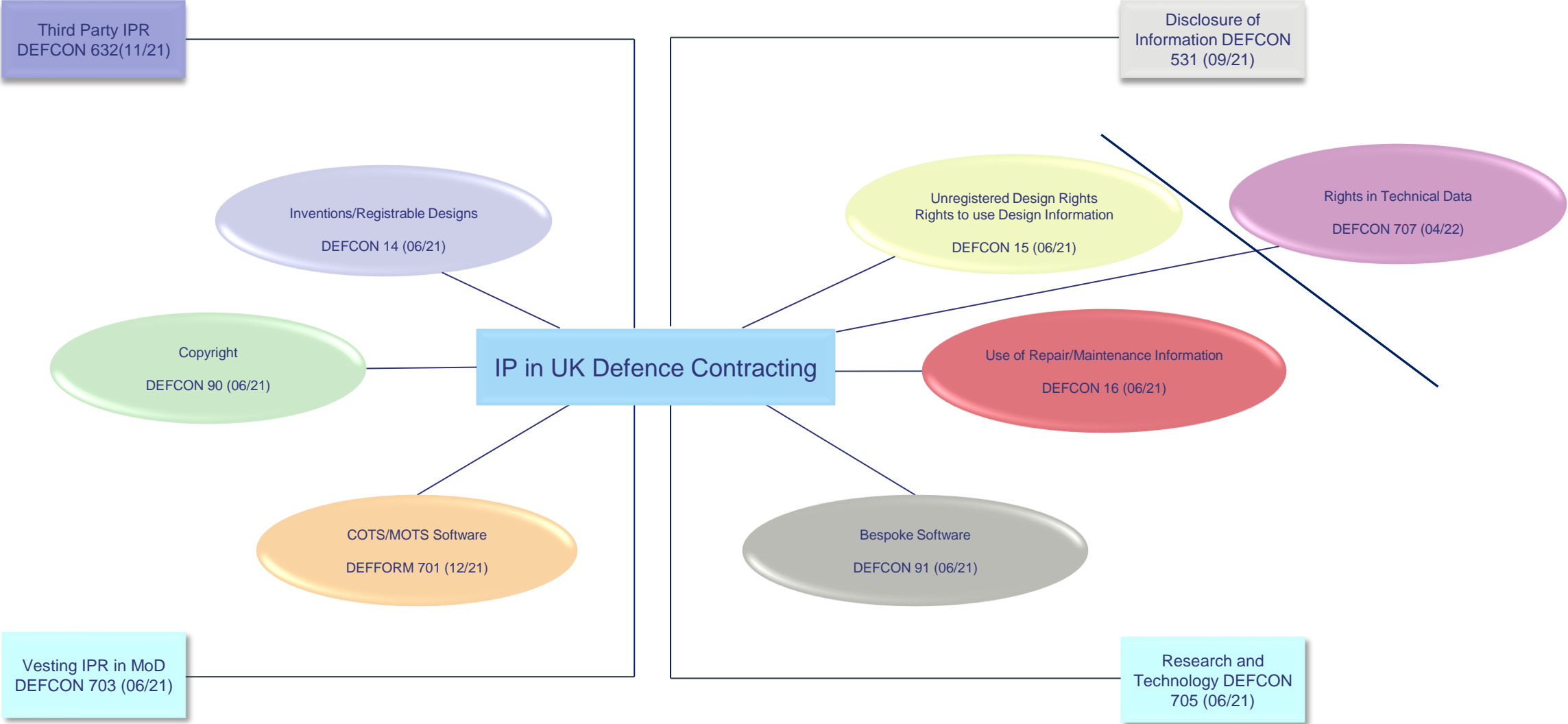
Key concepts

- Contractor owns foreground/bespoke IP in most cases
- Main exception for highly sensitive assets / security
- Extensive licensing rights granted to MOD; government-wide usage permitted
- Commercial levy
- Contract Data Requirement system: technical info to enable maintenance/repair & manufacturing data packs must be specified in CDR (DEFFORM 315). Background IP can be excluded (subject to negotiation).
- Where material IP being created at Subcontract level, MoD preference is to secure a direct agreement with the Sub-contractor
- MoD expects it will require direct agreement in the “majority of cases” where a Sub-contractor is generating material IP as part of the project (DFFORM 177)

Use of Defcons

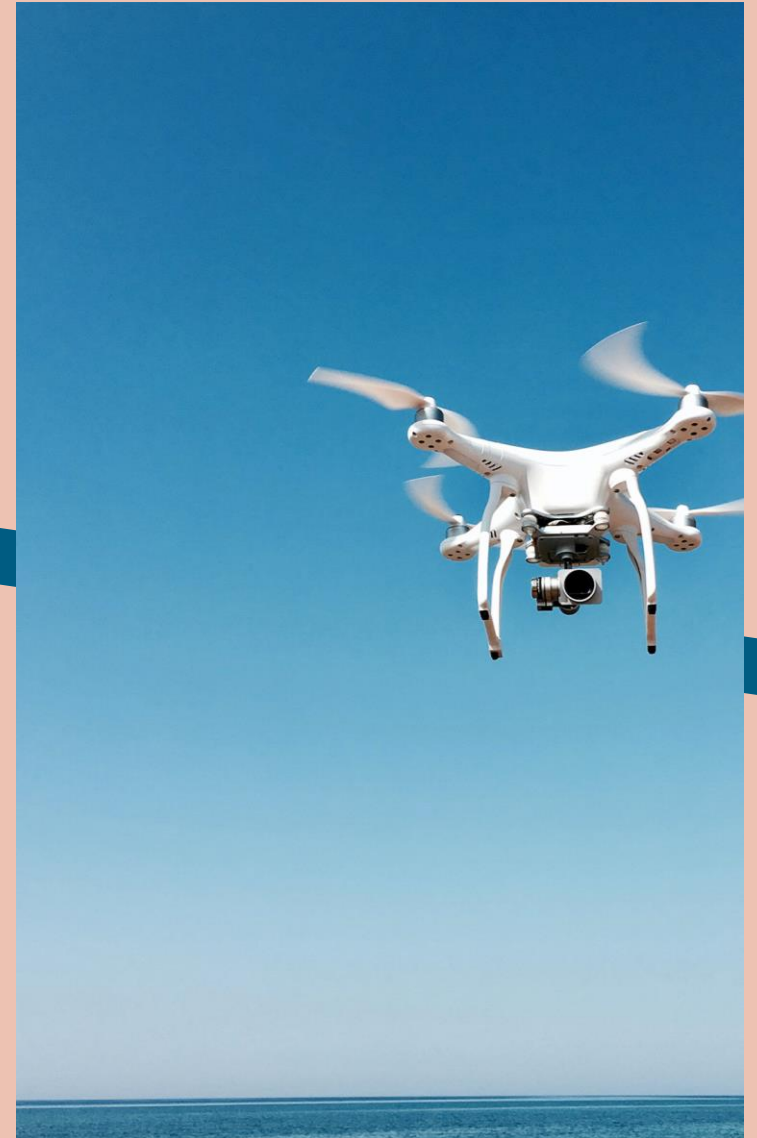
- MOD contracting approach reflected in DEFCONS (Defence conditions). A key feature of MOD contracting (unique to defence contracting within UK government)
- DEFCONS are very difficult to negotiate away from (often not realistic)
 - Partly a style issue: military / structured ethos
 - Also logistics: the MoD undertakes a huge volume of procurement so relies on pre-approved terms
 - Procurements run by Commercial Officers (not lawyers) who rely on the DEFCONS
- Sitting behind the DEFCON's are guidance notes setting out when they should be used
 - Available to anyone through the Defence Gateway (once signed up)
 - Makes it harder for MoD to move away from DEFCONS (on basis of policy)
- **However**, guidance notes are an opportunity to understand MoD's policy and arm yourself with the right arguments. Understand the basis on which MoD can deviate from the DEFCONS or its standard positions

Overview of key IP DEFCONS

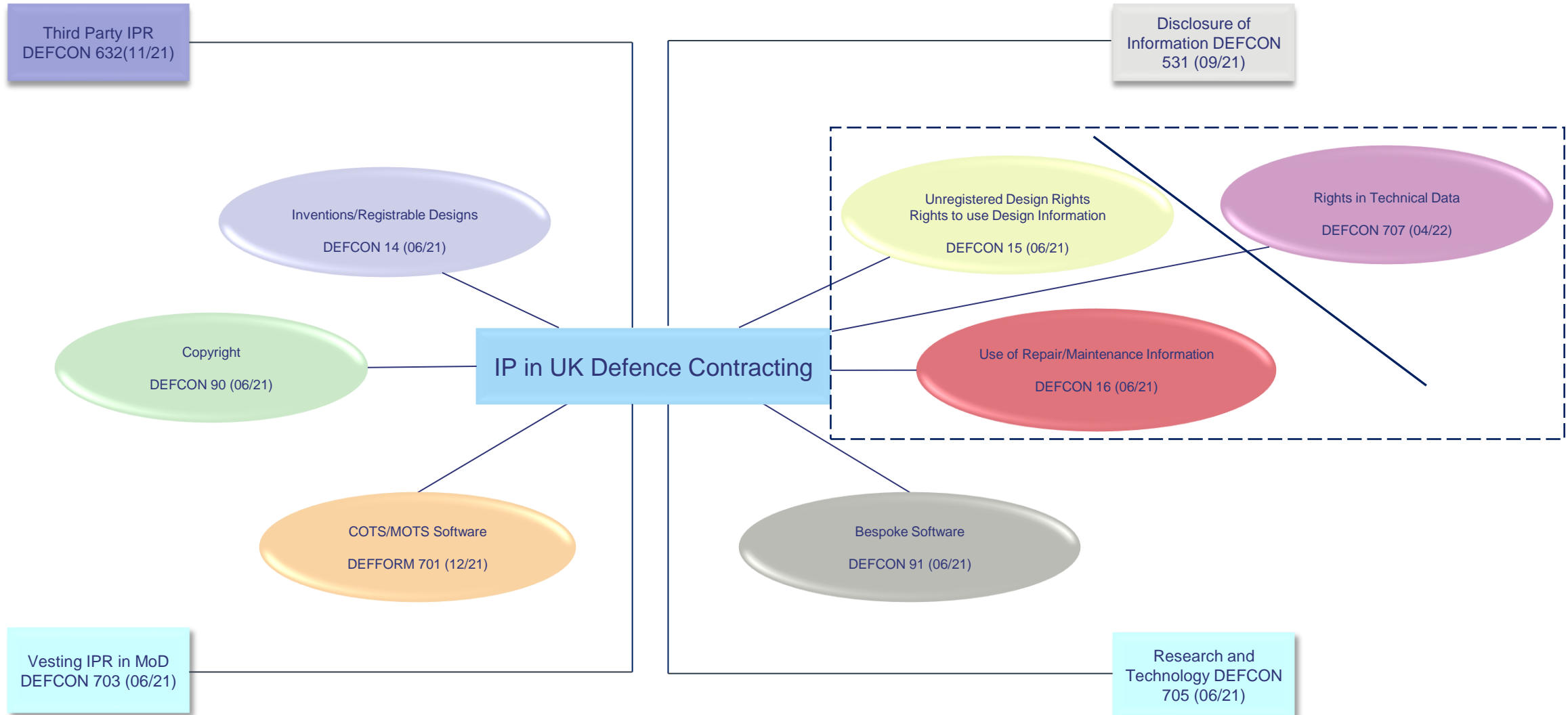


MoD approach to data rights

(Defcons 15, 16 and 707)



Overview of key IP DEFCONs



Defcons 15 and 16

Defcon Ref	Type of IP	Ownership	Terms of Licence to MoD
15 (02/98)	Unregistered Design Rights & rights to use information generated in performance of contract	Contractor	<p>Perpetual, worldwide licence to use for services of the UK government to design, manufacture and (in some circumstances) modify Articles and associated equipment.</p> <p>Contractors and agents of MoD may use.</p> <p>Where MoD wishes to modify, it must offer modification work to original manufacturer first. (Inhibits competition)</p>
16 (06/21)	Use of Repair/Maintenance Information	Contractor	<p>Perpetual, worldwide licence to use to monitor work under Contract, carry out maintenance and repair / operate Articles.</p> <p>Contractors or agents of MoD may use.</p> <p>No right to use information for redesign, design of modifications, manufacture of replacement parts or for development of trainers or simulators.</p>

DEFCON 15 and 16 – CDR & COTS exceptions

- Data must be specified in Contract Data Requirement (DEFFORM 315)
- Must be specified precisely (not 'all information necessary to maintain, modify....')
- DEFCON 15 not intended to secure rights in 'self-standing' Commercial Off the Shelf Items or Modified Off the Shelf Items. Recognised that these are proprietary background IP
- Must be identified – can be challenging for complex systems or solutions with many components
- MoD should identify a second source of supply and/or negotiate separate licence terms for access to his IP
- DEFCON 16 does cover information relating to COTS equipment

DEFCON 707 – background

- Modelled on US defence contracting approach (DFARS). Long gestation period - been discussed for at least 5 years...
- Takes a different approach from other DEFCONs
- Commercial Policy Statement still suggests MoD can use either DEFCONs 15 and 16 or DEFCON 707 but DEFCON 15 now archived...
- A key driver was to enable MoD to competitively procure future modification and upgrade work
- Although it has been piloted on some projects, it has not yet been widely used. It was formally published on 1 April 2022
- Not for use where contract is for COTS articles only, international or collaborative programmes or contracts with joint MOD/Industry funding

DEFCON 707: terms of licence to MoD

Type of Licence	Applies to	Terms
Government Licence Rights	Technical data generated under the contract (funded by MoD)	<ul style="list-style-type: none">• Copy, use, modify, reproduce and disclose for <u>any UK government purposes</u> (anything done by or for UK government except commercial sales/licencing for revenue generation)• Third parties granted same rights.• Royalty-free, non-exclusive, perpetual and irrevocable
Limited Licence Rights	Technical data delivered but not generated under contract (funded by Contractor or third party)	<ul style="list-style-type: none">• Copy, use, modify or disclose technical data <u>within Government only</u>• MoD may disclose/authorise use of Technical Data to support contractors and follow-on contractors in certain circumstances (see 5a) and for repair/maintenance/overhaul necessary for urgent operational or safety reasons• Royalty-free, non-exclusive, perpetual and irrevocable

Notification of IPR Restrictions (DEFFORM 711)

- Now a requirement for Contractor to identify any restrictions on MoD ability to use or disclose technical data and/or information and associated IP rights on DEFFORM 711
- Only applies to information/data and IP the creation of which has not been fully funded by MoD
- Any third party interests in the relevant information/data or IP must be identified along with any relevant allegations made of by a third party IP infringement
- Likely to become a key area of negotiation

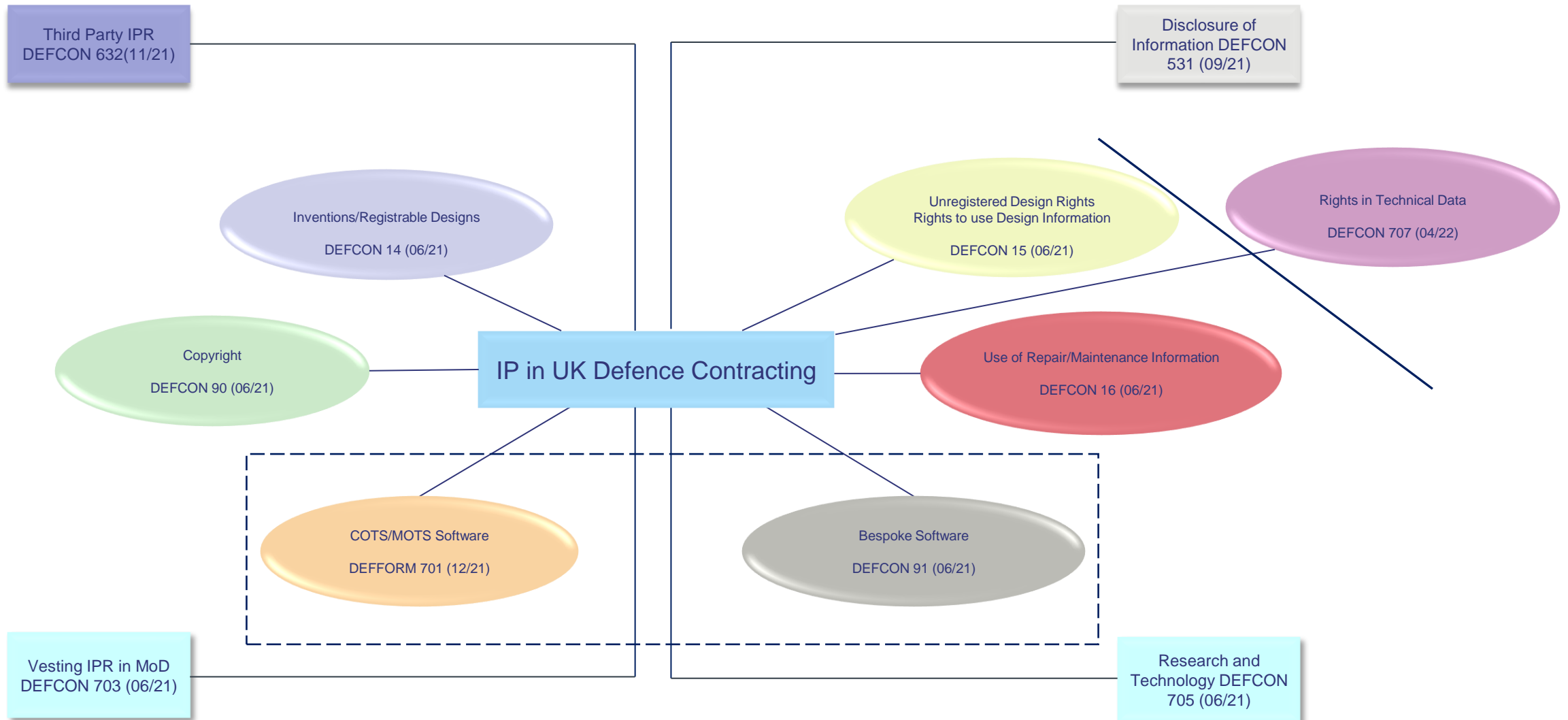
DEFCON 707 - key issues

- Breadth of licence rights: disclosure to third parties. Potentially undermines protection afforded to data (through loss of control or being put into public domain). Perpetual really does mean perpetual (not ongoing subject to termination)
- Wider re-compete rights
- Contractor must secure same rights for any Sub-contractor IP included in or forming part of a Contract Deliverable. Practical management and flow down challenges.
- Increased burden on Contractor to mark Technical Data - see clause 14
- MoD now has right to query, and ultimately have removed or modified, any incorrect document markings which preclude or undermine IP rights secured under the Condition
- DEFFORM 711 must be completed for any Technical Data with restrictions that are more restrictive than Government Licence Rights. If not identified, MoD has full Government Licence Rights.

MoD's approach to the
acquisition and licensing
of software



Overview of key IP DEFCONs



DEFCON 91: Overview

What is it?

Addresses IPR in software. Intended for inclusion in contracts that involve the Contractor developing bespoke software for the MoD

Ownership

Contractor owns all IPR in the software generated under the Contract

Government use

MOD granted a broad, royalty free right to copy, modify, and use software for government purposes (not limited in time or to a particular project)

Contracts / Tenders

MOD granted a broad, royalty free right to issue software to suppliers / potential suppliers in relation to government contracts / tenders (not limited in time or to a particular project)

Commercial exploitation levy

Includes a restriction on commercialisation without first agreeing a commercial exploitation levy with the MoD

DEFCON 91: Commercial exploitation levy

Condition 9 of DEFCON 91 says...

9. The Contractor shall agree with the Authority the sum or sums (if any) which shall be paid to the Authority in respect of Software generated under the Contract having regard to the amounts paid or payable to the Contractor by the Authority under the Contract before:
 - a) assigning, selling or otherwise disposing of any IPR subsisting in such Software;
 - b) disclosing, licensing or selling any material reproducing such Software;
 - c) using any such Software for the purpose of generating any Software for disclosure, licensing or sale to a third party.

DEFCON 91: Commercial exploitation levy

Exploitation levy payable by the contractor for commercial use of designs, jigs and tools or bespoke software (including sale or granting of licences). Subject to a formal MoD policy (**Commercial Exploitation Levy Commercial Policy Statement**)

Some key points:

#1. Acts as a restriction, preventing the supplier from commercialising the items to which the levy attaches unless a levy with the MoD is agreed

#2. Need to be very careful when considering what the levy attaches to, particularly where the project involves building on top of or integrating pre-existing IP

#3. MoD's starting point is very high – the default expectation is that the levy will be 80% of the sale price. Also need to consider what 'sale price' means

DEFFORM 701: Overview

What is it?

Software licence terms to be used for COTS software or MOTS software (commercial software modified for MOD purposes)

Structure

Essentially acts a framework, with (1) a short "Head Agreement", (2) an Annex containing "Standard Conditions", and (3) Schedules detailing software

Ownership

As between the parties, Contractor owns all IPR licensed under DEFFORM 701

Use by the MOD

Licence to use the licensed software on designated equipment at the designated site (details to be included in a Schedule)

Use by sub-contractors

MOD may allow sub-contractors to use the licensed software in relation to MOD contracts

DEFFORM 701: Risk areas

Parties agree in the Head Agreement to adopt the terms of licence set out in the Annex. The terms of licence contain a few areas where the terms diverge from what software licensors would ordinarily expect to sign up to in the market.

Some particular risk areas:

#1. Contains a very wide IPR infringement indemnity. Covers all losses (not just those determined or settled) and all types of IP

#2. Allows MOD to enable use of licensed software by sub-contractors but MOD does not assume liability for mis-use by sub-contractors

#3. Doesn't exclude certain types of loss that we would ordinarily expect to be excluded (direct loss of profit, loss of revenue, anticipated savings etc.)

Model Services Contract



Model Services Contract: Overview

What is it?

Government template agreement designed to be used for high value and complex services

What is the latest?

Cabinet Office published a new version of the Model Services Contract on 11 April this year

Who uses it?

Generally used by the Home Office. MoD tends to use DEFCONS but does use MSC from time to time

Changes re IP

Introduction of options as to how developed IP and software should be treated in terms of ownership and use

Why relevant?

Potentially shows the direction of travel in terms of government IP policy ... or in any event interesting to see alignment with DEFCONS

Ownership and use of developed IP

Option	Ownership / use rights
Option 1	Authority owns all Specially Written Software and Project Specific IPRs with limited use rights for the supplier in order to deliver the contract. Authority entitled to publish as open source software School of thought: "We are paying for it so we will own it and do what we want with it"
Option 2	Authority owns all Specially Written Software and Project Specific IPRs, but the supplier benefits from broader rights to use such IP (including, potentially to exploit)
Option 3	Supplier owns all Specially Written Software and Project Specific IPRs and the Authority has limited use rights for the contract only
Option 4	Supplier owns all Specially Written Software and Project Specific IPRs, but the Authority gets broader rights for the contract and public sector functions

Option 5 - Gainshare

- Potential quid pro quo for giving the supplier ownership or exploitation rights
- To be used in circumstances where the Authority has invested significant resource or funding in the development of the project and intends to seek a return on that investment
- Similar in principle to the commercial exploitation levy in DEFCON 91
- Acts as a restriction (i.e. details to be agreed before any commercial exploitation is allowed)
- Two ways of calculating:

Option 1

Based on a percentage of the supplier's selling or licensing price

Option 2

Based on a percentage of profit, calculated as the gross sales less allowable costs

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Hot Topics in IP Contracting

James Pearson, Associate

28 June 2022

Three Key Areas

- Ownership of IP rights – a short refresher and mechanics
- Joint Ownership of IP (and what to be careful of)
- Employee Inventions



01

Ownership of IP rights

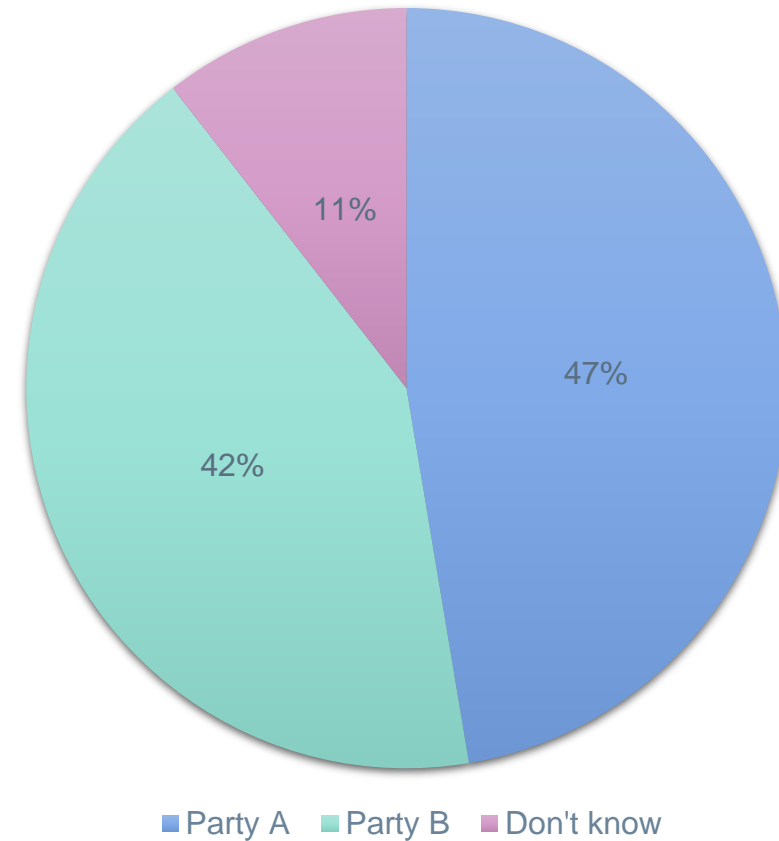
A short refresher



Who owns IP?

- Party A commissions Party B to develop a Software product
- Who owns the IP in the Software product?

UK IPO awareness survey



Who owns IP?

- Starting point: The creator of the IP is the first owner
- Two exceptions:
 - Employees
 - Written agreement to the contrary

Key Messages:

1. Physical ownership of a product or deliverable is not the same as legal ownership of the IP rights which exist in the deliverable
2. Paying for a third party to produce a work (e.g. software) does not transfer the IP rights in what the third party produced

How do we deal with IP ownership under a contract?

Background IP vs Foreground IP

Background IP

Generally, IP that either:

- Pre-dates the contract; or
- Is created during the term of the contract but is outside its scope.

In either case used to deliver the contract.

Generally includes proprietary software and items, methodologies, know-how etc.

Foreground IP

Generally is all IP created by a party in the course of performing its obligations under the contract

Often referred to in government contracts as "Project Specific IPR" or "Specially Written Software"

How do we deal with IP ownership under a contract?

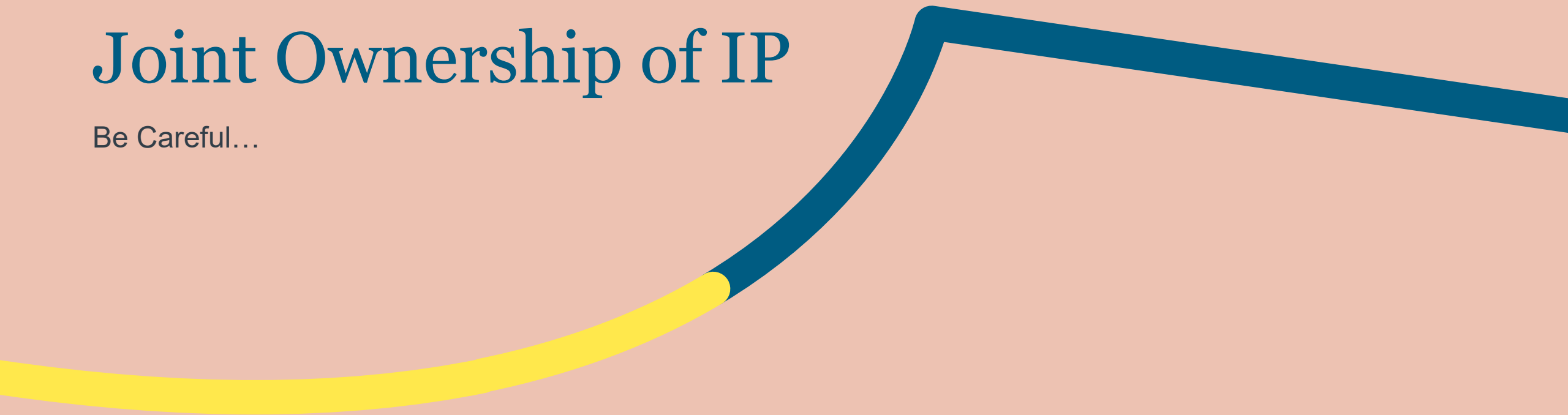
Assignment Mechanics

- Don't just state who will own the IP/Deliverables - include an operative assignment
- Party A *'will own / shall own'* the Foreground IP
 - Only states the objective, but not enough to actually assign legal title
- US Supreme Court *Stanford v Roche Molecular Systems*
 - First agreement: inventor *'agreed to assign'* the invention
 - Second agreement: same inventor promised that he *'will assign and do hereby assign'*

02

Joint Ownership of IP

Be Careful...



Joint ownership of IP – be very careful...

Activity	Copyright rule	Patent rule
Take proceedings against third parties who infringe (i.e. violate) the owner's IP	Single co-owner can enforce	Single co-owner can enforce
Grant IP licence to third party	<i>Consent needed</i> of co-owner	<i>Consent needed</i> of co-owner
Assign / transfer title to the whole of the IP	<i>Consent needed</i> of co-owner	<i>Consent needed</i> of co-owner
The rights of each co-owner to use the protected work	Each owner <i>needs consent</i> of the other co-owner to perform so-called restricted acts (e.g. copying)	Each co-owner can perform so-called 'restricted acts' without the other's consent

Case study: Joint Ownership

The case of *Kogan v Martin* (9 October 2019)

Facts: Nicholas Martin is a writer, primarily of TV show scripts. Julia Kogan is a professional opera singer. Mr Martin and Ms Kogan were co-habiting and in a romantic relationship when Mr Martin wrote the screenplay for the film "*Florence Foster Jenkins*" starring Hugh Grant and Meryl Streep.

Dispute: Mr Martin was the accepted author of the screenplay, but he contended he was the sole author. It was accepted that Ms Kogan contributed. However, Mr Martin was the only author credited when the film was released. Court had to determine whether Ms Kogan's contribution was significant enough to be considered a joint owner.

What happened next? First instance judge held that the copyright belonged to Mr Martin, even though Ms Kogan had provided input (particularly with musical expertise) as he had the final say. Sent back to retrial by Court of Appeal who set out an 11-step analysis to determine joint authorship...

At retrial, Court decided that Ms Kogan was a co-author and her ownership share amounted to 20%.

Case study: Joint Ownership

The case of *Kogan v Martin* (9 October 2019)

Court of Appeal set out an 11-point test – here are the key five:

- There must be collaboration / a common design
- Fixation is not the test - it is never sufficient to just ask 'who did the writing?'
- The contribution of a joint author must be 'authorial' – they must have contributed a significant amount of skill and their own 'intellectual creation'
 - Could be satisfied by a person who created, selected or gathered the detailed concepts which the other author wrote down.
- The contribution must be non-distinct i.e. you cannot distinguish between the contributions (if you can, each author would own that bit)
- The shares do not need to be equal – having the final say, does not preclude joint authorship

Joint Ownership – Key Messages

- Joint ownership may arise by operation of law e.g. in JVs, collaborations and R&D projects
 - BUT it can be very difficult to ascertain (1) each party's contribution, and (2) whether any IP is jointly owned at law
- Therefore, in such agreements and in addition to the usual reasons for stating who owns what, must legislate for ownership in the agreement and provide who will assign/license what to whom

03

Employee Inventions



Employee Inventions

- It is common for employers to incentivise and reward its employees involved in R&D activities with compensation for any valuable inventions they may devise.
- Section 40, Patents Act 1977 states:
 - Where a patented invention proves to be of "outstanding benefit" to the employer (having taken into consideration, amongst other things, the size and nature of the employer's undertaking);
 - The relevant employee(s) are entitled to compensation as a "fair share of the benefit" derived by employer

Case study: Employee Inventions

The case of *Shanks v Unilever*

Facts: Professor Shanks was an employee of Unilever UK Central Resources Limited, a subsidiary of Unilever PLC. Prof. Shanks invented technology to measure blood sugar levels which were assigned to Unilever, who then patented the technology across the world. The patents generated £24million for Unilever through licensing deals.

Dispute: Shanks sued Unilever on the basis that his invention had provided an outstanding benefit to his employer and that he should have a fair share of the profits. Unilever argued that the benefit of the Shanks patents were not outstanding having regard to the whole Unilever group's turnover.

What happened next? Prof Shanks failed at every stage up to the Supreme Court, which decided that the Shanks patents had, in fact, provided a 'substantial and significant' benefit to Unilever, which was outstanding compared to the benefit that Unilever had derived from other patents (not its total revenue, which includes all different businesses, e.g., ice cream). The court awarded Prof Shanks compensation of 5% of the profits earned by Unilever, totalling £2m.

Employee Inventions – Learning points

- *Shanks v Unilever* does not really change law
- Courts are prepared to award significant compensation **BUT**:
 - Only ever two successful claims (very high hurdle); and
 - heavily fact specific
- Shows flexibility can be given to the concept of the employer's undertaking, so hiving-off R&D activities into a subsidiary does not work.
- Note: s.40, Patents Act 1977 cannot be contracted out of.



Thank You

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