

INTELLECTUAL PROPERTY – STATEMENT OF MOD POLICY

Introduction

1. Intellectual property [IP] arises from any intellectual pursuit and covers a diverse range including inventions, designs, software, technical reports, know-how and confidential information, as well as books, music, architecture, films and photographs. Intellectual property rights [IPR] comprise the legal framework to protect IP - patents, registered designs, trademarks, copyright and the law of confidence are the more familiar examples. It has been reported that for 70% of UK businesses, IP assets are more valuable than physical assets.
2. Exploitation of Ministry of Defence (MOD) IP and access to others' IP are essential if MOD's mission is to be achieved. MOD has developed the approach to its right to use others' IP to take account of changing circumstances, in particular towards procurement. MOD rights to use others' IP through contracts are secured using standard defence conditions which are supplemented where appropriate with bespoke conditions.
3. We have judged it appropriate to bring together in one document the principles of MOD's approach to IP to form a top level statement of policy and to ensure that MOD's approach is understood by its own staff, industry, academia and others.

MOD Policy

4. MOD's IP Policy Statement, which is consistent with MOD's Defence Industrial Policy and has been endorsed by Minister [DP], is set out at Annex A.
5. The Policy Statement - which does not introduce any change in MOD's approach – comprises a number of Principles and Policies which, amongst other things, set out clearly MOD's approach to the acquisition of user rights in, or in some circumstances ownership of, intellectual property arising from contracts it funds, and how it will treat other (background) IP owned by its contractors and suppliers. The statement strikes a balance between MOD's needs to deliver

military capability and industry's commercial interests as a consequence of their private venture investment.

Key points of the Policy Statement include:

- A statement of industry ownership of IP created under MOD contracts with specific exceptions set out;
- Recognition that MOD-funded R&T work should be fully exploited not only for defence purposes but also for the benefit of the wider UK economy;
- Reinforcement of the policy to protect and enforce MOD's IP and emphasis of the serious view taken of any deliberate or careless wrongful disclosure of IP;
- Recognition of the need for incentives to encourage the commercialisation of MOD-owned IP;
- An assurance that MOD will only seek delivery of such information from contractors that it genuinely needs for its business purposes;
- Recognition of the need to respect investment by industry;
- A declaration that MOD will only disclose commercially sensitive information where it has the right to do so and then only with arrangements in place to protect the value of the information (this does not affect MOD's position under Freedom of Information Act);
- Refreshment and reinvigoration of our approach to the use of intellectual property in international co-operation, particularly by ensuring that international arrangements provide a proper balance for disclosure or use of UK-origin IP and avoiding arrangements which introduce undue risk from an IP perspective;
- Recognition that, whenever possible, MOD should consult with industry before entering international arrangements likely to lead to the disclosure of industry-supplied information.

7. A more detailed summary of the Policy Statement is at Annex B.

Consultation

8. Consultation has taken place with appropriate internal and external stakeholders. Internal stakeholders are content. External stakeholders have included the DTI, whose views on Policy 6 were adopted, and industry. Inevitably there has been some nervousness on the part of industry, and during the consultation process a number of amendments were made to clarify the statement and to alleviate industry's concerns. A summary of industry's concerns is at Annex C together with an agreed MOD/Industry commentary on how these have been addressed within the policy statement.

Action

9. All staff are to ensure that they comply with MOD's IP policy in their conduct of MOD's business.

Publicity

10. The policy is being widely disseminated to industry via the usual channels and further internal publicity will be by way of tri-fold leaflets. Every opportunity will be taken to include topics from the Policy Statement in professional talks and other seminars. The material will also form the basis for internal training courses.

Further sources of advice

11. Advice on the application of MOD's IP policy to specific cases should be sought in the first instance from local Commercial staff. Requests for clarification of the Policy Statement itself should be directed to Defence Intellectual Property Rights (DIPR) - Ext: 32880 ABW.

MINISTRY OF DEFENCE (MOD) INTELLECTUAL PROPERTY RIGHTS - POLICY STATEMENT

GENERAL PRINCIPLES

Principle 1

Intellectual Property (IP) is a commercially valuable (intangible) asset that for many businesses is more valuable than fixed (tangible) assets. MOD's policies should recognise this value both for UK industry and national defence capability.

Principle 2

Access to IP is essential to MOD's developing and sustaining defence capability.

Principle 3

Ownership of IP arising under MOD contracts will normally vest with the contractor generating the IP, in exchange for which MOD will expect rights to disclose, use and have used the IP for UK Government purposes (including security and civil defence).

Principle 4

MOD recognises the need to encourage private sector investment in the generation of IP to enhance defence capability.

Principle 5

MOD will maintain a proper balance in its activities relating to IP between, on the one hand, meeting its business needs including fostering co-operation with allies, facilitating value for money in defence acquisition, and safeguarding security of supply and, on the other hand, safeguarding suppliers' interests in their IP.

Principle 6

MOD's rights of access to, and use of, suppliers' IP will be limited to that reasonably necessary to meet its business needs.

Principle 7

MOD will promote the widest use of defence funded IP for the benefit of the wider UK economy.

Principle 8

The value of IP is such that it should be properly managed in a way that is clear, consistent and traceable.

Principle 9

MOD will not normally disclose commercially valuable information unless an arrangement is in place which seeks to conserve the value of the information by setting out the rights granted to and the limitations of use imposed on the recipient.

Policy 1 - Ownership of Intellectual Property in Contracts

- a. Contracts will normally provide that ownership of IP arising will vest in the contractor but will be subject to rights of disclosure and use for Government purposes as set out in the contracts.
- b. Exceptions to the ownership arrangements of Policy 1a may occur, for example:
 - (i) where the work is to be appropriately published by and under the control of the Crown;
 - (ii) where the work is a national or international defence standard;
 - (iii) where the work is based upon information made available to the Crown in confidence by a third party, and exploitation by the contractor would prejudice that confidence;
 - (iv) where a contract is let on the basis that the contractor is unable or unwilling adequately to exploit the results of the contract;

- (v) where the work is part of a wider programme of related work and fragmented ownership of results would prejudice exploitation of the wider programme; or
- (vi) where the contract is for the operation of a Government owned facility; or
- (vii) in respect of data outputs from infra-structure projects where the customer would reasonably expect to have full control over that data.

In these cases, ownership of the IP created will normally be vested in the Secretary of State for Defence. Nonetheless, in such cases the Secretary of State will not unreasonably prevent the contractor from using the skills and expertise developed in carrying out such work without charge for its internal business purposes.

Policy 2 - Treatment of IP arising from R&T work funded by MOD

- a. Information arising from R&T work funded by MOD will normally be made available:
 - (i) for any internal UK Government purpose, include use through external advisers;
 - (ii) to inform the UK defence supply chain and other Governments about the work;
 - (iii) to meet other international obligations (see Policy 7); and
 - (iv) for use in defence capability acquisition for the UK Government.

The depth of disclosure and terms under which this information is made available will take account of the extent and sources of funding for such work.

- b. MOD will work with suppliers of R&T to ensure that they exploit MOD-funded IP as fully as possible within the constraints of law and other policies (such as those relating to security and export control). Wider exploitation for the benefit of the UK economy and UK society as a whole will be encouraged.
- c. There will be a presumption in favour of granting requests to transfer or grant exclusive licences in respect of contractor-owned IP

arising from R&T contracts if there is a reasonable prospect that the proposed transaction is likely to optimise investment in and exploitation of the results. In all such transactions MOD's interests (including its ability to seek competitive bids for defence programmes) should be safeguarded.

Policy 3 - Relations with employees (including the Armed Services) and the Treatment of IP belonging to MOD.

- a. Consistent with IP law, IP created by MOD employees and members of the Armed Forces in the course of their normal duties or where they have special responsibilities to MOD will belong to the Secretary of State for Defence. In all other cases, ownership will be taken as belonging to the employee and will be treated in accordance with the strategies for third party IP (see Policy 6 below).
- b. MOD will manage IP arising internally as a valuable resource. It will realise this value by maintaining and developing processes for recording and protecting the IP and promoting the commercial use of the IP by others where appropriate.
- c. MOD will negotiate on a sound commercial basis for the use of MOD IP by others. In the case of Crown Copyright material this will be on the basis of standards generally agreed with the Comptroller HMSO.
- d. MOD will maintain in place a scheme to reward its inventors from the proceeds of exploitation of any MOD-owned inventions they make. This scheme will aim to ensure compliance with Section 40 of the Patents Act 1977.
- e. Disclosures of MOD IP to third parties will only be made after MOD's position has been adequately protected, including by use of confidentiality agreements.
- f. Wrongful or careless disclosure of valuable IP (whether belonging to MOD or others) by employees is regarded as a serious disciplinary offence.
- g. MOD will enforce its IPR against persons who infringe, wrongfully disclose or otherwise misuse its rights
- h. Agreements to license out or assign MOD owned IP, or to license in or acquire IPR will be signed or authorised on behalf of the Secretary of State for Defence by the Director of Intellectual Property

Rights. He/she may delegate signing or authorising powers to properly qualified and experienced members of staff.

i. MOD will maintain a central record of all its patents, registered trade marks, registered designs, and its IPR transactions (other than those that are part of day to day contracting arrangements) including assignments, licences, and confidentiality agreements.

Policy 4 – Agencies

a. Policies 1 - 3 and 7 will apply to MOD Agencies in the same way as they apply to MOD itself.

b. Where IP belonging to the Secretary of State for Defence has arisen from an MOD Agency, the Agency will normally lead in exploiting the technology (i.e. it will act as the nominal owner).

c. Agencies should ensure that such exploitation will not prejudice wider MOD or Government objectives or embarrass the Secretary of State for Defence.

d. Arrangements as between Agencies and MOD as a whole will ensure that:

(i) they are consistent with Policies 1, 2 and 3 above; and

(ii) requests for the transfers of or for the grant of exclusive licences in Agency-controlled IP are handled in the same way as contractor owned IP under Policy 2c.

Policy 5 - Acquisition of Defence Capability and Infrastructure

a. Access to IP is an important factor in meeting MOD's objectives of developing, supplying, operating, supporting, upgrading and disposing of UK defence capability and infrastructure as well as meeting international co-operation objectives. MOD's policy is to meet these objectives within the scope of the foregoing Principles.

b. MOD will seek the production and delivery of information, normally from industrial sources, necessary to meet MOD IP user requirements set out in Policy 5a.

c. MOD will normally only seek delivery of information from contractors for which it can reasonably foresee a need. Contracts should, as far as practicable, set out MOD's information requirements.

If this is not possible, MOD may make reasonable arrangements to obtain such further information that it needs and that is still reasonably available to the contractor.

- d. MOD will not normally pay for use of IP whose generation has been fully funded by Government.
- e. MOD may seek levy payment where MOD-funded IP is commercially exploited by industry, for example through foreign defence sales of equipment, software or processes or through licensing of the IP to others.
- f. MOD will properly safeguard IP in its possession that belongs to the private sector. Where disclosure to a third party is necessary, it will only be to the extent that it has the right to do so or the legal or statutory obligation to do so.
- g. If MOD wishes to use specific identified non-MOD funded IP to reproduce or Modify anything acquired from a supplier, MOD will negotiate the terms and conditions for such use.
- h. MOD will negotiate on the basis that other reasonable use of information obtained from a supplier in connection with defence capability and infrastructure acquisition will be without separate licence payment.

Policy 6 - Third Party Intellectual Property

- a. MOD will pursue national and international norms (especially GATT/TRIPS articles 31 and 73) in securing rights to access third party IP for its purposes.
- b. Where MOD has statutory powers to use and authorise use of third party IP, (e.g. as under Sections 55 to 57 of the Patents Act 1977), it will exercise such powers only after considering such use on its individual merits, or where reasons of national security override.
- c. MOD will normally seek an indemnity from suppliers in respect of use by suppliers of third party IP in commercial products, or in circumstances where the use of the third party IP is entirely within the knowledge and control of the supplier.
- d. MOD will indemnify suppliers in respect of their mandated use for MOD purposes of information furnished by or on behalf of MOD.

e. MOD will expect its suppliers and other third parties to observe high standards of conduct, probity and propriety in their access to or use of any third party information provided by or on behalf of MOD, and properly to safeguard such third party information against wrongful use or disclosure. MOD will take action and may support action against suppliers or other third parties who wrongly use or disclose third party information provided by or on behalf of MOD.

Policy 7 - International

a. MOD will always strive to enter into international arrangements involving IP that meet its short and long term goals and requirements, including its acquisition, capability and information needs. MOD will avoid entering international arrangements in which the IP provisions conflict with the IP Principles and Policies expressed in this document.

b. MOD will promote IP policies and practices amongst other nations and international organisations that will encourage confidence and participation in co-operative programmes. MOD will avoid arrangements requiring disclosure of commercially sensitive information of UK origin unless it is satisfied that the recipient will adequately safeguard the information.

c. Before entering any international arrangement that would lead to disclosure of UK industry owned information (other than for foreign Government defence information purposes), relevant industrial parties, including Trade Associations, will normally be informed and given reasonable opportunity to make representations about the arrangement.

d. MOD will not commit to release commercially valuable information outside the UK under any international arrangement unless there is a reasonable balance of benefit to the UK arising from that release. MOD will not commit itself through international arrangements to disclose information that it has no right to disclose. MOD organisations holding information should liaise¹ internally, as appropriate, to ensure that disclosure restrictions and controls are correctly applied to information to be released under international arrangements.

e. Where MOD supplies information abroad under an international arrangement, it will take all reasonable steps to ensure that any subsequent use or disclosure is in accordance with the terms of the arrangement.

f. Where MOD receives information from abroad under an international arrangement, MOD will ensure that such information can be traced and will take steps necessary to prevent any use or disclosure that is not in accordance with the arrangement.

Policy 8 - Miscellaneous

a. MOD will put into the public domain information relating to its general IP policies and specific information on its copyright licensing arrangements and conditions of business with suppliers.

b. Wherever possible MOD will consult with interested parties in formulating changes to its IP policy or when implementing part of the IP policy through conditions of business.

c. MOD will normally give at least 3 months notice to interested parties of any proposed change in an IP policy or related standard condition of business.

d. MOD will meet its statutory obligations in respect of IP (e.g. under Section 22 of the Patents Act 1977) in a way that promotes high confidence amongst users of the UK IP system.

¹ Currently with Department's International Relations Group and Intellectual Property Rights Group, and for Research and Technology: the International Research Co-operation branch.

SUMMARY OF THE INTELLECTUAL PROPERTY POLICY

The **Nine Principles** set the cornerstones of the policy. These note:

- the value of IP;
- the need to access IP;
- ownership normally being with suppliers;
- the need to encourage private investment to generate IP;
- the need for balance between public policy and private interests in IP;
- MOD only to access others' IP to meet its reasonable business needs;
- the need to maximise the benefit of defence funded IP;
- the need to have proper IP management systems;
- property protection when valuable information is disclosed.

Beneath the principles, a number of individual policies are developed;

Policy 1 develops the theme of leaving ownership with suppliers whenever possible. There may be occasions when it is appropriate to depart from the normal arrangements when, for policy reasons, Government has to control fully the publication and use of information, or when the supplier cannot exploit the IP arising from a contract.

Policy 2 develops the broad themes within the Research and Technology areas. This paragraph makes clear that we would normally expect defence funded R&T information to be available for explicit MOD purposes. It has been made clear that the extent of MOD's rights will be varied in accordance with the level of MOD funding. Exploitation of defence funded R&T is a priority, and with this in mind allows for exclusive licenses when this would encourage investment and not interfere with MOD's primary business.

Policy 3 indicates that MOD will protect, record and enforce its intellectual property and take action against those who infringe MOD's rights and will keep records of assignments, licences and like Intellectual Property transactions. MOD will act in the same ways as other responsible employers in respect of its IP relationships with employees. Award schemes will be in place to recognise employee's work that has been of particular benefit to MOD. For exploitation, there is a direct relationship between the income to MOD and the benefit to the employee.

For the first time, it is being made clear that IP generated by employees that would not be owned by MOD under the law will be treated as privately owned. If MOD needed access to that IP, such employees would get the same benefits as would a third party owner of IP. In the past, MOD's approach to this has been ambiguous

Policy 4 reiterates that MOD agencies are expected to follow the same policies as MOD as a whole. Trading Fund agencies will retain income generated from exploitation of IP arising in the agency concerned.

Policy 5 relates to the work of capability acquisition community. It notes that achieving value for money is the bedrock of that business and IP should be an enabler to achieve that. To do this the policy notes the need to secure appropriate (but not excessive) technical information from suppliers to compete, maintain equipment in service, ensure supplies of spares, and permit all the myriad of other things that have to be done to ensure the safe and smooth use of equipment.

Where MOD has paid for the generation of IP, MOD will not pay for its subsequent use. However, it is recognised that where our suppliers have generated relevant IP independent of MOD funding, and MOD wants to use the IP to compete capability acquisition then reasonable payments should be made for that right. This approach has been inherent in MOD's practices in many large projects, but this policy statement emphasises the need for proper recognition of genuine background IP.

Policy 6 restates MOD's wish to behave reasonably in dealing with IP from third parties. In accordance with agreed international standards, it will only exercise Government statutory rights to use third party IP when alternative options have been exhausted (or the requirement is so sensitive that it cannot be discussed with the IP owner).

Policy 7 relating to international matters is probably the most sensitive. There is a need to use information, sometimes from

industry, for international co-operation. However, we need to ensure that it is properly protected by the recipient and only used for the purpose intended. Equally, nations providing information to the UK would wish to ensure that their information, too, is properly protected.

Key parts of the policy in this area note the need to avoid arrangements that seek to pass information unless there is a clear short or long term objective, and the terms of the arrangement are directed to that objective. Arrangements should be balanced; the UK should not commit to give information unless there is appropriate benefit to the UK. Although not overtly stated in the policy, we should take the view that promises of information that are subject a country's release provisions (e.g. US ITARs) before arriving in the UK would be treated with caution when considering this balance.

Policy 8 relates to provision of public information about our policy and an assurance of adequate notice to stakeholders before changes are made.

CONSULTATION WITH INDUSTRY

Key Issues raised by industry: During the consultation phase on the Intellectual Policy document, Industry expressed concern in four main areas:

- the possibility of Government ownership of contractor generated IP in some circumstances (Policy 1b);
- the balance between Industry interests and public policy (Principle 5 and Policies 5a);
- information requirements (Policy 5c);
- international issues (Policy 7).

Response: The following language has been agreed with industry as reflecting industry's worries and MOD's response.

Government ownership in some circumstances:

Industry is also concerned that the circumstances in which Government ownership of IP may apply (Policy 1b) are, in places, identified in very broad terms and that MOD should not abuse its position. Industry remains concerned that with the advent of new technology these provisions may be used in inappropriate circumstances. Industry does accept, however, that in a minority of cases government ownership of IP may be necessary. Whilst MOD may require IPR ownership in some cases to meet its operational requirements, it is not its intention to seek ownership of databases where the data underlying a project belongs to its contractor.

Public Policy v Private Interests

Industry is inevitably concerned that the balance between public policy and its private interests is correct. It is also concerned that inconsistencies between different aspects of public policy can cause problems. The policy statement recognises that MOD needs access to Industry owned intellectual property to successfully conduct its acquisition policies. But the policy does try to strike a balance by making it clear that access is that "reasonably

necessary” (Principle 6). Policy 5f and g also state that MOD will only do what it has the right to do and will pay a royalty if information is used for MOD manufacturing purposes.

These policies will place business-like restraints on MOD, making use of proprietary information expensive to support competition for the manufacture of articles and impossible in some cases where MOD does not have the necessary rights. But the policy should enable MOD to ensure continuity of supply in most projects where that is important. Therefore, the policy strikes a sensible balance between these interests, with financial and other constraints if MOD was minded to behave unreasonably.

Information Requirements

On deliverable information, (Policy 5c), it is not reasonable for MOD to expect Industry to keep and provide all information that might be relevant to MOD interests. This would be very expensive both to MOD and Industry. However, both parties do need to know at the outset the exact extent of any proprietary information that is required to be delivered. On the other hand, there have been occasions, particularly when MOD is entering a long-term relationship with Industry, when it is impossible to predict long term information needs. Situations will also arise where, with the best will in the world, both sides will have overlooked something. Policy 5c seeks to steer MOD and Industry towards clearly identifying information needs at the outset of a relationship, but recognises that this may not always be possible. MOD believes this to be the right approach.

International Issues

UK Industry has long been concerned about the potential for industry’s commercially valuable technology to leak to foreign competitors through international co-operation arrangements. Although there is little evidence of leaks of this kind, the policy statement does contain a number of safeguards to minimise the chance of this occurring. These include:

- a requirement for proper release conditions (Principle 9 and Policy 7d to be applied to information going abroad;
- a requirement that any arrangement in which IP is to be disclosed to support MOD business goals complies with standards set out in the policy statement (Policies 7a and e);

- a requirement that other nations should properly protect IP (Policy 7b);
- consultation with Industry before entering the majority of arrangements involving disclosure of industry origin information (Policy 7c); and
- reciprocity (Policy 7d).

Proper application of these safeguards should prevent leakages and misuse of Industry information.