

Contractual issues and IPR Training Workshop Report



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[Acknowledgments]

The content of the training builds upon the transatlantic dialogue on legal and financial issues started before the BILAT USA project began. In particular the Guidelines produced by the EU Delegation in Washington was used as main reference to continue this dialogue.

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[Executive summary]

A smooth negotiation of American participation in FP7 projects is the key to improve the process of promoting cooperation of U.S. in the Framework Programme. There is a number of particular issues previously encountered by U.S. partners during the conclusion of contractual arrangements. Some initiatives have been carried out in order to deepen these issues and to support the EU and US dialogue in this sensitive subject. The European Commission has also undertaken some important steps to facilitate the U.S. participation in FP7 projects by adopting a series of special clauses¹ which could be added to the Grant Agreement.

Lots of initiatives have been put in place (workshops, guidelines, surveys...). For instance a guide for U.S. Users "Transatlantic Cooperation in the European Seventh Framework Programme for Research & Development - A resource for researchers and institutions in the USA to build transatlantic partnerships under the FP7 Cooperation Programme²" has been produced highlighting some critical issues to be tackled, the perceived problems can be divided into four main areas:

1. Applicable law and jurisdiction;
2. Financial provisions;
3. IPR provisions;
4. Administrative issues.

Building upon what has been done the purpose of the training is to deepen the understanding of contractual and IPR-related issues and enhance the ability of U.S. researchers on management of IPR in consortia, patent and licensing applications within FP7.

As a result all the issues previously identified have been discussed one by one and could be grouped into four main groups:

1. Solved issues
2. Issues for which Special clauses have been introduced
3. Issues to be negotiated among the consortium and with the EC
4. Open issues

The main conclusion of the workop is that most of the identified issued were only perceived due to a lack of knowledge of the EC Grant Agreement. Indeed the participants agreed that no blocking

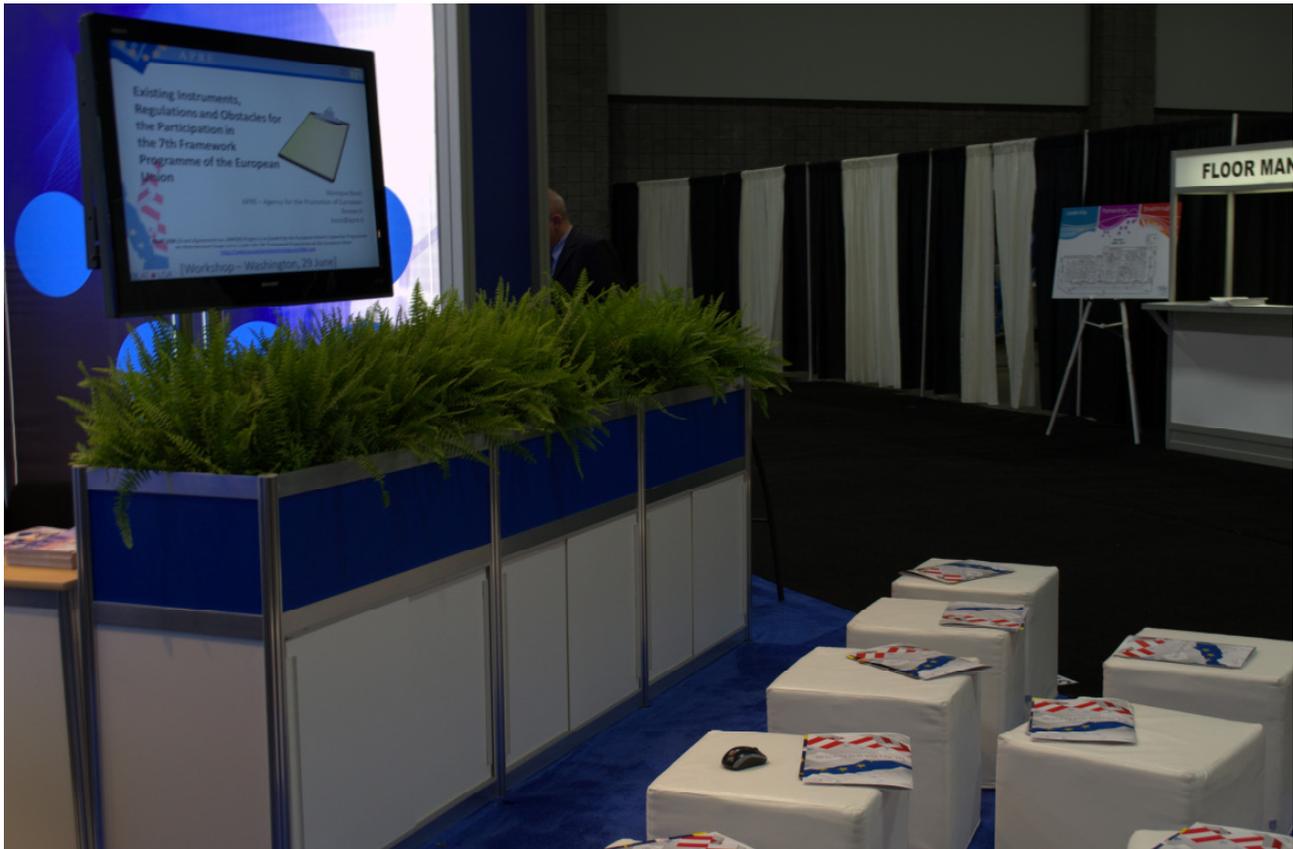
¹ The list of special clauses is available here: ftp://ftp.cordis.europa.eu/pub/fp7/docs//fp7-ga-clauses-v7_en.pdf

² The guide is available here: <http://www.eurunion.org/FP7-USGuide-12-09.pdf>



factors can prevent a US participant to participate to an FP7 project if the scientific and the technological level is excellent.

[Methodology]



The purpose of this training is to build upon **what has been done so far** and deepen the understanding of contractual and IPR-related issues and enhance the ability of U.S. researchers on management of IPR in consortia, patent and licensing applications within FP7.

The main reference for the training is the “Transatlantic Cooperation in the European Seventh Framework Programme for Research & Development - A resource for researchers and institutions in the USA to build transatlantic partnerships under the FP7 Cooperation Programme³”. Indeed the structure and the **main issues** identified were followed and tackled one by one.

The organizer contacted all the participants to the workshop organized by the EU Delegation in 2009 and invited them to attend the workshop as a follow up of the discussion already put in

³ The guide is available here: <http://www.eurunion.org/FP7-USGuide-12-09.pdf>



place. Twelve⁴ of them accepted the invitation and contributed to the training was organized during the Bio Convention⁵ in Washington DC on June 29th 2011.

What has been don so far:

- *Workshop* on “Legal Discussion Workshop on Opportunities & Challenges of the 7th Framework Program for Research” - EU delegation to the US in Dec. 2009. The EU delegation to the US also organized a workshop in Brussels on December 9, 2009 on “The Legal Discussion Workshop on Opportunities & Challenges of the 7th Framework Program for Research” where a number of organisations had expressed their willingness to follow-up on the discussions regarding the problems with signing the Grant Agreement and showed more interest in resolving issues for cooperating with the EU

- *Guidelines:*

Transatlantic Cooperation in the European Seventh Framework Programme for Research & Development - A Guide for U.S. Users;

Funding Opportunities for Transatlantic Health Research

- *Two on-line Questionnaires* issued by the BILAT USA project addressed to:
 - a. U.S. partners who have participated in FP6 and FP7 activities through a project consortiums ;
 - b. EU coordinators who have partners from the U.S. within FP6 and FP7

- *Specific agreements:*

Agreement for scientific and technological cooperation between the European Community and the Government of the United States of America

Agreement with NIH (All topics under the FP7-HEALTH-2012-INNOVATION-1 call are open for the participation of international partners from third countries. In recognition of the opening of NIH programmes to European researchers, participants established in the United States of America are eligible for funding and participation

Main issues:

The guide for U.S. Users “Transatlantic Cooperation in the European Seventh Framework Programme for Research & Development - A resource for researchers and institutions in the USA to build transatlantic partnerships under the FP7 Cooperation Programme” has been produced

⁴ see Annex 1: List of participants

⁵ The training took place at the EC booth in the convention centre



highlighting some critical issues to be tackled, the perceived problems can be divided into four main areas:

1. Applicable law and jurisdiction;
2. Financial provisions;
3. IPR provisions;
4. Administrative issues.

[1. Solved issues]

1.1 Financial provisions

Exemption from the Guarantee fund": Higher education establishments and public bodies benefit from an exemption from any deductions from their contributions to the Guarantee Fund at the end of the project. Some U.S. entities wish to have confirmation that they will be included in this exemption.

European Community position: US private and public universities will not be subject to any deductions in the reimbursement of their contributions to the Guarantee Fund. US government agencies that are public bodies as defined in the Rules for Participation will be also exempt from any deductions. Similarly, research institutes and other research organizations that are public bodies will be exempt from deductions.



[2. Issues for which special clauses have been introduced]

2.1 Applicable jurisdiction:

Some U.S. public bodies or agencies cannot accept to be subject to a foreign jurisdiction.

However, a number of these entities have indicated that they could accept binding arbitration (some with a special waiver from the U.S. Department of Justice).

European Community position: A special clause on arbitration has been adopted by the European Commission for those U.S. entities that can accept binding arbitration. The European Commission can accept binding arbitration in the cases where the other party receives no EC contribution and for legal reasons cannot accept to be subject to the jurisdiction of the European Court of Justice. (The EC cannot submit itself to a foreign jurisdiction nor accept non-binding arbitration regarding its FP7 projects.)

For this issue Special clause 35⁶ has been introduced in the ECGA

35. arbitration clause to be used only at the request of entities not receiving a financial contribution of [the Union] [Euratom] which are established in a third country not associated to FP7 and which for reasons of domestic law cannot be subject to the jurisdiction of the court of justice of the European Union.

[...]

2. The Parties may refer to a sole arbitrator appointed on the basis of a common agreement. If no agreement is reached, an arbitration committee composed of three arbitrators shall be appointed. In this case, each party shall appoint one arbitrator. The two arbitrators thus appointed shall choose the third arbitrator who will act as the presiding arbitrator of the committee.

[...]

5. In resolving the dispute, the arbitrator or the arbitration committee shall apply the provisions of the grant agreement, the [Euratom] [European Community and European Union] acts related to FP7, the Financial Regulation applicable to the general budget and its implementing rules and other [Euratom and European Union] [European Community and European Union] law and, on a subsidiary basis, by the law of [country of the seat of the authorizing officer responsible under the internal rules on the execution of the general budget of the European Union]. The arbitrator or the arbitration committee shall set out in the arbitral award the detailed grounds for its decision.

2.2 Financial provisions

⁶ Version 8, 14/11/2011



Liability issues, Liquidated damages and financial penalties: Some entities claim that they cannot pay liquidated damages or financial penalties as a matter of law.

European Community position:

A) For the U.S. participants not receiving an EC financial contribution this is not an issue. Existing special clause 9 has been rephrased, clarifying that participants in EC funded projects which do not receive any EC financial contributions are not subject to the financial and payment provisions contained in the Annex II of the model grant agreement. Therefore, the part of the grant agreement dealing with liquidated damages is not applicable in the case where the U.S. legal entity does not receive EC financial contributions. Furthermore, no financial penalties are foreseen in this case. The only penalty that could be applied in these cases is the exclusion of the legal entity concerned from all EC grants for a maximum of two years starting from the date any infringement has been established.

B) For the case of the U.S. participants receiving an EC financial contribution the provision on liquidated damages and financial penalties applies to all the beneficiaries participating and receiving funding in the Framework Programme. The Commission applies the same treatment to all participants in this matter, including U.S. entities.

For this issue Special clause 9⁷ has been rephrased in the ECGA:

9. BENEFICIARIES WITH COSTS INCURRED IN RELATION TO THE PROJECT BUT NO EU OR EURATOM CONTRIBUTION (e.g. usually from third countries)

1. Costs incurred by the following beneficiary(ies) shall not be taken into consideration for determining the financial contribution of [the Union] [Euratom]:

---[name of beneficiary]

2. Part B of Annex II, with the exception of Articles II.23, II.25.2 and II.25.3 and any other financial and payment provisions contained in the grant agreement do not apply to beneficiary(ies) mentioned in the previous paragraph. This(ese) beneficiary(ies) need not submit, in particular, the reports mentioned in Article II.4.1.c) and II.4.4 and [is] [are] not subject to financial audits and controls referred to in Article II.22 3. When providing services or resources to another beneficiary, this(ese) beneficiary(ies) shall be considered as (a) third party(ies) for the purpose of the application of Article II.3 paragraphs c) and d).

2.3 Intellectual Property Rights issues

Exclusive licensing to third parties in third countries (A): Some participants have difficulties to accept the provisions concerning exclusive licensing. According to these provisions, in the case where a participant intends to grant an exclusive licence, the other participants must waive their access rights. In addition, the Commission may object to an intended exclusive licence to a third

⁷ Version 8, 14/11/2011



party established in a country not associated to FP7 (this includes the U.S.) for a limited number of reasons. A similar right to object can be found with regard to intended transfers of ownership of foreground to such third parties.

European Community position: With regard to the need of the waiver of other participants, it follows from the fact that a Community funded project is a unique collaborative project involving several participants working together. An exclusive licence would mean that no access could be given to other participants if they need it in order to carry out the project or use their own results. Therefore, it is possible that the project could not be completed or the results could not be used. To avoid such outcomes, the other participants must waive their access rights before any exclusive licences can be granted.

For this issue Special clause 11 and 36 has been introduced in the ECGA

Special clause 11:

With regard to the right to object of the Community, two cases must be distinguished:

- Where the participant does not receive Community financial contribution: in this case, a special clause (special clause 11 or 36) can — where appropriate - be inserted to confirm that the EC shall not object to the intended transfer of ownership of foreground or grant of an exclusive licence of foreground to a third party established in a third country not associated to FP7.
- Where the participant receives an EC contribution: The right of the EC to object is the general rule. In the negotiation phase, the Commission will identify whether the results are likely to be sensitive, in which case a special clause will be inserted into the grant agreement requiring the notification of intended transfers of ownership or grants of exclusive licences to the Commission. In any other case, participants are not obliged to notify the Commission.

11. For EU - NOTIFICATION TO THE COMMISSION REQUIRED IN CASE OF AN INTENDED TRANSFER OF OWNERSHIP AND/OR AN INTENDED GRANT OF AN EXCLUSIVE LICENCE

1. Where a beneficiary intends to transfer ownership of foreground or to grant an exclusive licence regarding foreground to a third party established in a third country not associated to the Seventh Framework Programme during the project and for a period of X1 years after its completion, it shall notify the Commission 90 days prior to the intended transfer or grant.

[...]

3. Notwithstanding Articles II.27.4 and II.32.8 and paragraph 2 above, the Commission shall not object to transfers of ownership of foreground or grants of an exclusive licence regarding foreground intended by beneficiaries that do not receive a financial contribution of the Union as long as the intended transfer or grant concerns foreground generated by



them. These intended transfers or grants are also excluded from the notification to the Commission mentioned in paragraph 1 above.]

Special clause 36⁸:

36. NO OBJECTION BY THE COMMISSION REGARDING TRANSFERS OF OWNERSHIP OR GRANT OF EXCLUSIVE LICENCES BY BENEFICIARIES NOT RECEIVING FUNDING

Notwithstanding Articles II.27.4 and II.32.8, the Commission shall not object to transfers of ownership of foreground or to grants of an exclusive licence regarding foreground to a third party established in a third country not associated to the Seventh Framework Programme intended by beneficiaries that do not receive financial contribution of [the Union] [Euratom] as long as the intended transfer or grant concerns foreground generated by them.

36TER (SPECIFIC FOR SECURITY RELATED PROJECTS) NO OBJECTION BY THE COMMISSION REGARDING TRANSFERS OF OWNERSHIP OR GRANT OF EXCLUSIVE LICENCES BY BENEFICIARIES NOT RECEIVING FUNDING

Notwithstanding Articles II.27.4 and II.32.8, the Commission shall not object to transfers of ownership of foreground or to grants of an exclusive licence regarding foreground to a third party established in a third country not associated to the Seventh Framework Programme intended by beneficiaries established in that third country that do not receive a financial contribution of the Union as long as the intended transfer or grant concerns foreground generated by this beneficiary based on his own background.

⁸ Version 8, 14/11/2011



[3. Issues to be negotiated among the consortium and with the EC]

3.1 Intellectual Property Rights issues

Protection of foreground: Some participants are reluctant to protect their results in all cases.

European Community position: First, the cost of the protection of intellectual property (IP) could be paid out of the EC grant as it is considered as an eligible cost. The reimbursement rate for costs relating to this activity is 100%. However, this must be indicated and clearly foreseen in the budget plan of the project proposal. Moreover, apart from the case where the results are not capable of industrial or commercial application, the legitimate interests of the participant can also be a reason not to seek protection. If a participant does not intend to protect his results this should be agreed upon among participants and discussed with the Commission before the start of the project.

Protection of foreground by the European Community: Some participants have concerns about the EC assuming the ownership and protecting the results in case of unwillingness to protect by the participant concerned. They object to the transfer of ownership to the EC or other participants.

European Community position: Normally, a participant will protect the results if it thinks that the results are commercially valuable. The participant is the best placed to make this judgment and it is unlikely that the EC would come to a different conclusion. Therefore the provision allowing the EC to protect the results in case the participant does not protect or transfer them is rarely used. Moreover, the participant concerned can forestall the action if it demonstrates that its legitimate interests would suffer disproportionately great harm if the EC chooses to act. However, in case the participant does not want to protect its results and the EC decides to do so, the latter will take over ownership and will protect it in its own name and not in the name of the participant

Protection of foreground by the European Community: Some legal entities are concerned by the fact that in case where they do not protect the foreground and the EC assumes the protection of the ownership, there is no time limit for the EC to act. This could therefore jeopardize publication of the results by the participant.

European Community position: It is true that the grant agreement does not indicate any limit to publication delay in the rare case the Commission intends to protect the project results. However, the Commission seeks to act within a reasonable time delay.

Dissemination of foreground (time-limits): Some participants are concerned about the dissemination of their results, in particular regarding the time limits related to the consultation of the other participants.

European Community position: The grant agreement lays down certain time limits in this respect in Annex II. However, it is clearly indicated in this provision that participants may agree on different



time limits than those laid down in the grant agreement. Therefore, different rules governing the delay of dissemination could be laid down in the consortium agreement.

Dissemination of foreground (reasons to object): A participant may object to the dissemination activities of another participant if the former considers that its legitimate interests in relation to its foreground or background could suffer disproportionately great harm. Some U.S. entities consider that this provision is too vague.

European Community position: The participants could agree to interpret the text of the grant agreement and therefore to clarify the reasons to object in the consortium agreement.

Access Rights to foreground: Some participants consider as a problem the extensive rights of consortium members to obtain on demand information regarding the results of another participant. This includes the particular case where other entities may enter the consortium without the agreement of all members. Thus, they would be agreeing to share information with unknown future participants.

European Community position: The grant agreement requires the agreement of the Commission and of the consortium for the addition of new participants. Therefore, the participants can decide in their consortium agreement that such a decision should be taken by unanimity.

Marie Curie international outgoing fellowships: In this type of fellowships, a European researcher is seconded to a host institution e.g. in the United States before returning to the European reintegration organisation. This host institution is not a beneficiary under the grant agreement and therefore does not have any rights to the results. However, the host institution might wish to assert certain rights to the results achieved during or for a period after the time of the secondment through a transfer of ownership.

European Community position: Transfers of ownership are considered on a case-by-case basis. It cannot be guaranteed that such transfers will be acceptable to the EC in all cases.

Here specific conditions related to this issue should be dealt with case by case



[4. Open issues]

4.1 Financial provisions

Exemption from the Guarantee fund: Some U.S. entities would like to be exempt from contributions to the Guarantee Fund.

European Community position: The Rules for Participation of FP7 set out in EC law the conditions for the participation of public and private undertakings, universities and research centers in the 7th Framework Programme. The Rules of Participation do not provide for the exemption of contributions to the Guarantee Fund, where they are normally paid.

Level of overheads: Some entities find the project overhead flat rates low compared to those they have negotiated with the U.S. Government.

European Community position: The overhead flat rates are fixed in the FP7 Rules for Participation. However, U.S. entities may choose to be reimbursed based on their actual overheads, if they consider the proposed flat rates too low.

Assessment of the final report: For some entities, the fact that the Commission only releases the last payment after approval of the final report is perceived as a risk that the Commission could censor the results.

European Community position: The Commission does not censor any results. However, the final report must be accepted by the Commission as a condition to make the final payment. The Commission will assess the report on the basis of the description of work contained in Annex I of the grant agreement, whose content was previously agreed during the initial negotiations.

Guarantee that the costs of the project will be paid as budgeted in Annex I: Some entities need to know in advance that their budgeted direct costs will be considered as eligible costs. They cannot risk that their costs will be deemed ineligible or that they will be forced to pay liquidated damages because of misunderstandings.

European Community position: The grant agreement provides for the payment of actual costs. The actual costs can only be verified once they are already incurred. However, the grant agreement contains the conditions for a cost to be accepted as eligible. Therefore, the participating legal entity knows in advance under what conditions direct costs are covered by the EC contribution. If they have any doubts on the interpretation of the model grant agreement clauses, a financial guide is available and there exists a legal helpdesk through which the Commission provides answers to participant's queries.

Liability issues, Indemnification: Some entities claim that they cannot indemnify contractual partners as a matter of law.

European Community position: The Participant shall indemnify the Community only in the cases where they themselves have caused damages and the Community has to indemnify on their



behalf. The Community cannot be expected to support the damage caused by a participant in the implementation of the grant agreement or by a product developed under a grant agreement

4.2 Applicable law

Application of European Community (EC) law: Some U.S. entities, mainly public ones, consider that legal constraints prohibit them from accepting a foreign governing law as the law governing the grant agreement.

European Community position: The European Commission is not in a position to accept that the EC as grantor would be subject to a law different from Community law and — on a subsidiary basis—different from an EU Member State law. (Belgian law has been chosen in order to treat equally any FP7 grant agreement.)

4.3 Intellectual Property Rights issues

Issue, Access rights to foreground for use : The grant agreement provides access to background and foreground for use which includes commercial exploitation. Participants have access rights to foreground or background of another participant if this is needed to enable the requesting participant to use its own foreground. Regarding background, participants could exclude specific background from the obligation to give access, but this is not possible regarding foreground. This poses a problem for some participants who claim that they cannot commit in advance to grant such access rights even under the above mentioned limited conditions.

European Community position: This rule to give access to foreground follows from the fact that such projects funded by the Community are collaborative projects, meaning that each participant should be able to use the results of such a project financed by EC public funds. In certain cases, such use is only possible by using the foreground of another participant. This is an important principle laid down in the Rules for Participation.

Issue, Transfer of data and export control laws: Some participants are concerned that export control laws might not allow these participants to grant access to certain data and therefore that they might not be able to give the access required under the grant agreement.

European Community position: It is clear that export control laws must be respected in both the U.S. and Europe. This is explicitly foreseen in the grant agreement. The compliance with export control laws should be reviewed as much as possible in advance to ensure that the project can be completed. However, if during the course of the project it is discovered that export control laws make foreseen activities impossible; the project will have to be amended or terminated.

4.4 Administrative issues

Issue, Differences between the grant agreement and consortium agreement: For some entities the differences between the consortium agreement and grant agreement are unclear.



European Community position: The grant agreement regulates the rights and obligations between the consortium and the EC for the implementation and financing of the project. It is signed between the participants and the Commission representing the EC. The consortium agreement on the other hand regulates the rights and obligation among the participants and the Commission is not a party to it. The consortium agreement can clarify or regulate issues that are not included in the grant agreement but it should be consistent with the content of the grant agreement.

Issue, High administrative burden and risk: Some entities see a high administrative burden and risk in connection with participating in FP7.

European Community position: The U.S. partners should decide whether they are willing to invest the time and effort required to learn the FP7 rules. However, the Commission would like to point out that guidance is offered to potential participants in the form of written guides and through the FP7 helpdesk.



[Conclusions]

The main conclusion of the workop is that most of the identified issued were only perceived due to a lack of knowledge of the EC Grant Agreement. Indeed the participants agreed that no blocking factors can prevent a US participant to participate to an FP7 project if the scientific and the tecnological level is excellent.





[Annex I: List of participants]

Name	Organization
Elizabeth Daugharty	<i>Office of Science and Technology Cooperation Bureau of Oceans, Environment and Science</i>
Graham M. Harrison	<i>Office of International Science and Engineering National Science Foundation</i>
Eileen Gallagher	<i>George Mason University</i>
Kim Jervey	<i>George Mason University</i>
Izabella Zandberg	<i>EURAXESS Links USA Project Manager</i>
Norman Hebert	<i>Brown University</i>
Tom Wang	<i>AAAS</i>
Shawna Vogel	<i>Massachusetts Institute of Technology</i>
KOCH Astrid Christina	<i>EEAS</i>
Tom Moreland	<i>ARS Office of International Research Programs</i>



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