

## IP specificities in research for the benefit of SMEs

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## Introduction

Within the Capacities Programme under the Seventh Framework Programme (FP7), the European Commission (EC) set up a specific financial support targeted at innovative small and medium-sized enterprises (SMEs) wanting to invest in the acquisition of new knowledge to improve their competitiveness. Designated as the “**Research for the benefit of SMEs**”, this funding scheme has been specifically created to strengthen the *innovation capacity* of SMEs throughout Europe. The purpose of this support is to help them outsource research and extend their international network. It also aims at increasing their research efforts and better exploiting research results.

In order to achieve these objectives, and to also bridge the gap between research and innovation, *research-acquiring SMEs*<sup>1</sup> are incentivised to invest in Research and Technological Development (RTD)

<sup>1</sup> *SMEs* with little or no research capacity which need to outsource to specialised organisations (**RTD performers**). The category also includes *research-intensive SMEs*, which need to outsource in order to complement their core research capability.

projects and subcontract research to **RTD providers** (e.g. universities, research centres or other *research-performing SMEs*<sup>2</sup>) in order to obtain the necessary technological know-how.

The connection between SMEs and RTD performers could be assimilated to the “customer-seller” relationship. That is, in order to improve their business SMEs buy knowledge from RTD performers, who in turn sell their expertise and research results. Yet, beside the gain of know-how, the main return of the SMEs’ investments is the acquisition of Intellectual Property Rights (IPR) deriving from such research.

Research for the benefit of SMEs actions are driven by the common FP7 rules on Intellectual Property (IP). However, they contain some specificity that makes their IP regime slightly different in terms of access rights and ownership of foreground<sup>3</sup>. In fact, this programme is regulated under a specific model of Grant Agreement (GA), and managed by the Research Executive Agency (REA), a funding body created by and supporting the EC. Passing through a brief introduction of the funding scheme objectives, the main purpose of the present fact sheet is thus to highlight the IP rules specific to these actions.

## 1. Actions for the benefit of SMEs

The research for benefit of SMEs funding scheme, which sees SMEs as direct beneficiaries, is implemented by means of two distinct actions:

- Research for SMEs
- Research for SME Associations

The former allows research-acquiring SMEs to obtain EU financial support as a consortium of individual SMEs, the latter as consortium of SME Associations-Groupings (SME-AGs)<sup>4</sup>. In both cases, the purpose is to generate research results that have an economic impact on the participating SMEs. The economic “benefit” is therefore crucial for these actions.

### 1.1. Research for SMEs

This action aims at supporting **small groups of innovative SMEs** in solving common or complementary technological problems. The projects funded under this scheme have the purpose to create new knowledge or producing results through the RTD performers’ collaboration. Yet, such projects must bring about clear potential for the SMEs involved in order for them to improve, develop and economically exploit new products, processes or services.

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<sup>2</sup> SMEs having the ability to conduct research ‘in-house’.

<sup>3</sup> To have an overview of the common IP regime in FP7 Programmes, we strongly recommend reading the three fact sheets “How to manage IP in FP7 during the proposal stage”, “How to manage IP in FP7 during the negotiations stage” and “How to manage IP in FP7 during and after the project”, all available at [www.iprhelpdesk.eu](http://www.iprhelpdesk.eu).

<sup>4</sup> SME-AGs are legal persons, composed mostly of and representing the interests of SMEs (e.g. *industrial associations, national or regional industrial associations and chambers of industry and commerce*).



Projects must be appropriate to the overall business and innovation needs of any of the SMEs participating in the consortium, with a view to improving their international network for medium to long-term business development.

Consortia must be composed as follows:

- at least **three independent SMEs** established in three different Member States or associated countries;
- at least **two RTD providers** (including research-performing SMEs) from any country which must be independent from any other participant;
- **other enterprises** and **end-users** may participate by making a particular contribution to the project. They must also be independent from others participants.

## 1.2. Research for SME-Associations

This scheme supports **SME-AGs** in developing solutions to technical problems common to a large number of SMEs in specific sectors, by means of a research that cannot be carried out under the *research for SMEs* scheme, with the aim of promoting the effective dissemination and take-up of results. Projects in this activity may in general address technological problems of whole industrial sectors and more specifically topics related to the development and implementation of European standards, new business, management, production and service models as well as technological problems related to the development and implementation of legislation.

Consortia must be composed as follows:

- at least **three independent SME-AGs** established in three different Member States or associated countries;
- at least **two RTD-providers** (including research-performing SMEs) from any country which must be independent from any other participant;
- **other enterprises** and **end-users** may participate by making a particular contribution to the project. They must also be independent from others participants.

## 2. IP within SMEs specific-actions

As already mentioned, IP rules in the research for the benefit of SMEs programme have a specific regime due to the overall aim of this funding scheme, which is to support SMEs outsourcing their research activities to achieve results that be economically exploited. All this produces evidently consequences in terms of ownership of such results as well as access rights for their use and exploitation.

It is stressed once more that the research for the benefit of SMEs programme follows the common FP7 IP rules. The following paragraphs will point out some specificities and must be integrated with the broader



regulation provided for IP in FP7. It is therefore strongly recommend also taking a look at the previous fact sheets on fundamental IP issues in any FP7 project published by the IPR Helpdesk<sup>5</sup>.

## 2.1. The transaction

It has been said that the relationship between SMEs and RTD performers is a “customer-seller” one, since the EU funding enables SMEs to buy research from RTD providers, who sell them their expertise, labour and know-how. Indeed, SMEs are prepared to subcontract research as long as they can in return derive the benefit of the IPR generated therein.

All the aspects related to this relationship have to be regulated within the so-called “**transaction**”. More specifically, before submitting the proposal, the consortium parties must agree on the terms of **remuneration** of the RTD providers as well as on the **IP rights retained** by the SME-participants. *All the conditions applicable to the ownership of foreground and access rights between SME-participants and RTD providers are then set through the transaction.*

It should be highlighted that the preferred option is that SME-participants obtain the full ownership of foreground. Consequently, RTD performers must be remunerated according to the value of the intellectual property acquired by the SMEs<sup>6</sup>.

The transaction, which becomes part of Annex I of the GA, is particularly important as *it prevails on the IP related provisions contained in the Annex II of the GA*. Once the GA is signed, the transaction conditions may only be modified through a formal procedure following (after) the REA’s approval.

## 2.2. Consortium agreement

As in any other FP7 programme, the Consortium Agreement (CA) is a document of great importance. This contract in fact is envisaged as an instrument through which developing and supplementing aspects that are specific to your project, in particular the internal management for the future use and dissemination of foreground by all project partners. As regards such an administration, below it is shown a non-exhaustive checklist of IP issues that should be taken into account when drafting a CA.

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<sup>5</sup> See above, note 3.

<sup>6</sup> The transaction prices should respect the market conditions. Moreover, SMEs must bear all the costs occurred during the research and related to the project implementation.

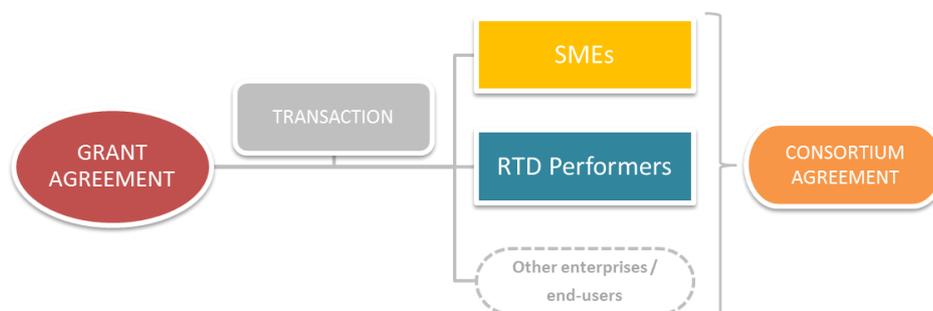
### CA checklist for IP issues

- ✓ Confidentiality
- ✓ Pre-existing IP
- ✓ Use of IP generated parallel to the project
- ✓ Ownership / joint ownership of results
- ✓ Legal protection of results
- ✓ Commercial exploitation of results and any necessary access rights

It is fundamental to bear in mind that the CA, although regulating internal issues between participants, **cannot affect the rights and obligations of each beneficiary as established in the transaction**. Besides, it is not allowed to contradict or negate the other provisions embedded within the GA.

Consortia are then required to sign a CA before signing the GA, or *at latest two month after the beginning of the project* providing further details, alongside those already reflected in the transaction, on the management of the IPR, ownership and access rights (e.g. licences and royalties), **among themselves** during and after the project.

Models CA in circulation are not drafted for the “Research for the benefit of SMEs” use purpose. However, as for any model contract, they can be shaped in order to be adapted for the project and its participant’s needs.



### 2.3. Foreground

Participants should deal with foreground ownership in the **transaction** as well as in the **CA**. In both cases, no decision should be taken against the interests of SME-participants.

- a. Within the **transaction** the consortium must choose the regime to follow as regards the ownership of all the project results. It should be noted that the **IPR default regime is the one desired by the REA**, given the funding scheme rationale to give SMEs the opportunity to commercially exploit the results achieved through the project for their own **economic benefit**. Thereafter, the default regime foresees that foreground be retained by the SME-participants and that RTD providers be remunerated accordingly.

However, participants may agree on a *different regime*, following the interests of the consortium (e.g. RTD performers keep the ownership and SMEs acquire licences<sup>7</sup>). Nevertheless they **must guarantee** that SMEs be conferred **all of the rights necessary** for using and disseminating the project results. Indeed, this will entail a different remuneration for RTD performers retaining part or the entire foreground ownership. Should this be the case, the consortium has also to clearly define how RTD providers will exploit the IPR.

- b. Once the regime has been defined in the transaction, participants should move on and further regulate other aspects related to foreground management in the **CA**. For example, once the consortium has agreed that project results will be held by SMEs, they will need to decide whether the ownership of such results will be equally assigned between the SME-participants or foreground will be jointly owned by them. If they choose to portion the property, they should outline the sharing of the different IPR between SMEs proportional to their contribution to the project and in line with their business strategy. Where IPR are shared, the group must provide each participant with all the necessary access rights to use and disseminate foreground.

Where applicable, the consortium should also describe which rights will be given to “**other enterprises and end-users**” for the use and dissemination of foreground, provided that the latter have made some investment in the project.

### POSSIBLE SCENARIOS

Foreground ownership		Remuneration	Access rights
<b>Default regime</b>	Foreground is retained by the SME-participants	Remuneration is provided to RTD performers according to the IP acquired by the SMEs	Access rights to foreground for further research may be granted to RTD performers only if agreed between owners
<b>Alternative regimes</b>	<ul style="list-style-type: none"> <li>a) RTD performers own foreground and SMEs acquire licences</li> <li>b) RTD performers and SMEs jointly own foreground</li> </ul>	Different remuneration for RTD performers. Consortia have to explain how RTD providers co-invest in the project and clearly define how they exploit the results	All of the rights necessary for using and disseminating the project results must be guaranteed to SMEs

<sup>7</sup> In this case, the consortium has also to explain how RTD providers **co-invest** in the project. Moreover the price and payment modalities agreed between RTD performers and SMEs should reflect the value of the intellectual property rights and knowledge acquired, meaning for example that the price of a licence should be lower than the price for ownership of all results.

### 2.3.1 Joint ownership

Unless the sharing of foreground is agreed between SME-participants, **project results are jointly owned by default**. This common regime has been chosen since the optimal scenario is that all the SMEs be able to commercially exploit the IP generated under the project for their economic interest. In such case, the CA is an appropriate document to regulate the terms of exercising their rights. Participants may also choose to regulate joint ownership case-by-case via specific **joint ownership agreements**.

## 2.4. Background

In principle the handling of background follows the common FP7 IP rules, so that it is **never affected by participation** in projects. Therefore, a positive and/or negative list should be created to clearly define the background to be brought into the project by participants, as well as their wish to exclude access to some specific elements of their background. It is advisable to manage background within the CA.

The main distinction is related to the granting of access rights to background and will be examined in the next paragraph. What should however be highlighted is that **RTD performers** should grant access to **all of their relevant background** as another fundamental aim of these actions is to allow SMEs to gain technological know-how.

## 2.5. Access rights

In actions for the benefit of SMEs, access rights to **needed** background and foreground should be clearly defined within the transaction as well as in the CA and must be agreed by all the consortium partners. As a rule, access rights **are granted without the right to sub-license**<sup>8</sup>. In the action for SME/AGs, however, a particular provision allows the associations to sub-license any access right they might have received from other participants, with the purpose to make single SME-participants in the best position to exploit foreground<sup>9</sup>.

- a. *Implementation* – Access rights to **background** in order for the project to be carried out should be **royalty-free**, unless parties decide to adopt a **different scheme** that must be agreed upon **before signing the GA**.

Nevertheless, **RTD performers must always grant access rights to background on a royalty-free basis**.

Regarding **foreground**, access rights to it for implementing the project **must always be royalty-free**.

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<sup>8</sup> Unless a separate agreement is negotiated, Article 48.2 RfP – Article II.32.5 GA.

<sup>9</sup> This applies when partners are established in a Member State or Associated country. Otherwise, for members established in other (third) countries, sublicensing needs to be agreed on a case-by-case basis, and is not mandatory (can be refused).

b. Use – When access right to **background** is requested for the use of foreground (i.e. exploitation and/or further research) this can be granted either **royalty-free or on fair and reasonable conditions**.

The same rule applies to access **foreground** for use purposes.

It is also worth noting that **access rights to foreground for the purpose of pursuing further research** may be granted to **RTD performers** as long as an agreement of all the concerned owners has been reached.

Access to	BACKGROUND		FOREGROUND	
	for implementing the project	for use of foreground	for implementing the project	for use of foreground
<b>is</b>	Royalty-free, unless otherwise agreed before acceding to the GA	Royalty-free or on fair and reasonable conditions	Royalty-free	Royalty-free or on fair and reasonable conditions
<b>but</b>	Access to RTD performers' background must be royalty free	RTD performers must grant access rights on a royalty-free basis, unless fair and reasonable conditions have been agreed before acceding to the GA		Access may be granted to RTD performers on fair and reasonable conditions for further R&D purposes

Bear in mind that the consortium must define the **terms of access under fair and reasonable conditions before acceding to the GA**. That is, participants need to agree and outline in the transaction the appropriate conditions, including possible financial terms, taking into account the specific circumstances of the request for access. To this end, they should take into consideration for example the actual or potential value of background or foreground to which access is requested and/or the scope, duration or other characteristics of the use envisaged.

## 2.6. Economic impact through the use and dissemination of project results

The overall goal of the concerned actions is to allow the SME-participants to create innovation and then enhance their competitiveness in the international market. Consequently, dissemination and exploitation of the project results are key factors to the achievement of this goal and should foresee concrete actions for the sake of the SMEs' economic benefit.

Already at the *proposal stage* the consortium has to provide a clear "**plan for the use and dissemination of foreground**", describing how IP issues will be managed during and after the project. After indicating

how the expected results will be **protected**<sup>10</sup>, participants should describe the industrial and commercial route envisaged for their exploitation with a view to having a strong market potential.

The economic impact project results are expected to have on SME-participants should be assessed in terms of economic growth, market strategy (IP strategy included) and business internationalisation among others. For this purpose the inclusion of demonstration activities within the project is encouraged by the EC in order to reveal the viability of a new solution that does have economic potential but still needs further R&D. It is clear that such activities should anticipate the path to successful commercialisation.

While in individual SME actions, dissemination activities are usually realised by the single SME-participants, in actions for SME-AGs these activities are carried out by the respective Association. The handling of IPR should be embedded in a broader knowledge management approach, so that it is recommended setting an IP management body to be also included in the plan under consideration.

Here below there is an overview of the most important questions related to IPR issues that should be answered **positively** when preparing a project proposal:

1. GENERAL QUESTIONS		
Consistency with the Programme's objectives and IPRs guidelines.	Are the terms and conditions described in the transaction in line with the objectives of the "Research for the benefit of SMEs" actions?	[Yes or No]
Completeness of information	Are <b>all</b> the terms and conditions of the transaction described?	[Yes or No]
Partners agreement	Have all partners agreed upon the terms and conditions of the transaction?	[Yes or No]
IPR searches	Have you done a patent search and how many relevant documents did your patent search come up with?	[Yes or No]
Knowledge management	Have you appointed a body to coordinate the IP related issues?	[Yes or No]

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<sup>10</sup> Note: no dissemination activities may take place before any protection of foreground.

2. BACKGROUND		
Background covered (Art. 47 RfP)	Have you identified the background needed for the purposes of the project in a written agreement?	[Yes or No]
	Have you listed the background needed for the purposes of the project in the proposal?	[Yes or No]
	Have you agreed on the relevant conditions?	[Yes or No]
Access rights for implementation (Art. 49 RfP)	Have you agreed on access rights to background for carrying out the project between participants?	[Yes or No]
Access rights for use (Art. 50 RfP)	Have you agreed on access rights to background needed to use the foreground between participants during and after the project?	[Yes or No]

3. FOREGROUND		
Ownership of foreground (Art. 41 RfP)	Have you agreed upon who will own the produced foreground?	[Yes or No]
	Have you agreed on how ownership of the produced foreground will be shared?	[Yes or No]
	Have you agreed on the relevant conditions?	[Yes or No]
	Have you agreed on the remuneration to be paid to the RTD performers?	[Yes or No]
Protection of foreground (Art. 44 RfP)	Have you agreed on which IPR will be used to protect the produced foreground?	[Yes or No]
	Have you agreed on who will be responsible of this protection?	[Yes or No]
Access rights for implementation (Art. 49 RfP)	Have you agreed on access rights to foreground between participants to carry out the project?	[Yes or No]
Access rights for use (Art. 50 RfP)	Have you agreed on access rights to use foreground during and after the project?	[Yes or No]
	Have you agreed on fair and reasonable conditions to access the foreground?	[Yes or No]

## Useful Resources

For the preparation of this fact sheet, the European IPR Helpdesk had in consideration the “*Guide to Intellectual Property Rules for FP7 Projects*”, the “*Work Programme 2012*” and the “*Guide for applicants*” for research for benefit of SMEs prepared by the EC.

Sources of Model Proposal:

**EDIPAC** (*Full example project proposal*) – <http://www.ncp-sme.net/publications/2edipac.pdf>

For further information on the topic also see:

- *Rules for the Participation in FP7 projects:*  
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:391:0001:0018:EN:PDF>
- *Guide to IP Rules for FP7:* [ftp://ftp.cordis.europa.eu/pub/fp7/docs/ipr\\_en.pdf](ftp://ftp.cordis.europa.eu/pub/fp7/docs/ipr_en.pdf)
- *Strategic Guide to Successful Use and Dissemination of the Results of Research and Development Projects:* [http://ec.europa.eu/research/sme-techweb/pdf/use\\_diffuse.pdf#view=fit&pagemode=none](http://ec.europa.eu/research/sme-techweb/pdf/use_diffuse.pdf#view=fit&pagemode=none)
- *FP7 Grant Agreement –ANNEX III - Specific provisions related to “research for SMEs” or “research for SME associations”:* [ftp://ftp.cordis.europa.eu/pub/fp7/docs/fp7-ga-annex3-sme-v2\\_en.pdf](ftp://ftp.cordis.europa.eu/pub/fp7/docs/fp7-ga-annex3-sme-v2_en.pdf)
- *Research for SMEs at a glance:* [ftp://ftp.cordis.europa.eu/pub/fp7/docs/research\\_smes\\_en.pdf](ftp://ftp.cordis.europa.eu/pub/fp7/docs/research_smes_en.pdf)
- *Research for SME associations at a glance:* [ftp://ftp.cordis.europa.eu/pub/fp7/docs/research\\_smes\\_assoc\\_en.pdf](ftp://ftp.cordis.europa.eu/pub/fp7/docs/research_smes_assoc_en.pdf)
- *Research for the benefit of SMEs information package:*  
<http://ec.europa.eu/research/participants/portal/page/capacities?callIdentifier=FP7-SME-2012>

### GET IN TOUCH



**For comments, suggestions or further information, please contact**

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The European IPR Helpdesk aims at raising awareness of Intellectual Property (IP) and Intellectual Property Rights (IPR) by providing information, direct advice and training on IP and IPR matters to current and potential participants of EU funded projects focusing on RTD and CIP. In addition, the European IPR Helpdesk provides IP support to EU SMEs negotiating or concluding transnational partnership agreements, especially through the Enterprise Europe Network. All services provided are free of charge.

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**Website:** On our website you can find extensive information and helpful documents on different aspects of IPR and IP management, especially with regard to specific IP questions in the context of EU funded programmes.

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