GROUP OF EIGHT

IN THE INTERESTS OF INNOVATION

TIME FOR A NEW APPROACH TO NEGOTIATING RESEARCH AGREEMENTS BETWEEN THE COMMONWEALTH AND AUSTRALIAN UNIVERSITIES

A supplementary submission from the Group of Eight to the Review of the National Innovation System

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PREFACE

Concerns are held across the Group of Eight (Go8) that the standard terms sought by the Commonwealth when entering into research agreements with universities misunderstand the role and nature of universities; are unnecessarily onerous and impractical; often cause delay and uncertainty due to their complexity; and serve to stifle knowledge transfer and innovation by restricting the capacity of universities to disseminate the results of the sponsored research for public benefit.

This submission to the Review of the National Innovation System has been prepared by the legal counsel of all Go8 universities to propose options for addressing these issues. It has been endorsed by all Go8 Vice-Chancellors and complements the Go8's main submission ***Adding to Australia's capacity: the role of research universities in innovation***.

The Go8 believes that the Review presents an opportunity for the Commonwealth and the university sector to seek to reach agreement over a new set of principles to underpin research agreements—principles designed to ensure that Commonwealth/university research agreements serve to maximise efficiency, certainty and the potential for public benefit to flow from publicly funded research.

INTRODUCTION

Public universities occupy a unique place in society. Although they receive some public funding, they are not part of 'government' and although often large in corporate terms, they are not so much 'private' as non-profit bodies. Their independent role as teaching and research institutions is reflected by provisions in their enabling legislation which include references to 'free' and 'critical' enquiry, the 'dissemination of knowledge', 'promoting public debate', 'academic independence' and 'operating with integrity'. These goals reflect the general principle that universities should operate with academic freedom:

> *At its simplest, academic freedom may be defined as the freedom to conduct research, teach, speak, and publish, subject to norms and standards of scholarly inquiry, without interference or penalty, wherever the search for truth and understanding may lead.*[1]

This important function and role of universities is often not recognised by government in its various forms, by non-government organisations or private firms when they seek to commission research at Australian universities. Instead, the terms sought are often unduly onerous, complex, impractical and require protracted negotiation before the research can commence.

Any unreasonable restrictions upon the transparent conduct of research and its rigorous reporting reduces the standing of the institutions with a consequential detriment to all who engage universities to conduct research.

The Go8 believes that the contribution Australian universities make to the innovation system and society more broadly would be enhanced if the terms of all agreements governing Commonwealth/university research projects could be simplified, and if such agreements were consistently underpinned by principles designed to maximise the dissemination and take-up of the outcomes of university research.

This paper offers eight principles to stimulate discussion about the desirability and feasibility of Australia developing standard research contract 'agreements' or 'templates' which clarify and simplify the research contract negotiation process between the Commonwealth and universities.

[1] Report of the First Global Colloquium of University Presidents May 2005

PRINCIPLES

Proposed principles to underpin future research agreements between the Commonwealth and universities:

1. **Respect for the right to publish.**
   The timely dissemination of research results from properly constructed research carried out by researchers, in publicly funded institutions such as universities, is a fundamental tenet of the concept of academic freedom.
2. **Intellectual property ('IP') created by universities should be owned by universities.**
   Subject to limited exceptions, in order to encourage and recognise the creative endeavours of academics and to ensure that new IP is owned by the party which has the best chance of disseminating it in the public domain, IP created by universities should be owned by universities.
3. **Licences for background IP should be limited to those required in order to use the IP which is the outcome of the particular research project.**
   The Commonwealth should not need a licence to modify, adapt or exploit background IP.
4. **IP warranties and indemnities must be reasonable.**
   Government should not seek to transfer to universities all risk relating to the use of IP that results from research it funds, or any background IP it seeks the right to use.
5. **'No conflict of interest' clauses should not undermine the academic independence of universities.**
   It is in the public interest for universities to be encouraged to be strong public research organisations which attract funding from many different sources to support the conduct of high quality research in diverse, often competing, areas.
6. **Suspension and termination rights should be reasonable.**
   There is no justification for the Commonwealth engaging universities to perform important research on terms which are less favourable to universities than the terms which most commercial service providers would be prepared to accept.
7. **The Commonwealth should not seek to impose indemnities which extend beyond the reasonable losses that would normally be recoverable at common law and which may not be covered by a university's insurance.**
8. **The moral rights of academic authors must be respected.**

Recommendation

The Go8 recommends that the Review of the National Innovation System proposes that the White Paper that ensues includes a commitment to a whole of Commonwealth review of research contracting arrangements with Australia's universities.

Research agreements

The agreements that are contemplated by the principles outlined in this paper are those that provide funds for the original investigation of new knowledge, whether styled as research, grant or 'consultancy' agreements. However, those agreements that fund the application of existing knowledge or expertise of an individual academic to achieve particular targeted outcomes are more appropriately described as consulting arrangements and not all of the principles discussed are intended to apply to those agreements.

'Research' agreements originate from all aspects of the Commonwealth's operations, not just from 'traditional' research funding sources, and appear to reflect common drafting instructions. The stance taken by the Commonwealth, as the major funder of research in Australia, should not be underestimated—it resonates through State and private sector research funding agreements.

Whilst the strong, independent reputation of universities is relied upon when the research projects are awarded and research outcomes publicised, the actual funding agreements the Commonwealth uses often contain clauses that undermine the basic principles articulated in this paper. The agreements therefore often impede the objects and role of universities through clauses that are unduly onerous, impractical or ignore the context of the public place and role of universities.

Of further concern are the increasingly lengthy negotiations needed to reach agreement, and the consequent diversion of significant resources by both government and universities. Lengthy contractual negotiations distract both parties from their respective missions, and can lead to unnecessary time delays in commencing the research.

In other countries such as the UK and Ireland, the principles underlying research agreements with universities have been agreed between the sector and government through the adoption of model research contract templates.[2] In these countries, the principles underpinning the templates guide the negotiation of research contracts between universities, government and other non-government parties.

[2] http://www.innovation.gov.uk/lambertagreements/ & http://www.forfas.ie/publications/show/pub284.html

Proposed principles to underpin research agreements between the Commonwealth and Australian universities

1. Universities must be allowed to publish

The timely dissemination of research results from properly constructed research carried out by researchers, in publicly funded institutions such as universities, is a fundamental tenet of the concept of academic freedom.

1.1 The validity and credibility of university research relies upon the fact that the academic environment fosters an open and independent approach, where staff are free to reveal and challenge theories, knowledge and understanding in accordance with internationally accepted scholarly norms. Significantly, outcomes from university research should be able to withstand scrutiny at all levels. These factors, combined with the profile and reputation of leading academic researchers, explain why external funding bodies seek to engage universities to undertake research.

1.2 Where university research is undertaken using external funding, whether from government or non-government sources, the dissemination of the research results should be a key objective or outcome. Any government or non-government body which provides funding for research is entitled to specify the scope of the research it intends to support, and to insist on controls to monitor the quality and timeliness of the work it is supporting.

1.3 However, any external funding body should not seek the right to alter, suppress or indefinitely delay publication of all or part of the outcomes of sponsored research. Nor should it seek to interfere in, or alter the content or conduct of sponsored research.

1.4 It is recognised that commercial considerations might sometimes require short, finite delays in publication. However, the right to publish the results of all research in a timely manner is a critical tenet of the concept of academic freedom and of the integrity of the research process.

2. Ownership of intellectual property ("IP") created by universities rests with universities

Subject to limited exceptions, in order to encourage and recognise the creative endeavours of academics and to ensure that new IP is owned by the party which has the best chance of disseminating it in the public domain, IP created by universities should be owned by universities.

2.1 Research is undertaken by universities for the purpose of advancing knowledge in the hope of finding solutions to problems affecting the community, transferring new knowledge into the public domain and using it to educate and develop new generations of scientists and scholars. Universities are uniquely placed to undertake these activities.

2.2 Intellectual property is the outcome of intellectual endeavour. It can sometimes be registered, in the form of patents, designs and the like, and sometimes not, in the form of confidential information, know-how or even copyright. The creation of new IP can be visualised as adding links to a chain. Established researchers have developed their 'chain' over the years of their research career. If different 'links' in their body of knowledge and expertise are subject to different ownership regimes, then the creation, dissemination and future use of any new IP they and their associates create, and indeed the whole 'chain' they have developed, is potentially compromised. At a minimum it is unduly complicated, necessitating a review every time new research funds are received as to whether or not the researcher and his or her institution can comply with the terms of the corresponding research agreement. As many research agreements are for relatively modest amounts, if a true cost benefit analysis were undertaken, it would in many instances dictate that the research project in question was not viable, especially as the future development of the subject IP could be hindered.

2.3 Government is generally not established to create IP or to transfer new IP into the public domain. It is arguably not in the public interest for governments to claim ownership of IP created by universities, unless they seek to control that new knowledge, enlarge upon it and actively disseminate it. While government may require rights to use IP created by universities, it is not best placed or equipped to improve, disseminate or transfer IP into the public domain.

2.4 When a government funds research it may wish to receive the first disclosure of the outcome of the research and a right to use the copyright in research reports prepared by the universities for its purposes. In rarer cases, a government may also require a right to use other broader IP, such as patentable IP arising from university research. However, the right to use IP is to be contrasted with ownership of such IP.

2.5 Governments of many countries have accepted the proposition that universities own the IP they create as the universities are the most appropriate bodies to promote development and transfer of the IP. This proposition has been enacted in legislation such as the Bayh-Dole Act in the United States, with similar legislation in many European countries and others such as Japan and Israel. The positive impact of the legislation on the number of invention disclosures recorded by universities and translation of the research into the community is well documented.[3]

2.6 Notwithstanding the foregoing, the internal IP regimes of each university need to recognise that not all IP may be owned by universities, eg in relation to so-called 'scholarly works', or in IP that may have been created in whole or in part by students, honorary appointees or visitors. There may also be other forms of third party rights, not with government, where for various reasons IP is to be owned by the third party.

[3] See for example, Levensen D. (2005) "Consequences of the Bayh-Dole Act", *The Economist* (2002) "Innovation's Golden Goose", 12 December 2002

3. Broad background intellectual property licences

Licences for background IP should be limited to those required by a government in order to use the IP which is the outcome of the particular research project. A government should not need a licence to modify, adapt or exploit background IP.

3.1 Background IP is that created prior to or developed independently of a particular research project undertaken as a result of a funding agreement. Background IP may be owned by the university or a third party. It is in essence part of the 'chain' of research that has been created, often over many years and without necessarily any contemplation of the particular research project now being funded.

3.2 More broadly, to advance knowledge and meet the other goals of a public university, it is important not to encumber existing stores of knowledge merely to support one project at one point in time. This may happen, for example, where an exclusive licence to use that background IP (assuming that such a licence is within the capacity of the university) is granted to a funding body.

3.3 Broad compulsory background IP licences to a government that extend beyond what can reasonably be required to support use of project IP are problematic because:

- Universities will not always have the rights to be able to grant such licences. The background IP may not be owned exclusively by the university, although the university may have rights to conduct research using it. For example, if the research project uses data obtained under licence from a third party such as the OECD, the university cannot provide a licence to the government to 'modify, adapt and exploit' such data.
- Prior to a research project commencing it is often not feasible for a university to audit all possible categories of existing IP which may be used.
- The same background IP is often used in many different projects creating overlapping rights.
- Such extensive licences, which are not required for immediate use by the funding body to exploit the results of the research, reduce or jeopardise the university's freedom to deal with its own IP and mean that broad categories of university IP are rendered unavailable to be licensed to other parties and commercialised for the public benefit.

3.4 Therefore, access by government to any background IP used in a research project should be limited to those items that are required to enable the specific IP that is the outcome of the particular research project to be used.

3.5 Rights to background IP should only extend to items which the university is in a position to license. Even when this is the case it is unreasonable for governments to seek an extensive licence to modify, adapt or exploit background IP which has been used for a specific research project.

3.6 It is also unreasonable for governments to request that the university obtain such rights direct from a third party at the university's cost. In these situations the relevant university should be under an obligation only to advise government of the third party right and it should then be up to the government to negotiate the relevant licence it requires.

4. Broad intellectual property warranties and indemnities

Government should not seek to transfer to universities all risk relating to the use of IP that results from research it funds, or any background IP it seeks the right to use.

4.1 Broad warranties to the effect that background IP and any new IP created in carrying out a research project will not infringe the IP rights of any third party are a fiction and cannot be verified by universities.

4.2 The practical effect of the inclusion of provisions which require universities to indemnify government against any loss or liability it may incur as a result of its use of any project IP is that the government transfers all risks of potential challenges to rights in the background IP and the project IP to the university. This transfer of risk invariably occurs in the absence of funding commensurate to the risks involved.

4.3 There is risk inherent in conducting any research and in using and developing the outcomes. Universities generally accept the risks associated with conducting research. The risks associated with using and exploiting the outcomes of research should generally be borne by the party seeking to undertake the activities. It is unreasonable for government to seek to transfer the risk associated with its use of IP to universities.

4.4 This is particularly so as the universities will not have any role in or control over the use of those outcomes. Whereas, by contrast, the government is in a position both to ascertain the extent to which, if at all, its proposed use of those outcomes, may expose it to the risk of claims and to manage that risk.

4.5 Further, universities do not have the resources, including the financial resources, to carry out any substantive IP due diligence prior to commencing a particular research project. It would be impractical for them to do so even assuming it was possible to identify all background IP which would inform a research project. Nor is funding provided in research funding agreements to conduct due diligence at the level required to satisfy such a warranty. Even where IP searches are conducted, the results never provide 100% certainty that all third party rights have been identified.

4.6 The insistence on unlimited IP warranties and indemnities, especially when combined with the demand for broad background IP licences and ownership of project IP in a government's favour, simply purport to transfer all risk, and potentially none of the benefits associated with research, to universities.

5. 'No conflicts' clauses

Broad 'no conflict of interest' clauses undermine the academic independence of universities. It is in the public interest for universities to be encouraged to be strong public research organisations which attract funding from many different sources to support the conduct of high quality research in diverse, often competing, areas.

5.1 As a matter of principle, it is inappropriate to ask universities to warrant that nothing they do will conflict with the conduct of a particular project or the interests of a government department which funds a particular research project. Maintaining the independence of universities is essential to maintaining their academic integrity.

5.2 It is of benefit to the community for universities to conduct research in as many different areas as possible and unreasonable fetters on a university's right to conduct research should not be accepted. It is unreasonable, if as a result of a funding agreement, one research team accepts funding from a particular agency on terms which undermine the ability of other areas of the university to conduct related research activities. Beyond that, such clauses unreasonably proceed upon the premise that universities can at any time know of all the research projects which are being undertaken within them.

5.3 Government funding agreements should not contain a 'no conflicts' clause because:

- Each university is bound to carry out the funded work in accordance with the terms of the agreement, and it is implicit that the work will be carried in accordance with required academic practice. Such duties can also be captured in positive obligations to conduct research fairly and independently.
- Universities have codes for the responsible conduct of research, including a conflict of interest policy, in addition to the sector wide requirements of the Australian Code for the Responsible Conduct of Research.

6. Suspension and termination rights

Termination rights in funding agreements should be reasonable. There is no justification for the Commonwealth engaging universities to perform important research on terms which are less favourable to universities than the terms which most commercial service providers would be prepared to accept.

6.1 Termination rights in funding agreements should not provide a government with rights which are so broad that it can terminate or suspend the agreement any time at its discretion, especially in circumstances where no compensation is payable to the university as a result of the early termination for work undertaken or committed.

6.2 It could be argued that by reserving such broad rights for itself, a government renders its performance of the contract optional and therefore no valid consideration is provided for the university's promise to perform.

6.3 The problems with such broad termination rights in funding agreements from the perspective of universities include:

- Universities have no security regarding the provision of funding for the term of the contract.
- It is difficult for universities to manage their resources in relation to the implementation of projects.
- Universities either bear the risk of paying out staff commitments if agreements are terminated early or are required to impose similar terms in short-term staff appointment contracts. Offering such uncertain conditions compromises universities' ability to attract high quality academic staff to work on research projects.
- It is very difficult for the 'co-ordinating organisation' which receives the primary government funding for a project to negotiate a sub-contract with other collaborating universities on the basis that there is a back-to-back reflection of such onerous obligations. This undermines research collaboration between institutions.
- It is difficult to involve research students in projects which can be terminated part way through the student's research project, the completion of which is a requirement for the student obtaining a degree.

6.4 The common law rights to terminate for breach of contract should generally offer a government adequate protection under funding agreements.

6.5 Termination rights should be reasonable. If at any time the funding is prematurely withdrawn, other than as a result of the university's breach, the contract should provide for the university to be paid in full for work performed until the end of a reasonable termination notice period. Payments should also be made to compensate the university for any irrevocable commitments entered into prior to the date of termination.

7. Broad indemnities

It is unreasonable for the Commonwealth to seek to impose indemnities which extend beyond the reasonable losses that would normally be recoverable at common law and which may not be covered by a university's insurance.

7.1 A particular concern with regard to indemnities is that they are becoming increasingly broad and are applied in almost all agreements. Typically, they now cover any and all liability, loss, harm, damage and expense including legal costs (which are requested on a full indemnity basis) howsoever arising from:

- Breach of contract, including any breach of any warranties given.
- Use of the research outputs by the indemnified party (the Government).
- Any unlawful or negligent act or omission of the indemnifying party, its employees, contractors and agents.

7.2 Indemnities of this nature are unnecessary and unreasonable for the following reasons:

- At common law, each party to an agreement has legal rights which it can enforce against a breach of contract by another party. However, in order to be entitled to damages arising from breach of contract at common law, a party must show that its loss or damage was caused by the other party's breach, and that the damage was not too remote (in other words, that it was reasonably foreseeable).
- Second, if a party seeking damages has contributed to its own loss, that contribution is also taken into account in assessing damages at common law. The claiming party has an obligation to mitigate its loss, to prevent over-recovery of damages. This is a reasonable position and all parties can rely on it.
- However, an indemnity of the type normally found in research contracts goes beyond the common law position. In the Go8's view, once an indemnity extends to cover breach of contract and breach of warranties, questions arise about what the indemnity is really meant to cover. If the party wishing to rely on the indemnity is seeking to recover damages greater than those they would otherwise be entitled to under common law, we believe this goes too far and is generally unreasonable. It is especially unreasonable if this is to occur in a research collaboration focused on 'public good' outcomes. Similarly, if the claiming party relying on such an indemnity is looking to remove its own obligations in relation to contributory liability and mitigation, then this too is unreasonable.
- Finally, if an indemnity clause does extend a party's liability beyond normal common law liability, it is unlikely that such an additional exposure will be covered by insurance coverage.

7.3 In summary, the Go8 believes that there should be no need to require such broad and unreasonable indemnity clauses, especially given the adequate common law remedies that already exist and the other contractual rights normally agreed between the parties.

7.4 However, if an indemnity is considered necessary at all, we suggest that the type of indemnity clause which covers only unlawful or grossly negligent acts or omissions of a party, and which used to be the standard position for indemnities, should be sufficient.

8. Respecting the 'Moral Rights' of academic authors

The moral rights of academic authors must be respected.

8.1 Enacted as part of the 'Digital Rights Agenda' in Part IX of the Federal Copyright Act, sections 189 to 195AZR of the Act provide that creators of copyright works have the right:

- To be attributed for their work—the right to be credited when the work is used in certain ways such as reproduction, publishing or other communication to the public.
- Not to have work falsely attributed—either naming the wrong person as the creator of the work or crediting the creator of the work notwithstanding alterations that were not approved by the creator.
- To integrity of authorship—the right of the creator not to have the work distorted or materially altered in such a fashion as would result in the work (and the creator) receiving derogatory comment.

8.2 These rights are presumed to subsist in all works, with the expectation that they will remain with the creator. However, funding agreements and consultancy agreements issued from both Commonwealth and State agencies have required universities to procure a waiver of these rights from staff members involved in a project.

8.3 In the context of public universities guided by the principles outlined at the start of this submission, procuring such a waiver of rights goes to the heart of the academic employment contract. It verges on unlawful duress of the staff members involved. It is wrong in principle for university staff who are not artisans for hire but are respected for their academic qualities, experience and knowledge, not to be acknowledged for their work, and that such work could be altered without their consent.

8.4 The reasons advanced by governments for seeking a waiver of moral rights are often based on expedience and convenience. A government does not wish to go to the trouble of asking whether research may be edited, falsely attributed or materially altered. However, the law is quite plain that the assignment of other copyright does not affect the moral rights of the creators, and thus even in "consulting work for hire", university staff have a reasonable expectation that the moral rights granted by Federal legislation are not eroded.

8.5 Universities respect the difference between administrative reports outlining grant expenditures, milestones achieved and engagement with the research project as opposed to research reports and findings. For example, when reporting on a research project in an annual report, how a government reports its engagement with the university is a matter for it to determine, using the parts of the administrative report provided by the university it chooses to use.

8.6 Reports discussing the content of the research or its outcomes should not be altered to suit the needs of the funder especially where any alteration is expressly or impliedly attributed to the researcher. Such an alteration breaches fundamental rights of academic integrity and could indeed have the detrimental effect of altering the substance of the research.

8.7 As with unreasonable fetters on the right to publish, such a capacity on the part of a funding body debases the coinage of universities with consequential damage not only to them as research institutions but also to any third parties who seek to engage them to undertake independent and well respected research.

CONCLUSION

9.1 Governments typically invest public funds in research carried out in universities and other institutions to achieve social, environmental and economic benefits through advancing knowledge and understanding that might not occur in the absence of government support.

9.2 Private firms and other non-government organisations commission research in universities for a variety of reasons, but often the issues faced in the contract negotiation process are similar to those that arise with government agencies.

9.3 If sponsored research is to occur efficiently the rules that govern it need to be well understood by all parties involved and the processes for negotiating the funding arrangements must not be unnecessarily complicated and time consuming.

9.4 The rules need to recognise the appropriate rights and responsibilities, on the one hand, of the government or non-government 'sponsor' or 'purchaser' of the research services, and on the other, of the university and its employees as the providers of the research services.

9.5 Internationally, countries are recognising the importance to their innovation systems, in terms of maximising the public benefit of publicly funded research, of having in place contractual arrangements between research sponsors and universities which make the negotiating process as efficient as possible and which maximise the prospects of the IP and other outcomes of the research resulting in public benefit.

9.6 For these reasons the Go8 recommends that the Review of the National Innovation System proposes that the White Paper that ensues includes a commitment to a whole of Commonwealth review of research contracting arrangements with Australia's universities.

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