Negotiating Intellectual Property (IP) Clauses

This document outlines the four main types of Intellectual (IP) and options for negotiation.

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Negotiating Intellectual Property (IP) Clauses - White Paper

Negotiating IP clauses

First, what do we mean by intellectual property (IP)? As a broad category of tangible and intangible rights, there are four main types of IP that can apply (see below), which are the most commonly encountered in procurement contracts.

When negotiating IP, remember that the service provider or supplier will usually seek to retain:

- The right to re-use the knowledge it gains on the engagement (subject to customer confidentiality).
- The right to build similar deliverables for itself and others, subject to any non-compete provisions that it has agreed with the customer. Under a non-compete provision, the service provider should commit to not developing similar software for any competitors.
- Getting the right definitions is very important in negotiating IP clauses. A term commonly used is ‘deliverable’, which is effectively the product or service that you receive. However, you need to ensure you correctly distinguish and identify the two component parts of a deliverable, which are:
  - Custom components – the elements newly created on the engagement.
  - Service provider background IP – this includes the IP and know-how that the service provider takes into or develops outside of an engagement and any modifications or derivatives of that IP and know-how. In all cases you should, as part of the deliverables, seek to get a licence to use service provider background IP for your internal purposes.

The four main types of IP

1. Patents
   Protect inventive, functional and design ideas.

2. Copyright
   Protects original works of expression, although not the underlying ideas.

3. Trade secrets
   Valuable information or technology that is regarded as confidential and/or providing a competitive advantage.

4. Trademarks
   Marks and symbols to distinguish origin of the goods and services of a provider from those of others.

Options for negotiation

While IP can be a complex area and specialist advice should always be considered, an understanding of the different options will at least ensure that you are entering into the negotiations with your eyes open.

Approach 1: The service provider owns all newly created IP and then licenses it to you for your internal use.

This is usually the service provider’s ‘going in’ position. The supplier is effectively saying that it owns the deliverables and all IP in them, and will license such IP back to you for your internal
use. This approach may be acceptable if you do not consider that the deliverable provides any competitive advantage and you are not overly concerned with ownership.

**Approach 2: Joint ownership.**

If you are unwilling to agree to the service provider’s ‘going in’ position, the next option the service provider is likely to propose is joint ownership of the custom components and all IP rights in them.

This is often tied to some restrictions on use, sale and sub-licensing.

Joint ownership is often suggested as a compromise between an outright assignment and a simple licence. However, many legal advisers are wary about joint ownership because on the outside it appears to represent an ideal solution, but it does introduce significant complexities. Joint ownership can mean various things in various circumstances. It is important to clarify precisely what is meant and, specifically, what rights each of the parties has to exploit the jointly owned deliverables, either independently or whether exploitation can only take place with unanimous agreement. Equally, if either of the joint owners develops certain improvements to the deliverables it should be clear which rights each of the joint owners has in relation to the improvements.

Another drawback of this approach is that, while it generally gives each party the rights of ownership in the custom components, there may be difficulties in the event that one party wishes to pursue an infringement action against a third party (or defend an invalidity action by a third party), and the other party does not. The reason for this is that for any such action to be taken it has to be taken by all co-owners.

You should also clarify what rights each of the joint owners has to sell or transfer its share in the ownership. Certain forms of joint ownership are akin to outright ownership and can be passed on freely to a purchaser or assignee. On the other hand, other forms of joint ownership offer significantly less freedom and effectively mean that the rights of the respective owners are linked together until they agree otherwise.

**Approach 3: The service provider grants copyright ownership to the customer, but retains ownership of patent rights and then licenses you to use patent rights for your internal business.**

The benefit of this approach is that the service provider retains patent rights (the rights that protect the ideas), but gives up copyright (the specific implementation of that idea for you). The effect of this is that the service provider can reuse the idea for its other customers, but cannot copy or ‘cut and paste’ from the specific custom components developed under the engagement.

**Approach 4: You own all newly created IP, grant the service provider broad use and sublicense rights, possibly subject to reasonable restrictions, to protect your competitive advantage.**

You are granted ownership of all rights, title and interest in the custom components and all IP in them, but grant the service provider a broad licence back. The benefits of this approach are
that you get the ownership that you want, while the service provider has more or less the same use rights as if it had retained ownership.

**Approach 5: A ‘menu’ approach.**

The menu approach is when the IP clause pulls together and lists all potential options for IP ownership and says the option that is to apply will be set out in the relevant appendix.

**Approach 6: You own all newly created IP and the service provider retains no rights.**

Here, the service provider is required to give up all rights, title and interest in the custom components. This will probably only be acceptable to a provider when other options have failed and it is keen to win the work. In negotiating to avoid this position, the service provider is likely to stress that it discourages innovation and best thinking as the supplier is unlikely to do work for the customer that cuts it out of a future market. If this approach has been adopted, you should be satisfied with what you have been able to negotiate.