

CSIRO
AUSTRALIA

Commercialisation of CSIRO's expertise and intellectual property:

Suggested criteria for CSIRO research and business managers

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TABLE OF CONTENTS

Page

FOREWORD	1
QUESTIONS TO BE ASKED WHEN SEEKING A COMMERCIAL PARTNER.	2
COMMERCIALISATION ARRANGEMENTS - IMPORTANT NEGOTIATION ISSUES.	3
CHARGING FOR CSIRO SPONSORED RESEARCH OR COMMERCIAL SERVICES	4
PITFALLS AND REQUIREMENTS	5

FOREWORD

CSIRO's commercialisation mission is:

to achieve commercialisation of CSIRO's intellectual property and research skills through arrangements which maximise benefits for Australia.

Three expectations underlie CSIRO's approach to this mission:

- broad benefit to Australia;*
- an optimum return to CSIRO for its investment of resources and skills; and*
- reasonable compensation by industry on commercial terms for access to CSIRO's technology and services.*

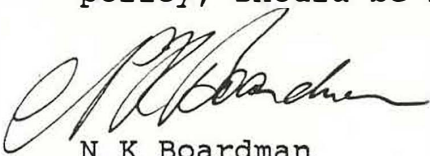
To meet the major objective of ensuring that CSIRO's technology and skills are applied to the overall benefit of Australia special constraints are placed on commercial exploitation, namely:

- a need to maximise financial returns to the Organisation without discouraging adoption of technology by industry.*
- a need to negotiate mutually acceptable commercial arrangements with a particular industry or company.*
- long term commitment of CSIRO resources and expertise to support and promote commercialisation of new technology.*
- preference for partners assuring a commitment to production in Australia and to marketing overseas.*

Against this background effective commercialisation of CSIRO technology will almost always involve Divisional, Institute or Sirotech staff with commercial expertise, and full cooperation of scientific personnel responsible for the technology. As a matter of principle, individual scientists normally should not lead commercialisation negotiations involving their own work, although they may often take part as champions for their ideas and discoveries.

These guidelines are intended to provide a series of "check-points" to assist in negotiations and formulation of workable agreements which meet CSIRO objectives. They are not intended to supplant existing effective practices, nor to limit creative approaches to commercialising CSIRO's research.

The booklet "Commercial Relationships with CSIRO", which presents for public use the Organisation's commercialisation policy, should be read in conjunction with the present document.



N K Boardman

QUESTIONS TO BE ASKED WHEN SEEKING A COMMERCIAL PARTNER

1. Has the project generated, or is it likely to generate, intellectual property?
2. Is the property likely to have commercial potential, and if so how great? For example, on a realistic market assessment and subject to realistic royalty terms, is commercialisation likely to yield financial returns that will at least cover what may be substantial expenses of patenting and negotiating a commercial arrangement?
3. Can the property be adequately controlled by registered designs, patents, secrecy agreements or trademarks? Have details of the technology already been published? Who authorised pre-publication?
4. Is CSIRO's ability to negotiate with a commercial partner complicated by (a) obligations to funding bodies, (b) collaboration in the research with another research institute, or (c) existing arrangements possibly involving other units of CSIRO, with other commercial partners in respect of related technology. (A confidential data base for cross-referencing commercialisation proposals and agreements is currently being developed).
5. What financial, technical and marketing resources and capability is CSIRO looking for in a commercial partner?
6. What can and will CSIRO offer to a partnership in commercial development?
7. What sort of commercialisation arrangement is likely to be most appropriate for speedy, effective commercialisation, or commercialisation in the national interest?
8. Would it be helpful to involve Sirotech? If so, in what capacity - negotiation, financial, marketing, intellectual property, legal?
9. What strategies and attitudes are to be adopted in dealings with potential partners?
10. Who is to have prime responsibility for negotiations? (Director, Chief, Program or Project Leader; Business Manager; Sirotech?)

11. Is the approach to potential partners in accord with CSIRO and Ministerial policy? In particular, where intellectual property has been generated under Appropriation or essentially unencumbered funding (such as industry association funding) has a range of Australian companies likely to be interested in and capable of developing and/or commercialising the technology been canvassed? Where the partner will be an overseas entity, can CSIRO justify not securing an Australian partner?
12. Do the proposed arrangements have the potential for allegations of conflict of interests to be raised against CSIRO or CSIRO staff? Are there any safeguards that could be included to avoid conflicts of interests?

COMMERCIALISATION ARRANGEMENTS - IMPORTANT NEGOTIATION ISSUES

The following points are likely to be common to Contractual and Collaborative arrangements, and in part to arrangements for the commercialisation of technology that has been developed without support from the commercial partner:

- . identification of the agreement field. This will usually specify the area of research and application of the results, and often plays a part in defining the partner's rights
- . the parties' obligations in terms of resource, financial commitment, commercial performance, Australian manufacturing and product availability
- . the ownership of intellectual property
- . the responsibility for patent costs and management
- . licence or related rights with respect to exclusivity, territory, sub-licensing, assignment, transfer of company ownership and performance clauses
- . royalties
- . confidentiality and publication of research results
- . project management
- . use of CSIRO name and/or SIRO trademarks
- . action on infringement of intellectual property rights by third parties
- . liabilities

- . term of the agreement
- . grounds of and provisions for termination
- . arbitration

Equity Investment arrangements, such as joint ventures and share-holding by CSIRO will probably need to cater for directorships and CSIRO's liability.

Ventures involving CSIRO staff may need to take into consideration conflict of interest, directorships (obligations and reimbursement), leave-without-pay and superannuation.

CHARGING FOR CSIRO SPONSORED RESEARCH OR COMMERCIAL SERVICES

Based on the cost structure across the whole Organisation, 2.8 has been estimated as a realistic multiplier to apply to direct salaries to allow CSIRO simply to recover its costs for contract or collaborative research.

Direct costs such as consumables, special equipment, travel and computing should additionally be charged for at not less than cost.

Many Division use salary multipliers from about 3.0 to 3.2 to allow for a higher overhead or a "profit" component, which may be directed for example to strategic research conducted in support of the objectives of the sponsored research projects. Royalties or licence fees may also be added.

In many cases, the worth to the sponsor of the results of the overall job should be a guide to an overall market price for the work. The salary multiplier simply gives a base cost input to such a price and is not used in the external negotiations.

When CSIRO possesses or has created marketable expertise not necessarily commercialisable or usable by others, there is often a window of opportunity for a CSIRO Division to provide specialist services at market rates so as to accumulate funds to support its further research or capital equipment acquisitions.

When CSIRO agrees to less than full cost recovery it will be reasonable for the balance to be redressed by negotiation of royalties, the rate of which should increase as the applied salary multiplier falls below 2.8.

Exceptional circumstances may justify arrangements where charging is at a rate less than full cost, and CSIRO may also be prepared to agree to a low royalty rate. Such circumstances would include:

- . an "entry point" opportunity for CSIRO to cultivate long term strategic relationships with a company or industry.
- . opportunities for CSIRO to develop or acquire special skills and capabilities for subsequent use.
- . the possibility of a project contributing to technology not directly covered by the agreement and therefore exploitable by CSIRO independently.
- . substantial national or community benefits, which cannot be profitably captured by a particular commercial or community entity.

Each "exceptional circumstance" must be assessed on its merits and not seen to be a subsidy for an industry or firm, or to require cross-subsidy within CSIRO. Institutes or Divisions that invoke exceptional circumstances must bear the risks and also receive the benefits.

PITFALLS AND REQUIREMENTS

Irrespective of any points set out above it is very important that all staff are aware that:

- . while it is necessary to obtain feedback from commercial or business opportunities arising from CSIRO's work, oral commitments or undertakings by CSIRO staff to potential partners can seriously weaken CSIRO's negotiating position, and even when given at an early stage of discussions may constitute a legal obligation.
- . the drafting of agreements is a specialised task and should not be undertaken without the involvement of one or more of Sirotech, an Institute Business or Resource Manager, a Divisional Business Manager or CSIRO legal officer. Usually such personnel will also take part in the negotiation of agreements and their terms.
- . the finalisation of all agreements will require the approval of a Divisional Chief, Institute Director, the Chief Executive or the Minister according to the level of income to CSIRO and the nationality of the commercial partner.