

EIP

Oxford University Innovation Limited v Oxford Nanoimaging Limited – a tale of pies and slices

Summary

In a very long and detailed judgment, Daniel Alexander KC, sitting as a High Court judge, examined a number of issues relating to successful inventions arising out of research work carried out by an individual who was at the relevant times a research intern and a DPhil student, which inventions were subsequently exploited by a company spun out of the university where he now works and which he partly owns. The central cause for the dispute between the parties related to a claim for royalties which were alleged to be due but which had not been paid by the spin out company to the university. The defences to the claim raised a number of issues relevant to the relationships between a university and those who work there (in different capacities) and between the university and any resulting spin outs which will be of interest to universities, spin outs, founder scientists and investors. In particular, questions were raised as to who owned the intellectual property created as a result of university research and (a) was the answer to that question “fair” (in the context of consumer protection legislation and (b) was the way the putative rewards were divided up between the university and the inventors and between the inventors themselves fair, all with the benefit of hindsight.

Background

Oxford Nanoimaging Limited (“**ONI**”) is a company that was spun out of Oxford University Innovation Limited (“**OUI**”, the technology transfer arm of Oxford University) to monetise

the “Nanoimager”, a specialised microscope developed by Bo Jing (now CEO of ONI) during his time, first as a research intern and then as a DPhil student, under the supervision of Professor Kapanidis and in conjunction with Dr Crawford. As part of the spin-off, patents which were registered to OUI (and in which Mr Jing and others were listed as the inventor) were licensed to ONI under an IP licence agreement which contained obligations to pay royalties. Some of the royalties due under this contract had not been paid, and OUI therefore brought a complaint against ONI claiming over £700,000. ONI alleges that the patents in fact belong to Mr Jing, due to s39 of the Patents Act 1977 (during his time as a research intern) and due to unfairness under the UK consumer protection laws (during his time as a DPhil student), and that the contract is therefore void by the doctrine of common mistake on the basis that the licence agreement was entered into by the parties on the mistaken common assumption that the patents had been validly assigned to OUI.

IPR created during time as research intern

Under s39 of the Patents Act 1977, an invention made by an employee will only belong to the employer if the invention was made as part of the employee’s normal duties or specifically assigned to him, or if the nature of his duties and responsibilities gave him a special obligation to the employer. As an intern employed by the university, it is clear that Mr Jing was under no special obligation to the university. ONI argued that, although Mr Jing was specifically directed to develop the microscope, it was not reasonable to expect that he would be making inventions. They pointed to his low pay and lowly position in the university, a lack of direction and support by Professor Kapanidis and Dr Crawford, and a lack of experience. The judge dismissed the first two factors as not relevant to the determination of whether it would have been reasonable to expect Mr Jing to invent, and felt that the remaining factors were incorrect – Mr Jing had a Master’s degree and a year of experience as a research intern in Switzerland, and had support from both Professor Kapanidis and Dr Crawford. Overall, therefore, the judge felt that it was reasonable to expect Mr Jing to invent in the course of his work, and that he was specifically directed to do so. Inventions made during this period of employment were therefore correctly vested in the university under s.39.

IPR created during time as DPhil student

Mr Jing’s contract to become a DPhil student included IP terms which transferred ownership in any inventions made by Mr Jing as part of his DPhil work to the university. ONI allege that these terms are unfair under the UK’s consumer protection laws, and that Mr Jing, as a DPhil student, was a consumer under these same laws. If correct, the terms would not bind Mr Jing, and the inventions made during this period would

therefore rightly belong to him, not to the university.

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Is Mr Jing a consumer?

The first step taken was to figure out whether Mr Jing was indeed a consumer under the relevant consumer protection laws, the Unfair Terms in Consumer Contracts Regulations 1999 ("**UTCCR**"). (These have subsequently been superseded by the Consumer Rights Act 2015 but it is thought unlikely that there is any material difference in the new law which would produce a different result.)

The judge started off by considering the position of an undergraduate student. He followed the advice of the Competitions and Markets Authority by concluding that an undergraduate student would be a consumer because usually they are young, have financial pressures which are exacerbated by the cost of tuition and living expenses over the course of the degree, and would have difficulties in switching universities or courses part way through. He also pointed out the number of jobs which require (either stated or in practice) higher education and the correspondingly high proportion of the UK population who attend universities.

He then went on to consider the position of a DPhil student. He pointed out that many of the considerations are similar to those of an undergraduate student. DPhil students likewise often have financial challenges, are inexperienced with contracts and negotiations, and would have difficulties with switching universities. In general, therefore, the judge found that a DPhil student would be a consumer under the UTCCR; the judge considered that there may be certain circumstances in which a DPhil student would not be a consumer but, despite OUI's arguments, whether or not the DPhil is funded and/or whether it involves a stipend would not change the general position (Mr Jing's DPhil was fully funded and he also received a stipend). The judge found that there was no special circumstances in Mr Jing's situation that suggested that he would not be a consumer.

Are the relevant IP terms unfair?

Having established that Mr Jing is indeed a consumer, the judge then went on to consider whether the IP terms were unfair. Under the UTCCR, a term in a consumer contract will be regarded as unfair if, contrary to the requirement of good faith, it causes there to be a significant imbalance under the contract. In considering this, the judge started by comparing the Oxford University policies with those of other universities.

ONI's arguments focused on the unfairness of a term that transfers ownership of any IP created by a student to the university as being too broad and "one size fits all" as well as being less favourable to the student than the policies of comparable university policies.

However, the court applied a wider test, broadly considering the effect of the IP terms as part of a contract for educational services as a whole, taking account of the benefit that research students receive in return for the transfer of any IP. The test adopted by the court was whether the IP terms departed from an average generally informed and reasonably attentive consumer's legitimate expectations for a DPhil contract of this type.

The Oxford University policy sets out a starting point for benefit sharing between the inventors, OUI, the relevant university department, and a "general fund", depending on the total revenue generated by the invention. OUI negotiates with the inventors from this starting point, both to determine the share owed to each group, but also how the inventor share is divided between inventors. The judge pointed out that the university's starting points were in line with that of other universities, and that, as a charity, the university has a wide range of considerations to take into account when negotiating its share of the benefit. The judge felt overall that the benefit sharing policies were fair and did not cause any imbalance.

The judge found that the term transferring the IP from students to the university was unusually broad, in that they included inventions which were created "incidentally" to the students' studies. This created a potential imbalance, in particular because this would put the student in a worse position than a typical employee. However, while the judge felt that the policy could cause a significant imbalance if applied as widely as possible, in fact OUI applied a more narrow interpretation, and indeed in this case the Nanoimager was not created incidentally but as the main aim of Mr Jing's studies. This term therefore does not cause significant imbalance in the contract. The court noted that the IP terms in question have since been changed to narrow the circumstances in which IP created by students would belong to the university, and has decreased the starting point for negotiations of the share of equity owed to the university as compared to the student.

Overall, the judge found that the IP terms were not unfair, and therefore that the patents in question were validly owned by OUI. ONI therefore do validly owe OUI the royalties they had withheld.[1]

In a subsequent hearing dealing with costs and other matters, the judge refused permission to appeal his decision to the Court of Appeal – the reasons suggesting that the parties would be better off accepting the status quo and moving on. We await further news in due course....

Conclusion

To many commentators, this judgment appears to have raised as many questions as it has attempted to answer, given the myriad of possible scenarios that might occur in the

path from an invention made in a lab at a university to its successful exploitation. However, it seems some certainty can be achieved by universities (and their tech transfer arms) taking care to ensure that the employment- or other - status and job role of those undertaking research is clear and that both parties they have considered the relevant IP policies carefully, the university ensuring that they are clearly worded and fair and that the process pursuant to which they are agreed with the scientists is not one that can be criticised later as a result of the balances of power between the university and student/researchers and between professors and students/researchers. These cases are likely to be rare because of the costs of fighting them (indeed one of the reasons Mr. Jing as CEO of the claimant wanted to bring the case was to highlight that, in his view, there was considerable unfairness generally in the way universities handle these issues) and the expectation is that the result in this case will not resolve the issues raised in other disputes of the same or similar nature. However, and potentially a controversial point, it might be noted that an inventor who is an employee of a university might very well be in a better position under many university policies than they might be under the employee compensation regime set out in the Patents Act.

[1] ONI did apply for permission to appeal on this point stating that the judge had set the bar for significant imbalance too high, along with the judge's decision that it would be reasonable to expect Mr Jing to invent during his period of employment. All ground of appeal were denied by the judge. It is unclear at this time whether ONI will apply to the Court of Appeal.