

The Intellectual Property of Scientific Organizations and Rights to It

M.I. Gordeeva
Park Media, Moscow

One of the most acute problems inhibiting the establishment of innovative economics in our country is the imperfection of the legislation regulating the production of marketable goods on the basis of new technologies. Many specialists—both scientists and representatives of business entities—are certain that the current laws cannot effectively influence the creation of innovative chains. It is not an exaggeration to say that the current laws are not focused on building a knowledge-oriented economy. It could be said that the problem of nascent intellectual property rights is the most important problem of the day. Who should be the proprietors of these rights? The scientists, business, or the state? And to what extent? Let's try to debate this situation and consider herein the rights of scientific organizations to the results of intellectual property obtained within the framework of their activity.

INTELLECTUAL PROPERTY RIGHTS FROM THE STANDPOINT OF CURRENT LEGISLATION

Up to the end of the last century, legislation placed a high emphasis on the defense of the state's interests in the spheres of military, special and dual-purpose research, engineering, and production work. In particular, Presidential Edict N 556, dated May 14, 1988, was issued. Within the framework of that Edict, the following government decrees were adopt-

ed: Government Decree N 1132 (d/d September 29, 1998) on High Priority Measures to Protect State Interest in the Process of Economic and Civil Turnover of Military, Special and Dual-Purpose Research, Engineering, and Production Work Results; Government Decree N 982 (d/d September 2, 1999) on the Use of Scientific and Engineering Activity Results; and, finally, Regulations on the State Control of Military, Special and Dual-Purpose Research, Engineering, and

the Production Results of Work which Belong by Right to the Russian Federation approved by the Russian Federation Government Decree N 131, dated February 26, 2002.

All those documents gave the state a priori the right to the results of military and special and dual-purpose work carried out and specified the requirements for recording all resulting work.

The Russian Federation Government Decree N 982 (d/d September

2, 1999) on the Use of Scientific and Engineering Activity Results (with amendments d/d November 17, 2005) stated that the rights to the results of scientific and engineering activity obtained using funds from the federal budget are to be conferred to the Russian Federation, if

(1) the rights to these results are not included in privatized property in accordance with the applicable procedure;

(2) these results are not the exclusive rights of physical or legal bodies;

(3) these results have not been applied for in accordance with the applicable procedure to gain exclusive rights.

Most results of civil scientific and engineering activity obtained in the Soviet Union were assigned to the state or were not identified or registered at all, because at the time, scientific organizations did not give due attention to copyrighting the created material due to a lack of funds and commercial interest.

All this led to the following situation: most intangible assets were not included (or were partially included) in the balance sheet of scientific organizations and were not supported by any title documentation, in spite of the fact that the intangible assets were objects of economic activity (although not always legal).

The first step of state policy towards considering and defending the interests of direct executors and the commercial sector concerning the allocation of intellectual property rights in the scientific sphere was the adoption of the Russian Federation Government Decree N 685 (d/d November 17, 2005) on the Order of Disposition of Rights to the Results of Scientific and Engineering Activity, which approved the Regulations on the Assignment and Transfer of Rights to the Results of Scientific and Engineering Activity Obtained using Funds from the Federal Budget to Commercial Entities. (It should be noted that currently amendments to this Decree are being prepared due to the adoption of the Federal Law on Technologies to be considered below.) Then, the amendments initiated were adopted at the level of federal laws.

On January 1, 2008, Part 4 of the Civil Code of the Russian Federation

(CC RF) came into force. This part regulates the legal relationships concerning the creation and turnover of the results of intellectual activity. At the end of 2008, the Federal Law on the Transfer of Integrated Technology Rights (N 284-FL, d/d December 25, 2008) was adopted in accordance with the CC RF program.

What is meant by assigning rights to the results of intellectual activity, including those obtained using budget funds in the context of new legislation?

The interaction between the scientific organization and customers is based on the agreement (for the creation, transfer, and use of scientific, research and engineering products; for performing scientific research and engineering and consulting and engineering services; for joint scientific, research, and engineering activity and allocation of profit). State contracts constitute a significant part of these agreements.

The CC RF places priority in allocating the rights to the results of research, engineering, and production work (hereafter referred to as "R&D"), including those subject to legal protection and contracts. According to Article N 1298 of the CC RF, the exclusive rights to the scientific work created by state contract belong to the executor, unless stated in the contract that this right belongs to the Russian Federation or to the executor jointly with the Russian Federation.

If, in accordance with the state contract, the **exclusive right is conferred to the Russian Federation**, the executor is obliged to acquire all rights through the conclusion of corresponding contracts with his employees and third parties for the further transfer of the rights to the Russian Federation.

If the **exclusive right is conferred to the executor**, he or she is obliged to submit a request as a state customer for a free ordinary (nonexclusive) license for the use of the corresponding scientific work for state needs to a third party.

If the **exclusive rights are conferred to the executor jointly with the Russian Federation**, the state customer is entitled to submit a free ordinary (nonexclusive) license for use of

the corresponding scientific work for state needs to a third party after notifying the executor.

The order of allocating rights to any invention, useful model, or production piece created within the terms of the execution of a state contract is virtually analogous to the one that existed earlier and specified in the Patent Law (the Federal Law N 22-FL d/d February 7, 2003).

In particular, the right to gain a patent for an invention, useful model, or production item in fulfilling a state contract belongs to the executor (contractor), unless otherwise specified in the state contract.

The executor (contractor) is obliged to notify in written form the state customer about obtaining a patentable result, such as an invention, useful model or production item. After the outset date of notification and within the following six months, the state customer has the right to apply for a patent in its own name. The term specified is limited, and if the state customer does not apply for a patent, the right to a patent goes to the executor (contractor).

If, in accordance with the state contract, the rights belong to the Russian Federation or to the executor jointly with the Russian Federation, an order similar to the above-mentioned as related to the creation of scientific work is applied.

The state contract shall contain specified conditions for allocating the rights to the use of the results of scientific activity.

The Federal Law N 94-FL (d/d July 21, 2005) on the Placement of Orders for Goods Delivery, Work Performance, and Provision of Services for the State and Municipal Needs specifies the following procedure of preparing the final contract with the competitive tender winner: the inclusion of conditions for the execution of a contract offered by the competitive tender winner in applying for participation in the tender into the draft of the contract annexed to the tender documentation.

On the basis of the foregoing, it is essential to specify the order of allocating rights to the results of work in the contract, especially if these rights are conferred to both the Rus-

sian Federation and the executor. Unfortunately, this procedure is rarely followed out in actual practice. The section of the state contract devoted to allocating rights to objects created simply copies the norms of the law and does not specify a clear mechanism of interaction between the parties both at the stage of creating a patentable product and then at the stage of employing this product. As a result, the product created in the framework of the state order does not correspond to the product described in the accounting documents, encouraging legal disputes.

The result of research and engineering work is often a complex object which includes a combination of inventions, useful models, production pieces, software, technical data, information, etc. Within the limits of legislation, that complex object is called

rowing budget funds does not exist today. Thus, properly identifying the results of scientific activity as an integrated technology, specification of uniform rules of technological rights disposition, and, finally, obligations of the state and private sector to provide the following introduction to the technology require clear legal regulation at the federal level.

The Federal Law on Technologies establishes a procedure for giving up rights to technology by the Russian Federation or its constituent entity. The rights may be given up on the basis of competitive tenders or auctions. The competitive tender has priority. According to the general rule, competitive tenders and auctions are open. Closed competitive procedures may be carried out only when the technological information is a state secret.

Properly identifying the results of scientific activity requires clear legal regulation at the federal level

“**integrated technology**” and is covered by Part 4 of the CC RF. It ought to be noted that the integrated technology itself is not an object of intellectual rights. However, by virtue of the fact that the integrated technology can consist both of protectable elements and those not subject to legal protection, the considered object falls within the scope of Part 4 of the CC RF.

Currently, the scientific research results of state budget establishments and other development work financed through the budget make up a major part of integrated technology. Unfortunately, law enforcement practice concerning the transfer of rights to the technology created using the budget or by bor-

In accordance with Point 3 of Article N 1547 of the CC RF, the Federal Law on Technologies confers a priority right to a contract for the acquisition of technological rights between the Russian Federation or its constituent entity and the executor who organized the creation of that technology. The executor shall be invited to participate in the competitive tender or auction, irrespective of whether it is open or closed. The person who offers the best conditions for practical application (use or introduction) of the technology in the Russian Federation, including the economic indexes scheduled, is proclaimed the winner of the competitive tender and gains the right to conclude a contract either to give up the rights to the integrated tech-

nology or to conclude a license agreement.

The person who offers the highest payment under the contract to give up the technology rights is proclaimed the winner of the auction. Under otherwise equal conditions, the executor is proclaimed the winner.

In the last sentence, the formulation of the phrase “under otherwise equal conditions” sounds questionable. The current practice of holding competitive tenders and choosing a winner focuses significant attention on the price offered for the contract (this refers to providing the introductory conditions as well).

Hence, the executor, having incurred costs for obtaining a defined result of scientific and engineering work (including the use of development work provided and acquisition of rights to the results of intellectual activity), has to compete with third parties on the basis of price, and the result does not always turn out in the executor’s favor.

The obligation of introducing the technology into practical activity is one indispensable condition in the contracts. To support and stimulate the practical realization of the solutions obtained, the Federal Law on Technologies introduces into practice a competitive conclusion for the contracts for the performance of additional work aimed at implementing integrated technologies in practice. The considered work is carried out with non-budgetary fund and in the interests of the person who finances these works with the purpose of acquiring the rights to the technology. Performing such a range of work is realistic when the technology rights are conferred primarily to the Russian Federation or if the primary executor of the state contract does not provide all actions required for assigning his rights to the obtained results.

In accordance with the contract for performing additional work aimed at reducing integrated technologies to practice with regard to the needs of the party in interest (investor in the project), the executor is obliged to carry out additional work, while the person interested in adapting the integrated technology with due regard to his needs is obliged to finance this

work; the person who disposes of the integrated technology right on behalf of the Russian Federation is obliged to conclude a contract giving up his or her integrated technology rights to the person interested in adopting the integrated technology with regard to his interests.

The economic constituent of the contracts for transferring the rights to integrated technologies should be noted as well. In addition to the requirements of the CC RF for the conditions of the contract to transfer the rights to integrated technologies, the Federal Law assigns the presence and execution of a plan focused on the realization of integrated technology and its practical application as an indispensable condition. Non-fulfillment of the approved plan is enough reason for cancellation of the contract and loss of the rights to technologies.

Hence, the major legal procedures of technology rights transfer to the private sector are specified in theory. It is time to put them into practice.

One more important subject was considered in the new legislation: the production secret (know-how) will be provided with the guaranteed legal protection at the highest legislation level. Scientific and engineering information (which is not a result of intellectual property) is occasionally completely or partially confidential. The scientific and engineering information (which is of actual or potential commercial value due to the fact that it is unknown to third parties, and therefore is hardly accessible on a legal basis and is subject to being considered a commercial secret by its owner) is considered a commercial secret as well. Any information, including data on the results of intellectual activity in the scientific and engineering sphere, is referred to as know-how as a type of commercial secret. The exclusive know-how right belongs to its holder and is valid as long as the information on it is confidential.

Hence, we considered the allocation of rights to the results of intellectual activity between the scientific organization and outside contractors (the state and/or ordinary customers).

INTELLECTUAL PROPERTY RIGHTS: ALLOCATION WITHIN A SCIENTIFIC ORGANIZATION

Since the human factor is involved in the creation of intellectual property, it is essential to consider the allocation of rights to this property “within an organization”; i.e., between the scientific organization and its employees. Correctly processing the corresponding relationships guarantees the lawful application of the results

As in case of scientific work made for hire, the exclusive rights to employment-related invention, useful model, and production items are conferred to the employer unless otherwise established by a contract between the employer and the employee.

The employee is obliged to notify the employer about the creation of patentable work. The employer has four months from the date when the

The most important point is that labor interaction that is related to creating patentable work requires maximum formalization and detailing

of intellectual activity for the scientific organization.

The CC RF confers exclusive rights to employment-related work (work for hire) to the employer, unless otherwise established by a labor contract or any other agreement concluded between the employer and the author of the work. However, Part 4 of the CC RF adopted some new requirements for employers who wish to reserve their exclusive rights to their employees' work.

In particular, the employer is obliged to begin using the work for hire three years from the date of creation, transfer the exclusive right to another party, or inform the author about the confidentiality of this work. Otherwise, the exclusive right to the work for hire will be transferred to the author.

The author retains his remuneration right (if the work is used by the employer) if the employer's exclusive right is transferred to another person and if the employer decides to keep the work for hire in secret.

notification is received to obtain a patent in his name, transfer the patent's application rights to a third party, or to keep the fact of the work secret.

The employee retains the right to remuneration in the amount specified in the contract concluded between the parties. Minimum remuneration rates are specified by the Government of the Russian Federation.

Upon expiration of the time allotted to the employer to make a decision about the use of rights for the work created, the patent application right goes to the employee.

Since the patentable object is created when the author performs his employment duties, it is essential that the employer and author (employee) conclude a labor contract. Questions related to the creation and use of intellectual property, rights allocation, and order of remuneration may be specified in both the labor contract and any other agreement.

If the parties decide to conclude a uniform labor contract containing all

the necessary elements of the author's contract, it is essential to take into consideration the following information:

(1) The labor contract can be fixed-term and expire prior to the expiration of the three-year period allotted by the legislative body to the employer to start using the work made for hire. Therefore, the parties shall spec-

cial supplement to the contract such as job description or scientific plan); to indicate the tasks given and those who can assign these tasks; and to determine the form of reports and results, the method of personal documentation storage by the employee (not to be confused with the service instructions), and the limits of use of the employer's material and technical base

ple. The employer shall specify the order of income distribution between the coauthors. The coauthors, in their turn, shall establish the order of further use of the results of intellectual property if they get exclusive rights to them.

However, the above-mentioned information does not include a complete list of "rough waters" that an employer and employee may find themselves sailing in the course of their interaction aimed at creating employment-related work. The most important point is that labor interaction that is related to creating patentable work requires maximum formalization and detailing.

We have considered the receipt of rights to the results of intellectual property by the scientific organization due to interaction with external (state and ordinary customers) and internal (the employer–employee chain) contractors.

SCIENTIFIC ORGANIZATIONS AND INCOME FROM INTELLECTUAL ACTIVITY: OPPORTUNITIES AND LIMITS

Let's consider now the possibilities of the scientific organization to earn income from its intangible assets.

The degree of freedom that the scientific organization has concerning the disposition of the results of scientific activity depends on factors such as the type of scientific organization, its organizational–legal form, the mode of financing of the work carried out, and the character of the work created.

Currently, most scientific organizations represent state unitary enterprises and state establishments. In spite of the fact that the state allows scientific organizations to exist as business companies, the percentage of such organizations is insignificant.

The adoption of the Federal Law N 174-FL (d/d November 3, 2006) on Autonomous Institutions initiated the creation and transformation of scientific organizations into autonomous institutions. However, in practice, the functioning of such organizations is not yet significant.

What opportunities were given to scientific organizations concerning the use and disposition of their property (including property rights) depending on the organizational–legal form?

The state, intending to transfer the exclusive rights to the development work to the institutes and involve them in economic activity, shall provide the legal framework for this procedure to the fullest extent

ify the sections of the contract which will remain valid after termination of the contract, or they shall sign a new contract to regulate the order of use of the patentable work by the parties.

(2) The author has the right to remuneration if his work is used by the employer or other parties. Labor legislation obliges the employer to pay a salary to his employees. These are two different types of remuneration which can differ in amount, method, form, conditions, and order of payment. Thus, the labor contract shall clearly specify the mechanism of accounting and payment of the remuneration indicated.

(3) Part 4 of the CC RF defines work made for hire as "work created within the framework of duties carried out by the employee (author)." Thus, it is essential to specify the list of duties in the labor contract. It is reasonable to describe duties as accurately as possible (the duties may be listed in a spe-

cial supplement to the contract such as job description or scientific plan); to indicate the tasks given and those who can assign these tasks; and to determine the form of reports and results, the method of personal documentation storage by the employee (not to be confused with the service instructions), and the limits of use of the employer's material and technical base

by the employee. Accuracy in this will allow the parties to avoid possible disputes concerning the rights to and/or obligations to the patentable work. (4) The labor contract shall provide a mechanism for employee dismissal which will take into consideration the interests of both parties. It is not infrequent that employees with certain ideas, methods, and results are hired and then dismissed. These elements, as such, are not patentable, but they represent the basis of work created in the past or scheduled for the future. Thus, the parties involved in allocating rights to any results of intellectual activity shall take into consideration the generated obligations and degree of responsibility, including the possibility of bringing to responsibility the party in fault.

(5) It is necessary to take into account the problem of coauthorship, because most objects are a result of the joint creative work of several peo-

There are several forms, depending on the departmental identity of the research teams. Let's consider the departments—which consist of different organizations—and their possibilities.

The State Unitary Enterprise Based on the Rights of Economic Management (Commercial Organization)

(I) is entitled to administer (sell, lease, and pledge) the assigned or acquired property (except for real estate) on its own initiative;

(II) the decision to participate in commercial or noncommercial organizations is taken with the consent of the owner of the unitary enterprise's property; the disposition of investments (assets) in the charter capital of the business company, association, or joint stock company is carried out only by agreement with the owner as well;

State Unitary Enterprise Based on the Rights of Operating Management (Commercial Organization):

(I) the disposition of property is carried out only by agreement with the owner;

(II) is not entitled to establish any legal entities or to join them;

Establishment (Non-Commercial Organization):

(I) the disposition of the owner's property and property purchased using budgetary funds is carried out only by agreement with the owner;

(II) is entitled to administer on its own initiative income from commercial activity in accordance with the charter documents and the property purchased with this income.

(III) is not entitled to establish any legal entities or join them;

Autonomous Institution (Non-Commercial Organization)

(I) is entitled to administer on its own initiative movable property, except for high-value property;

(II) is entitled to bring cash assets or other property in the charter (share) capital of other legal entities or transfer this property to other legal entities as their founder or participant only by agreement with its founder.

Russian Academy of Sciences (Non-Commercial Organization):

(I) is entitled to administer, possess, and use federal property;

(II) is entitled to create, reorganize, and liquidate subordinate organizations;

(III) is entitled to act as the founder or co-founder of organizations which serve the charter purposes and tasks of the Russian Academy of Sciences and to enter into alliances and associations;

Institutes of the Russian Academy of Sciences (Non-Commercial Organizations):

(I) are entitled to own, use, and administer the federal property of the Russian Academy of Sciences transferred to these institutes for operating management. Income from the activity approved by their charters and property acquired with this income are at their independent disposal and are put into a separate balance sheet.

Currently, the most widespread form of conducting scientific activity is the Establishment. Most of them are academic structures such as the institutes making up the Russian Academy of Sciences.

The bulk of scientific activity is carried out in accordance with budgeted financing within the terms of the state contract.

Let's consider the creation of patentable work within the scientific organization (using the scientific organization as an example).

The institute can act both as the principal executor of the state contract (with the attraction of coexecutors or without them) and perform the functions of the coexecutor. We are interested in the first case, because the principal executor has priority rights to the result obtained.

Upon executing the state contract, the institute as the principal executor, along with the coexecutor, carries out a range of work, often resulting in the creation of a complex product. The complex object can include combinations of patentable intellectual products and those not subject to legal protection. For this purpose, the intellectual of the results activity of the institute and third parties—both the official coexecutors working under the state contract and any other persons—may be involved.

The patentable products can include products, the rights to which are conferred to the Institute of the Russian Academy of Sciences (i.e., the exclusive rights are assigned to the state), and intellectual activity results, the exclusive rights to which belong to the institute.

The state contract, as a rule, allows the inclusion of third parties' products of intellectual activity in the results obtained if the rights of those who hold the the legal rights are not violated. In other words, relations between the institute and coexecutors shall be finalized by individual contracts (R&D contract, paid service agreements, licensed contract for granting rights to the corresponding results of intellectual activity, etc.).

Within the terms of such contracts between the institute and companies holding the rights to the results of intellectual activity used to execute the state contract, the latter transfer the exclusive rights or right to use the necessary products to the institute. When the issue is the transfer of the right to use objects, it is essential to determine the extent of these rights, because it must be sufficient for executing the state contract by the principal executor, including the further transfer of rights to the state customer. Requirements for the term and territory where to use the rights to be transferred are analogous.

As was said above, the text of the state contract is standard general law. However, the final act of work completion does not contain the following information: the type of results of intellectual activity; the extent of the rights conferred to the executor of the Russian Federation; and a way for further interaction between the executor, state customer, and third parties concerning the use of the results of intellectual activity. The following will help avoid ambiguities:

(I) concluding an agreement between the state customer and the institute (between the institute and coexecutors when needed) about the order of joint usage and disposition of rights to the result created;

(II) the act of the work completed within the terms of the state agreement shall indicate the objects for which the rights are transferred and

the degree of rights subject to the transfer and/or assignment.

It should be noted that the system of creating a package of documentation to accompany the state contract is rather conservative and unadaptable. Introducing alterations and/or additions is either impossible or time-consuming.

SCIENTIFIC INSTITUTES AND THEIR RIGHTS TO THE PRODUCTS CREATED WITHIN THE TERMS OF STATE CONTRACTS

Summarizing the above-mentioned information, we observe the following: upon executing the state contract, the institute

(a) acquires the right to the results of intellectual activity explicitly and (which is reflected in the cost and tax accounting) by obtaining protection and entitlement documents. The institute has ground for the following disposition of the corresponding rights on the basis of the contract concluded with the state customer;

(b) has a product (a result of developed works or a set of components not specified in the state contract) which

is by no means described in the balance sheet (or is not reflected as intangible assets). The institute has the signed act of the work done within the terms of the state contract, but the contract does not contain detailed information on the allocation of rights.

Authority to dispose of the results of work is required for further commercialization. This authority will be included in the contract on the transfer of exclusive rights to the institute and will be determined with regard to all conditions specified in the state contract; agreements with the co-executors, rights holders, and institute charter; agreements with the Russian Academy of Sciences on the transfer of property; and to all conditions specified in the registers of the transferred property. The necessity of registering all these documents is justified by the fact that the result of the work is created using the property or/and property rights of third parties, who can impose additional conditions on the application.

The institute is an establishment: i.e., the property assigned to the institute by the owner (represented by the

Russian Academy of Sciences), the property purchased using budgetary funds, and products created using the assigned property and/or provided funds cannot be administered by the institute due to the type of management. However, the institute can independently administer certain products created at its own cost when carrying out R&D that is not directly specified in the state contract.

The state intending to transfer the exclusive rights to the development work to the institutes and involve them in economic activity shall provide the legal framework for this procedure to the fullest extent. In particular, the state shall provide a process for reorganizing scientific organizations and consider the possible participation of these scientific organizations in the charter capital of other organizations. As for the scientific sector, the heads of the scientific organizations shall pay more attention to identifying and recognizing intangible assets and providing patentable and entitlement documents in order to increase the investment potential of their intangible assets. ●