Contracts

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Contracts are an extremely important legal tool. A contract is a binding agreement between two or more parties (persons or organisations).

To create a legally binding contract, a few things are necessary. A contract requires an *offer* to be communicated to a party, followed by unambiguous *acceptance* being communicated back to the offeror. A contract must be *legally permissible*, and cannot include illegal activities. There must be valuable *consideration* on both sides, meaning that each party receives and gives up something of value (though this does not have to be equal value. There must be sufficient *certainty* surrounding the key terms of the contract. Finally, any additional *legislative formalities* must be complied with. For example, there is no general requirement that a contract has to be in writing, but certain types of contracts (such as the sale of a business) have additional legislation which requires contracts to be in writing. In practice, it is highly advisable that all contracts are in writing, as verbal contracts are difficult to prove and enforce.

If a contract is *breached*, the normal way this is addressed by courts is to award monetary *compensation* to the party who suffered financial losses due to the breach of contract. The goal is to put the injured party into the financial position they would have been in if the contract had not been breached. However, if a term is deemed to be an "essential term" of the contract, also known as a "condition", the non-breaching party may have the right to *terminate* the contract. A contract may also be terminated or rescinded if a court finds that its formation involved misrepresentations, misleading or deceptive conduct, duress, undue influence through a relationship of power, or other unfair or unreasonable conduct.

It is important to note that unlike intellectual property, contracts can only be enforced against the person who made the contract. For example, if somebody breaches a confidentiality agreement and gives your idea to a competitor, you would have no legal course of action against the competitor. Because of this limitation, contracts and intellectual property are frequently used together to control the circulation of important information. Contracts provide more powerful, flexible, and fine-grained control over information, while intellectual property rights provide protection in case the information ends up escaping the contractual relationship.

Examples of common types of contracts

- Employment contracts: set out employment rights and responsibilities. Often include terms relating to the ownership of intellectual property
- Non-disclosure agreements: restrict parties from sharing confidential information. Frequently used when ideas are disclosed to other parties at an early stage of development.
- Open access licences: allows free access to intellectual property, and may impose conditions on subsequent reuse (such as disallowing commercialisation of any derivatives).

Why is it relevant?

Contracts play a crucial role in the practical management of intellectual property. A *licence* is a type of contract which allows one party to use an asset which belongs to another party. All forms of intellectual property can be licenced to or from other parties.

If a researcher or research organisation develops valuable IP, commercialising it in-house is not the only option available. Instead, this IP can be licenced to another business. This is generally a less risky option, although it does involve ceding some amount of control over the commercialisation process, and potentially some of the profits. Another option is to make this intellectual property freely available to the public through an open access licence.

In collaborative research, such as multi-institutional quantum biology projects or partnerships between universities and biotech firms, contracts play an important role in determining who owns any intellectual property that arises from the collaboration. Without a clear agreement in place, disputes over IP ownership can delay or prevent the commercialisation of research outcomes. Key issues to address upfront include which party owns foreground IP (new IP generated during the project), how pre-existing background IP can be used by collaborators, whether ownership is shared or allocated to a single party, and what rights each party retains to use the results for future research or commercial purposes.

Practical Steps

1. *Enter into a contract*. A legally enforceable contract can be formed by meeting the requirements detailed above. For important contracts, it is advisable to use a lawyer to draft the contract.
2. *Contact your institution*. Before entering into any significant contract, such as a collaboration agreement, licence, or non-disclosure agreement, researchers should contact their institution's technology transfer office or research contracts office. These teams have experience negotiating terms that protect the institution's interests, and can help identify potential issues before they become problems.

Case Study

The full Federal Court of Australia upheld a decision that found the intellectual property rights of an invention developed by professor of surgery Dr Gray belonged to Dr Gray, not the University of Western Australia.[1] In reaching this conclusion, the Court examined the contract of employment that stipulated he was to conduct research, teach and conduct examinations, but contained no express obligation to invent. The contract also did not contain any express or implied terms relating to the ownership of intellectual property rights. This case highlights the importance of clear contractual terms within employment contracts between university and academics. [2] [3]

References

1. University of Western Australia v Gray [2009] FCAFC 116 (3 September 2009).
2. York University (2009) ‘Recent Federal Court of Australia decision places IP rights in the hands of academics, not universities’, 18 September.
3. IP Australia (n.d.) *Non-disclosure agreement generator*. Available at: [IP Australia’s non-disclosure contract generator]