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Commercial notes

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The CLRC Crown Copyright report – practical implications for agencies

In April last year, the former Copyright Law Review Committee (the CLRC) released its report, *Crown Copyright*, setting out 16 recommendations for reform.[1] These recommendations, if implemented, will have important practical implications for agencies in their ownership and management of copyright material. The Commonwealth Attorney-General's Department is currently preparing its formal response to the report.

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Key recommendations

The CLRC report included the following key recommendations.

— The provisions relating to subsistence and ownership of Crown copyright in ss 176–179 of the *Copyright Act 1968* (the Copyright Act) should be repealed.[2]

— Prerogative rights in the nature of copyright should be abolished by amendment to the Copyright Act, with prospective effect.[3]

— Copyright in certain primary legal materials produced by the judicial, legislative and executive arms of government should be abolished.[4]

— The Commonwealth should develop and implement comprehensive intellectual property (IP) management guidelines to promote best practice and assist agencies to meet their responsibilities. Education and training of government employees must also be a high priority.[5]

— The role of the Commonwealth Copyright Administration (CCA) should be expanded to provide advice and guidance on Commonwealth Crown copyright.[6]

— A non-exhaustive list of entities included as part of 'the Commonwealth' should be created by the Commonwealth for Commonwealth entities.[7]

Policy rationale for the recommendations

In its report, the CLRC considered that certain policy factors justify repealing or limiting the operation of the Crown ownership provisions of the Copyright Act.[8]

The inquiry into Crown copyright arose largely from concerns about 'the interaction between government ownership of copyright and competition policy'[9] following the Ergas Committee's *Review of Intellectual Property Legislation under the Competition Principles Agreement*.[10]

This issue

The Ergas Committee recommended that the Crown ownership provisions of the Copyright Act[11] be amended consistently with the principle of 'competitive neutrality' in order to place government in the same position as any other contracting party.[12]

The CLRC considered that the traditional justification for copyright protection; namely, to provide an incentive for people to create by rewarding effort and investment in these activities, does not readily apply to material created by government. In many cases, government is required to produce material irrespective of whether any legal protection is afforded to that material.[13]

However, the CLRC acknowledged that there are alternative justifications for government ownership of material it produces, which include:

— ensuring the integrity of government material and public access to that material

— enabling government to control the dissemination of the material produced

— enabling government to engage in commercialisation activities and obtain financial rewards for such activities.[14]

Despite these considerations, the CLRC expressed the view that given the expanding role of government and the breadth of material it now produces, there is 'no justification for government to have a privileged position compared with other copyright owners'.[15]

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Evaluating the potential impact of the key recommendations

The key recommendations of the CLRC report broadly relate to the following issues:

— Crown ownership of copyright

— abolition of copyright in primary legal materials produced by legislative, judicial and executive arms of government

— Crown IP management.

This note examines the potential impact of the key recommendations in these areas.

1. Crown ownership of copyright

In order to evaluate the likely impact of the recommendations relating to Crown ownership of copyright, if they are implemented, it is relevant to consider how the Commonwealth currently acquires copyright.

To summarise, the main ways in which the Commonwealth can acquire copyright are as follows:

— under the general ownership provisions of the Copyright Act (Parts III and IV)

— under the Crown ownership provisions of the Copyright Act (ss 176–179)

— by the operation of Crown prerogative rights in the nature of copyright.[16]

General ownership provisions of the Copyright Act

Literary, dramatic, musical and artistic works

The 'author' is the first owner of copyright in respect of a literary, dramatic, musical or artistic work.[17] However, this presumption is qualified by s 35(6) of the Copyright Act which provides that where a work is made by an

author in accordance with the terms of their employment, the employer is the owner of copyright in the work, subject to an agreement to the contrary.[18] It follows that, where a Commonwealth employee creates a work in the course of their employment, the Commonwealth ordinarily owns copyright in the work.

Sound recordings and films

The 'maker' is the first owner of copyright in sound recordings and films.[19] However, where a sound recording or film is commissioned, the commissioning party owns copyright, subject to an agreement to the contrary. Accordingly, where the Commonwealth makes or commissions a sound recording or film, it will usually own copyright in that material.[20]

Assignment of copyright

Where the Commonwealth requires ownership of copyright in material created independently by a third party, it can achieve this by obtaining an assignment of copyright (including future copyright).[21] To be legally effective, the assignment must be in writing, signed by or on behalf of the assignor.[22]

Crown ownership provisions in Part VII of the Copyright Act

Under ss 176–178 of the Copyright Act,[23] subject to an agreement to the contrary[24] with the author or maker of copyright material, the Commonwealth owns copyright in:

— original literary, dramatic, musical or artistic works made by or under the direction or control of the Commonwealth (s 176)

— sound recordings and films made by or under the direction or control of the Commonwealth (s 178)

— original literary, dramatic, musical or artistic works first published[25] by the Commonwealth or under its direction or control (s 177).

Section 177 of the Copyright Act has a potentially wide operation.

The meaning of the phrase 'direction or control'

The phrase 'direction or control' is not defined in the Copyright Act and its precise meaning is uncertain.[26]

The term 'direction' has received little direct judicial consideration; however, it is likely to be interpreted more broadly than 'control'. It arguably covers works commissioned by the Commonwealth, particularly where the Commonwealth exercises some degree of direction or guidance in relation to the making of the relevant work.[27]

The term 'control' has been considered in the context of employment law. Specifically, 'control' can be found to exist where an employer has the ability to oblige an employee to comply with its instructions in relation to the manner in which the work is to be performed[28] and where it has the power to dismiss the employee.[29]

The phrase 'direction or control' is therefore likely to encompass works created by Commonwealth employees in the course of their duties. However, it may also extend to works of contractors engaged by the Commonwealth, the works of committees formed to develop manuals or codes of practice for the Commonwealth, and the works of volunteers supervised by the Commonwealth, depending on the circumstances.[30]

In general terms, in order for copyright to vest in the Commonwealth under ss 176–178 of the Copyright Act, it is likely that the Commonwealth must exercise direction or control over the production or publication of the relevant copyright material in more than just an 'incidental' or a 'peripheral' way.[31]

Uncertain operation of section 177 of the Copyright Act

Section 177 of the Copyright Act has a potentially wide operation. On its face, the provision operates to vest copyright relating to third party material in the Commonwealth, in circumstances where the material is first published by, or under the direction or control of, the Commonwealth.[32]

For example, under s 177 the Commonwealth arguably owns copyright in certified agreements that are 'first published' by the Department of Employment and Workplace Relations on its WageNet website.[33]

However, there is debate about the scope of this provision.[34] Specifically, it is unclear whether s 177 should be 'read down' by the operation of s 29(6) of the Copyright Act which essentially provides that 'publication' of a work is to be disregarded for the purposes of the Copyright Act where it is done without the licence of the owner of the copyright.[35]

Even where it is accepted that s 29(6) operates to mitigate the effect of s 177, the nature of the licence required from the copyright owner under that provision, in order for copyright to vest in the Commonwealth, is uncertain.[36]

Who is 'the Commonwealth' for the purposes of sections 176–178?

Some statutory authorities which are separate legal entities from the Commonwealth, and have the capacity to hold property in their own right, may nevertheless be treated as 'agents or emanations' of the Commonwealth for the purposes of ss 176–178 of the Copyright Act. The general view is that this will depend largely on the extent to which they are subject to direction or control by the Commonwealth.[37]

One possible consequence of this characterisation is that copyright in anything made, or first published, by such a statutory authority, or under its direction or control, for the purposes of ss 176–178 of the Copyright Act will be owned by the Commonwealth, to the exclusion of the statutory authority.[38]

Copyright in anything made, or first published, by such a statutory authority, or under its direction or control, for the purposes of ss 176–178 of the Copyright Act, will be owned by the Commonwealth, to the exclusion of the statutory authority.

In the past, a number of statutory authorities equated with the Commonwealth have entered into special arrangements with their parent departments (e.g. under what have been described as 'deeds of repatriation') in order to have assigned back to them, their copyright in materials that would otherwise arguably be owned by the Commonwealth under ss 176–178 of the Copyright Act.

For example, the Commonwealth and the Australian Institute of Criminology (AIC) have entered into an agreement under which all existing and future copyright in material produced by the AIC is assigned back to it by the Commonwealth.[39] Film Australia has entered into a similar agreement with the Commonwealth in relation to copyright in films and/or sound recordings produced in the course of Film Australia's activities.[40]

By contrast, it is clear that in relation to a statutory authority that is *not* an agent or emanation of the Commonwealth for the purposes of ss 176–178 of the Copyright Act, the general principles of copyright ownership would apply.

There is, however, uncertainty as to *which* Commonwealth authorities are to be considered agents or emanations of the Commonwealth for the purposes of the Copyright Act.[41]

Crown prerogative rights in the nature of copyright

Section 8A of the Copyright Act makes it clear that the Act is not intended to affect prerogative rights in the nature of copyright.

It is generally accepted that the Commonwealth holds prerogative rights in the nature of copyright in Commonwealth legislation and subordinate legislation.[42]

The precise nature of this prerogative right is not entirely clear; however, it appears to extend to printing, publishing and communicating the relevant material to the public. The prerogative right may be distinguished from statutory copyright on the basis that it is of indefinite duration and cannot be assigned.[43]

The prerogative right may be distinguished from statutory copyright on the basis that it is of indefinite duration and cannot be assigned.

The usual defences to copyright infringement apply to reproduction and use of material in which prerogative rights in the nature of copyright apply.[44]

Significantly, where third party material is incorporated into or attains the status of legislation or subordinate legislation of the Commonwealth, it is arguable that the Commonwealth 'acquires' prerogative rights in respect of that material insofar as it forms part of the legislation. The prerogative rights may effectively extinguish any statutory copyright subsisting in the third party material; however, these issues are not beyond doubt.

For example, under the *Environment Protection and Biodiversity Conservation Act 1999* interested groups can develop 'recovery plans', which set out the actions necessary to support the recovery of threatened species, for approval by the Minister. It is arguable that once the recovery plans are approved by the Minister, they have the status of subordinate or delegated legislation in which the Commonwealth has prerogative rights.

Crown ownership of copyright – practical implications arising from the recommendations

Although there is currently some uncertainty about the operation of the Crown ownership provisions of the Copyright Act, and the nature and scope of the Crown prerogative rights in the nature of copyright, on the widest interpretation, the Commonwealth could rely on these grounds to effectively 'acquire' copyright in respect of third party material:

— made under the Commonwealth's direction or control

— first published by the Commonwealth or under its direction or control

— that is incorporated into, or attains the status of, subordinate legislation.

The Commonwealth could rely on these grounds to effectively 'acquire' copyright in respect of third party material.

In addition, some statutory authorities that have commissioned third party works, or first published them, could find that the *Commonwealth* and not the statutory authority owns copyright in the relevant works.

Based on these observations, potential implications arising from repealing the Crown ownership provisions of the Copyright Act and abolishing Crown prerogative rights would seem to include the following:

— The Commonwealth will need to rely more heavily on the general provisions of the Copyright Act in order to own copyright in material made or first published under its direction or control – e.g. s 35(6) in respect of employee works.[45]

— It will be important for the Commonwealth to include appropriate provisions in its contracts if it wishes to own copyright in literary, dramatic, musical and artistic works produced by its contractors.[46]

— The Commonwealth will need to obtain a specific assignment of copyright in material created by committees or volunteers working under its direction or control if it wishes to own copyright in that material – any such assignment must observe the relevant formalities.

— It may be necessary for the Commonwealth to pay for an assignment of copyright where it would currently own copyright by default under the Act.

— The Commonwealth may need to rely more heavily on its statutory licence under s 183 where it is unable to negotiate an assignment of copyright in material created by third parties (see discussion below).

— The Commonwealth must decide whether it *needs* to own copyright in third party material, particularly where it is more cost-effective to obtain a licence to use that third party material (see discussion below).

— Agencies may seek to rely more on copyright 'free use' exceptions such as 'fair dealing'.[47]

— A statutory authority that is equated with the Commonwealth will not automatically lose copyright to the Commonwealth in material made or first published by it, or under its direction or control.

— Agencies may wish to develop standard IP contract provisions which deal with different IP ownership and licensing options, in order to more effectively manage their IP.

— Agencies will need to ensure that their employees are adequately trained so that they can make appropriate and effective decisions about IP ownership and licensing options.

It may be necessary for the Commonwealth to pay for an assignment of copyright where it would currently own copyright by default under the Act.

Options other than Commonwealth ownership of copyright material – written licence or statutory licence under section 183 of the Copyright Act

If the Commonwealth determines that it is not necessary for it to own copyright in third party material, it may elect to obtain a written licence in respect of its use of the material – if it does so, it should ensure that the licence is broad enough to meet its requirements.

Alternatively, the Commonwealth could elect to rely on its statutory licence under s 183 of the Copyright Act. Under that provision, the Commonwealth is entitled to the benefit of a statutory licence where its use of copyright material is for the services of the Commonwealth and is undertaken in Australia.

The phrase 'for the services of the Commonwealth' would at the least cover the activities of Commonwealth employees in the ordinary course of their employment.[48]

The statutory licence in s 183 extends to all categories of copyright material and any acts comprised in the copyright (including reproduction, publication, public performance and communication to the public). However, in relying on this statutory licence, the Commonwealth is generally obliged to notify the copyright owner of its dealings with the copyright material and to agree on terms for use of that material, which may involve payment of fees to the owner.[49]

Agencies may wish to develop standard IP contract provisions ... in order to more effectively manage their IP.

Significantly, where a statutory authority is treated as an 'agent or emanation' of the Commonwealth, the statutory authority will enjoy the benefit of the statutory licence under s 183 of the Copyright Act.

2. Abolition of copyright in certain primary legal materials – practical implications arising from the recommendations

The CLRC has recommended that copyright in certain materials produced by the judicial, legislative and executive arms of government be abolished. Those materials are:

- bills, statutes, regulations, ordinances, by-laws and proclamations, and explanatory memoranda or explanatory statements relating to those materials
- judgments, orders and awards of any court or tribunal
- official records of parliamentary debates and reports of parliament, including reports of parliamentary committees
- reports of commissions of inquiry, including royal commissions and ministerial and statutory enquiries
- other categories of material prescribed by legislation.

If copyright is taken as being incapable of subsisting in these types of materials, this may have implications for whether copyright could subsist in edited or annotated versions of these materials – including those produced by legal publishers.

In the case of third party material that is incorporated into, or attains the status of, legislation or subordinate legislation in which copyright has been 'abolished', there is a question as to whether copyright in the third party material is effectively extinguished for all purposes – where that material has an existence separate from the legislation.

In addition, if copyright is incapable of subsisting in these primary legal materials, then the authors of those materials may lose their moral rights in the relevant material – this is because moral rights protection depends upon copyright protection.[50]

3. Crown IP management – practical implications arising from the recommendations

The CLRC has recommended that the government should develop and implement comprehensive IP management guidelines to promote best practice and assist agencies to meet their responsibilities.[51]

This recommendation is consistent with the recommendations of the Australian National Audit Office (ANAO) in its Audit Report No. 25, *Intellectual Property Policies and Practices in Commonwealth Agencies* (5 February 2004). The report followed an audit by the ANAO on whether agencies have systems in place to efficiently, effectively and ethically manage their IP assets in accordance with their obligations under the *Financial Management and Accountability Act 1997*[52] or equivalent provisions of the *Commonwealth Authorities and Companies Act 1997*.[53]

The ANAO report produced two main recommendations:

> [I]n order to ensure the effective and efficient management of intellectual property, agencies [should] develop an intellectual property policy appropriate for agency circumstances and functions, and implement the required systems and procedures to support such a policy.

Agencies are themselves responsible for devising their own strategies for dealing with IP that they create or acquire.

> In order to ensure that the Commonwealth's interests are protected ... the Attorney-General's Department, the Department of Communications, Information Technology and the Arts, and IP Australia (along with other relevant agencies), [should] work together to develop a whole-of-government approach and guidance for the management of the Commonwealth's intellectual property, taking into account the different functions, circumstances and requirements of agencies across the Commonwealth, and the need for agency guidance and advice on intellectual property management.[54]

In relation to the second recommendation above, the 'lead' agencies have recently prepared a draft whole of Commonwealth framework for IP management and circulated this to relevant stakeholders.

In this context, it is important to emphasise that the ANAO report clearly indicates that agencies are themselves responsible for devising their own strategies for dealing with IP that they create or acquire. Accordingly, agencies should not wait until a whole of Commonwealth framework for IP management is finalised before they take steps to produce their own individually tailored policies.

This message is perhaps more important in light of recommendations in the CLRC report – if the key recommendations are implemented, the Commonwealth will not be able to rely on favourable default positions on copyright ownership and will need to ensure that systems are in place for appropriate and effective management of IP by employees, which may involve making decisions about IP ownership and licensing options.

If the key recommendations are implemented, the Commonwealth will not be able to rely on favourable default positions on copyright ownership and will need to ensure that systems are in place for appropriate and effective management of IP by employees.

What is also clear is that in order to achieve this end, agencies must give high priority to educating and training their employees in this area.[55] Specifically, agencies will need to ensure that their employees are aware of their requirements so that agencies can fulfil their accountability requirements in relation to the management of Commonwealth IP assets.

List of entities that are 'agents or emanations' of the Commonwealth

The CLRC considered that in order to promote best practice in Crown copyright ownership and management, it is necessary to be clear about which entities are to be equated with the Commonwealth under the Crown ownership and licensing provisions of the Copyright Act.[56]

In this context, it is important to note that if the recommendation to repeal the Crown ownership provisions of the Copyright Act is accepted, this is likely to be done with prospective effect. Therefore, the status of statutory authorities as 'agents or emanations' of the Commonwealth will continue to be relevant for works created or first published prior to the repeal of the provisions.[57] In addition, the status of a statutory authority is still relevant for the purposes of determining whether the authority can take advantage of the statutory licence under s 183 of the Copyright Act.

Accordingly, the CLRC has recommended that the Commonwealth create a non-exhaustive list of entities to be included as part of 'the Commonwealth'.[58] This list would be indicative only, and would not preclude parties from seeking a court determination of the status of the relevant entity.[59]

The CLRC considered that the CCA is probably best placed to compile and maintain the list of entities equated with the Commonwealth.[60] It suggested that the CCA could check the status of any such entity by liaising with that entity, the Attorney-General's Department and the Australian Government Solicitor.[61]

The list of Commonwealth authorities equated with the Commonwealth, should provide greater certainty to statutory authorities in their ownership and management of copyright material.

Conclusion

In conclusion, if the CLRC recommendations on Crown copyright are implemented, it will be critical for Commonwealth agencies to ensure that they have appropriate contract provisions in place for acquiring copyright where necessary, and that they develop and implement proper guidelines and processes (including appropriate employee training), in order to facilitate effective management of their IP assets in accordance with their accountability obligations.

Agencies must give high priority to educating and training their employees in this area.

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Notes

1 This note will focus on Australian Government departments and agencies; however, the CLRC recommendations also extend to the states and territories. All references in this note are to references in the CLRC report (currently available through http://www.clrc.gov.au) unless otherwise indicated.

2 Recommendation 1 – para 9.09.

3 Recommendation 6 – para 9.45.

4 Recommendation 4 – para 9.38.

5 Recommendation 16 – para 11.113.

6 Recommendation 15 – para 11.106.

7 Recommendation 9 – para 9.61.

8 See CLRC report, p. 34.

9 See CLRC report, Chapters 1 and 4.

10 Intellectual Property and Competition Review Committee, *Review of Intellectual Property Legislation under the Competition Principles Agreement, IP Australia, Canberra* 2000.

11 Namely, ss 176 and 178 of the Copyright Act – which gives copyright to government in respect of material made under its 'direction or control.'

12 The Ergas Report, p. 114.

13 CLRC, 'Crown Copyright: Discussion paper for consultation forum', Sydney, 27 July 2004, p. 2; CLRC report, p. 38.

14 See CLRC discussion paper (2004), p. 3; See CLRC report, pp. 35–36.

15 CLRC report, pp.127–129.

16 The CLRC report notes that these grounds are not necessarily mutually exclusive: *Director-General of Education v Public Service Association of New South Wales* (1985) 4 IPR 552, in which McLelland J of the Supreme Court of New South Wales stated that NSW owned copyright in the relevant report under either s 35(6) or s 176 of the Copyright Act: CLRC report, p. 15.

17 Section 35(2) of the Copyright Act.

18 Section 35(6) is also subject to the operation of provisions relating to certain works of journalists and also artistic works which are commissioned for a private or domestic purpose (see ss 35(4) and 35(5)); s 35 is subject to the operation of Part VII of the Copyright Act.

19 Sections 97–98 of the Copyright Act. The 'maker' of a sound recording under s 22(3) is the person who owned the record at the time when the first record embodying the recording was produced. The 'maker' of a film under s 22(4) is the person who undertook the arrangements for making the first copy of the film.

20 These provisions are subject to the operation of the Crown copyright provisions in Part VII of the Copyright Act.

21 See ss 196 and 197 of the Copyright Act.

22 See s 196(3) of the Copyright Act: If formalities for assignment are not met, it is possible that the intended beneficiary of the assignment will still have an equitable interest in the relevant copyright: see *Nicol v Barranger* [1917–1923] Macg Co Cas 219, cited in Lahore, *Copyright and Designs,* LexisNexis (2005) at [22,030].

23 Part VII of the Copyright Act does not apply to Crown ownership of copyright in television and sound broadcasts and published editions of works.

24 See s 179 of the Copyright Act.

25 Under s 29 of the Copyright Act, a literary, dramatic, musical or artistic work shall be deemed to be published if but only if reproductions of the work have been supplied (whether by sale or otherwise) to the public.

26 CLRC report, para 5.15.

27 See CLRC report, p. 68.

28 *Attorney-General for NSW v Perpetual Trustee Co Ltd and Ors* (1952) 85 CLR 237 at 229–300); *Mersey Docks and Harbour Board v Loggins and Griffith (Liverpool) Limited* (1947) AC 1 at 12; CLRC report, para 5.16.

29 CLRC report, para 5.16.

30 See CLRC report, pp. 67–68. It is arguable that due to the doctrine of separation of powers, judges do not operate under the direction or control of the Commonwealth: CLRC report, pp. 69–70.

31 See Ricketson and Creswell (2005) at [14.180].

32 In *Catnic Components Ltd v Hill & Smith Ltd* [1978] FSR 405, copyright in a patent specification was held to vest in the patent office which published it: cited in the CLRC report 2005, para 5.41.

33 In its submission to the CLRC, DEWR supported the broader interpretation of s 177 and stated that it relies on s 177 to claim copyright in certified agreements published on its WageNet website. DEWR submitted that without the benefit of s 177 DEWR may need to negotiate with multiple authors of a certified agreement before it is able to publish the agreement, which would be an onerous task: CLRC report, para 5.54.

34 CLRC report, para 5.41.

35 Support for reading down s 177 is that s 183(8) of the Copyright Act provides that use of copyright material by government does not constitute publication: See CLRC report, para 5.52; Fiona Phillips, 'Crown copyright' (2004) 12(3) *Australian Law Librarian* 9–16. In addition, it has been argued that the provision may not be constitutionally valid because it does not provide for the payment of 'just terms' for what essentially constitutes acquisition of property': see Ricketson and Creswell, *The Law of Intellectual Property: copyright, designs and confidential information,* Thomson Law Book (2005), para [14.185].

36 Specifically, it is not clear whether the consent or licence to publish needs to be express or whether it can be implied or whether it needs to be 'informed' in the sense that the copyright owner understands the legal consequences of consenting to first publication of its work by the Commonwealth. It is also unclear whether the requirement would be satisfied where the copyright owner is indifferent to their rights or has no realistic expectation of exploiting their rights – as in the case of volunteers, or committees where many people contribute to the production of a work.

37 See Chapter 8 of the CLRC report. Two tests used to determine whether a Commonwealth authority is an agent or emanation of the Commonwealth are 'the Shield of the Crown' test (where the authority is entitled to share the immunities and privileges of the Crown) and the 'federal purposes' test (where 'the Commonwealth' has the same meaning that it has for the purposes of the Commonwealth constitution). Although the main factor in both tests is the extent to which the authority is subject to the direction or control of the Crown, differences between the tests can occasionally lead to a different result.

38 However, this interpretation is not beyond doubt. Specifically, it requires reading 'Commonwealth' where it is first used in ss 176(2) and 178(2) and 177 as the Commonwealth as a legal person, and where the term 'Commonwealth' is used in the second instance to include any agent or emanation of the Crown: see CLRC report, para 5.43.

39 CLRC report, para 9.64.

40 CLRC report, para 9.65.

41 CLRC report, para 2.16. See further discussion on this issue under 'Crown IP Management' below.

42 See opinion dated 12 May 1989 by the former Solicitor-General for the Commonwealth, Dr Gavan Griffith QC. This view is based on a line of decisions, which are reviewed and applied in *Attorney-General for New South Wales v Butterworth & Co (Australia) Ltd* (1937) 38 SR (NSW)195. It is uncertain whether prerogative rights extend to judgments or other newer technological forms in which such works may be embodied – see CLRC report at para 6.11; Ricketson and Creswell (2005) at [14.205].

43 See Ricketson and Creswell (2005), at [14.205] and Ann Monotti, 'Nature and Basis of Crown Copyright in Official Publications' [1992] 9 *EIPR* 305.

44 Section 8A(2) of the Copyright Act.

45 CLRC report, para 9.19. In order to avoid any doubt about the application of s 35(6) to Commonwealth officers (including, for example, members of a tribunal), the CLRC recommended that this provision be amended to clarify that copyright in works produced by an officer or servant of the Crown in the course of their duties vests in the Crown: Recommendation 3 at para 9.26.

46 See para 11.109.

47 A 'fair dealing' for specified purposes provides an exception to copyright infringement – and therefore represents a situation in which the Commonwealth need not obtain a licence from a third party to use their copyright material: see ss 40–43 of the Copyright Act.

48 See *Pfizer Corporation v Ministry of Health* (1965) AC 512.

49 Sections 183(4) and 183(5) of the Copyright Act.

50 Literary, dramatic, musical and artistic works and films (to which moral rights attach) are defined in s 189 of the Copyright Act as works in which copyright subsists.

51 Recommendation 16, para 11.113.

52 Section 44 of the *Financial Management and Accountability Act 1997* provides that Chief Executives must manage the affairs of their agencies in a way that promotes efficient, effective and ethical use of the Commonwealth resources for which the Chief Executive is responsible – Commonwealth resources would clearly include IP resources.

53 For example, an officer of a Commonwealth authority must exercise his or her powers and discharge his or her duties with care and diligence: see s 22 of the Commonwealth *Authorities and Companies Act 1997*. In addition, statutory authorities are normally required by their enabling legislation to use money and other resources (including IP resources) for the purpose of properly carrying out their functions.

54 See paras 2.24 and 2.26 of the ANAO report (2004).

55 Recommendation 16, para 11.113.

56 CLRC report, para 9.51.

57 CLRC report, para 9.51.

58 Recommendation 9, para 9.61.

59 CLRC report, para 9.58.

60 CLRC report, para 9.57. The CCA, which is now part of the Attorney-General's Department, is responsible for administering copyright in published Commonwealth material (including legislation and excluding judgments – the CLRC recommended that its role be extended to include administration of Commonwealth copyright in films and sound recordings.

61 CLRC report, para 9.59. It has also been recommended that the CCA should publish guidelines (in consultation with the Attorney-General's Department and the Australian Government Solicitor) setting out factors that may be considered when determining the governmental status of an entity – these would be non-exhaustive factors to allow for changing role of government and should reflect factors that courts have developed over time: Recommendation 10, para 9.61.

Commercialising intellectual property

Intellectual property is a valuable, flexible asset of the Commonwealth and may be exploited in a number of ways. Although commercialisation may not be a core function for many government agencies, it is often an important by-product of their complex and unique activities.

This article discusses the key issues related to, and the most common methods of, commercialising IP in the Commonwealth public sector.

Why commercialise?

Commercialisation, in the Commonwealth context, essentially means taking IP from its existing environment (research and development, in-house generated or contractor developed) and introducing it into the marketplace. The method of achieving this outcome commonly involves licensing, transfer, sale or disposal of the IP.

Whereas a private company may only be interested in commercialising IP for its own competitive advantage, government agencies are often driven by different reasons and imperatives. The ANAO report, *Intellectual Property Policies and Practices in Commonwealth Agencies,* revealed that all case study agencies involved in commercialisation did not consider revenue generation as the sole reason to commercialise agency IP. Instead, they recognised some of the broader benefits in transferring their IP to the wider community.[1]

Whereas a private company may only be interested in commercialising IP for its own competitive advantage, government agencies are often driven by different reasons and imperatives.

Depending on the charter or governing legislation of an agency, such broader benefits should therefore be considered. Where strong policy reasons support the transfer of agency IP to third parties, commercialisation may be a viable option, even where no revenue or remuneration is sought by the agency. According to the Defence Intellectual Property Policy, commercialisation of its IP is recognised by the Department of Defence as having the dual function of assisting in the development of Defence capability and contributing to government's broader objectives.[2] These objectives include assisting Australian industry.

Other potential purposes for Commonwealth commercialisation include:

— defraying development costs

— developing a solution for the client agency

— establishing a product to be offered in the marketplace as a standard or to promote inter-operability.[3]

Legislative and policy framework

The fundamental difference between the public and private sector in respect of commercialisation activities is that the Commonwealth cannot enter into commercial activities simply on the basis that to do so would generate revenue for the Commonwealth.[4] This is because the Commonwealth has no power to set up, manufacture or engage in businesses or exploit its IP for general commercial purposes.[5]

Agencies subject to the *Financial Management and Accountability Act 1997* (FMA agencies) are entrusted with the 'stewardship' or management of significant Commonwealth IP. As FMA agencies do not exist separately from the Commonwealth, they do not own assets (tangible and intangible) in

their own right. Consequently, any commercialisation undertaken by an FMA agency must relate to one or more of the Commonwealth's constitutional powers. In addition, FMA agencies must ensure that the proposed activity constitutes an 'efficient, effective and ethical' use of Commonwealth resources.[6]

Authorities subject to the *Commonwealth Authorities and Companies Act 1997* (CAC authorities) are separate legal entities from the Commonwealth and do hold assets in their own right. CAC authorities must ensure that proposed commercialisation activities fall within the ambit of their governing legislation and charter.

A CAC authority must also seek permission from its relevant minister in respect of certain significant proposals which may involve commercialisation of IP.[7]

In addition, an agency's legal status or existing IP policy may impose certain constraints on its ability to commercialise its IP, or impact on the method of commercialisation that is appropriate in the circumstances. For example, FMA agencies may only retain revenue from commercialisation activities if arrangements are in place with the Department of Finance and Administration. This most commonly occurs through an agreement under s 31 of the FMA Act.

It is critically important that agencies identify all uses and potential uses (and income streams) of an IP asset in their commercialisation strategy.

Applications of IP

An agency must be fully apprised of the inherent nature and divisibility of the IP it proposes to commercialise. This is because different heads of IP (copyright, patent, know how) require different forms of protection. In addition, one innovative idea or concept can have a number of uses or applications. In other words, an IP asset may have been originally developed by an agency for one purpose but may, at that or some later stage, reveal secondary uses or benefits in the same or different field(s) of use.

For this reason, it is critically important that agencies identify all uses and potential uses (and income streams) of an IP asset in their commercialisation strategy.

It is also important to ensure, in appropriate cases, that the agency obtains or retains present and future rights (both to the agency and the Commonwealth, where appropriate) to that asset during its life cycle. These rights may be exercised as owner or licensee.

Ownership v licence

Another critical issue to be dealt with in any commercialisation plan is the ownership model for the background IP (existing IP owned by a party) and the foreground IP (IP to be developed under the arrangement).

Agencies must determine whether the ownership of background IP or foreground IP is critical to the agency's long-term operations and objectives. This will involve an examination of a number of factors – particularly, the agency's reasons for commercialisation and the impact of the ownership of the relevant IP on its operations and programs. For example, granting an exclusive licence means that the agency will be prevented both from licensing the IP to others or using the IP within the agency. Public interest, national security and financial considerations are other factors which may require consideration in this context.

After conducting an appropriate review of its needs, an agency may choose to be a licensee (rather than an owner) of the relevant IP. In such cases, the agency must ensure that it does not lock itself (and the Commonwealth, where relevant) out of any necessary present or future rights to use the IP, whether in-house use by the agency, or by third parties (on behalf of the agency).

Risk assessment

It is recommended that a thorough risk assessment be completed and approved by senior management prior to the completion of the agency's commercialisation strategy. One reason for this is because agency IP may involve cutting-edge or blue-sky innovations, which bring with their exploitation a potentially high level of risk for the agency.

Common risks arising from commercialisation by agencies include:

— failure to secure appropriate rights in the technology

— failure to adequately protect the IP from premature or inappropriate use or disclosure by co-parties

— failure to develop the product/service sufficiently, or in time, to marketable standard

— failure to achieve anticipated market acceptance

— failure or insolvency of the entity charged with commercialisation activities.

It is recommended that a thorough risk assessment be completed and approved by senior management prior to the completion of the agency's commercialisation strategy.

As commercialisation of IP (particularly early stage technology) can be a risk-intensive activity, agencies should identify and assess all risks involved in both the IP and the commercialisation strategy (technical, legal and commercial) to ensure loss is mitigated or transferred in accordance with Commonwealth policy or as appropriate.

FMA agencies must ensure that they comply with Commonwealth legislation and policy in respect to the provision of warranties and indemnities when contracting with third parties.

Legal relationship

The legal relationship entered into by an agency with other parties for the purpose of commercialisation is an important risk management strategy in and of itself. The nature of this relationship will also directly impact on the success of the commercialisation plan, as it will largely dictate the roles and responsibilities of the parties, governance requirements and the terms of participation in the venture.

Common legal relationships or structures which support commercialisation of Commonwealth IP are:

— *Spin-off company:* a separate company formed solely for the purpose of owning and exploiting IP.

— *Unincorporated joint venture:* an 'association' of persons (whether natural or corporate) formed to undertake a specific purpose, usually research and development activities relating to IP.

— *Distributorship:* a third party distributes agency product to consumers.

— *Licensing:* an agency retains ownership of its IP and licenses it to one or more permitted users (licensees) for specific purposes.

Conclusion

In the first instance, a decision by any agency to commercialise its IP will be influenced by a number of important factors. These include the nature of the IP (copyright, patent, know-how), the agency's functions and objectives, whether the agency is the owner or custodian of the IP and whether the agency is entitled to retain revenue from the proposed activities.

Commercialisation activities are typically complex and long-term arrangements, often involving a mix of IP rights. Agencies are advised to assess their individual commercialisation objectives against their governing documents and, in that context, devise a well-structured commercialisation strategy which ensures the agency will retain the desired amount of control over the asset (and all relevant risks) during, and after, the conduct of the commercialisation activities.

Commercialisation checklist

Agencies should consider the following factors when commercialising their IP:

- Is there synergy between the commercialisation objectives and the agency's governing legislation and charter?
- Is the strategy consistent with the agency's IP policy (if any) and the law?
- Have all possible uses or applications of the IP been explored, and appropriate present and future rights retained or obtained by the agency?
- Has a comprehensive business plan (including risk management analysis) been approved by senior management?

This note was written by Samantha Schrader when she was a Senior Lawyer at AGS Sydney. For further information please contact John Berg or AGS's national IP network coordinator, Philip Crisp (details back page).

Notes

1 ANAO Audit Report No. 25 2003–2004 *Intellectual Property Policies and Practices in Commonwealth Agencies*.

2 *Developing and Sustaining Defence Capability: Defence Intellectual Property Policy 2003* at <http://www.defence.gov.au/dmo/gc/ip/main.cfm>.

3 The Commonwealth IT IP Guidelines 2001 p. 44. Available from the DCITA website at <http://www.dcita.gov.au/ip>.

4 *Johnson v Kent* (1975) 132 CLR 164 at 169.

5 *Commonwealth v Australian Commonwealth Shipping Board* (1926) 39 CLR 1 at 9.

6 Section 44, *Financial Management and Accountability Act 1997*.

7 Section 15, *Commonwealth Authorities and Companies Act 1997*.

Commercialisation and confidentiality

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In circumstances where a Commonwealth agency is intending to commercialise IP that it owns, but requires the assistance of a commercial partner to do so, it is important to be able to protect that IP from being improperly disclosed or misused. This is particularly the case where the strategic partner has a better grasp of the market for the IP than the agency.

Introduction

Stages of commercialisation

There are two distinct early stages in this type of commercialisation that pose potential risks for the protection of agency IP. The first and most crucial stage is the evaluation period, where one or more commercial partners may be invited by the agency to assess the IP and its commercialisation potential. This period may involve an evaluation agreement of some type between the agency and the potential commercial partners in order to protect the interests of each.

The second is the stage at which the agency and a selected commercial partner enter into a contract for the commercialisation of the IP.

Methods of protection

There are a number of methods available to protect Commonwealth IP including patents, trademarks and equitable actions for breach of confidence. However, this note focuses on how strategic confidentiality arrangements can be used, both during the evaluation stage and the commercialisation contract stage, to protect an agency's IP.

Risk factors

When an agency considers engaging a strategic partner to develop agency IP, it is worthwhile looking at the potential risk factors that would suggest a need for comprehensive confidentiality protections. Such risk factors include where:

— the Commonwealth IP is embodied in world-leading technology

— there is a large commercial market for the IP

— a number of organisations are selected by the agency to evaluate the IP for commercialisation opportunities

— an organisation evaluating the IP has a large number of employees, or

— an organisation evaluating the IP has many subsidiaries worldwide.

Each of these factors increases the risk that the Commonwealth's IP could be disclosed without the agency's permission, or misappropriated or developed without permission, thus significantly reducing its value.

While there is the potential for disclosure or misappropriation at any time during a commercialisation, the risks may be greater during evaluation. This is because it is less likely that a formal contractual arrangement, which could regulate the disclosure, confidentiality and use of the IP, has been entered into between the agency and the evaluating partners.

While there is the potential for disclosure or misappropriation at any time during a commercialisation, the risks may be greater during evaluation.

Commercialisation contract period

Once a commercialisation partner has been selected, it would be normal to enter into a detailed contract with them for that commercialisation. The contract would generally include the licensing conditions under which the agency's IP may be used, provisions for royalty payments and confidentiality provisions. While this can provide greater protection to the IP than in the pre-contract situation, here too, careful consideration should be given to protecting the agency's IP. (For example, by looking at the extent to which the partner may need to disclose the IP information to its subcontractors, related companies and individual personnel – and therefore the need for confidentiality agreements between the agency and those parties.)

Thus the concepts for protection of IP considered here have application not only to the evaluation period, but also to the contract with a commercialisation partner following a successful evaluation.

Structuring confidentiality arrangements

Confidentiality agreements with commercial partners

The best way to discourage an organisation from disclosing or misusing the Commonwealth's IP is to open up the possibility that if there is improper disclosure or misuse, the Commonwealth will sue the organisation for damages, or hold it liable for an account of profits made by any person who improperly uses the IP.

During the evaluation period, this protection can be achieved by putting in place a suitable confidentiality agreement between the Commonwealth agency and the commercial partner.

It is critical that this confidential information be specified as accurately and in as much detail as possible.

Structuring confidentiality agreements with commercial partners

An appropriate confidentiality agreement should first define the information that needs to be held confidential by the commercial partner. It is critical that this confidential information be specified as accurately and in as much detail as possible. This is not only a requirement of Commonwealth confidentiality policy, but it also improves the likelihood that truly confidential information is recognised and properly protected.

The agreement should also:

— impose a non-disclosure obligation on the commercial partner, such that it is not permitted to disclose information except as allowed under the agreement

— include the particular restrictions on the use of that information that the commercial partner must abide by. (For example, that the commercial partner may only use the agency's confidential information for the purposes of evaluating commercialisation prospects.)

A further restriction that can be included, and which could substantially increase the protection offered to the IP being commercialised, would be requiring the commercial partner to limit the release of that information within the partner's organisation. This could be achieved through the partner providing a list of nominated personnel to whom access may be granted. This list could be approved by the Commonwealth agency and updated as necessary, and need not be limited solely to the commercial partner, but could also include employees of subcontractors or related entities. This is a particularly valuable method to use where the partner organisation is large.

Confidentiality agreements with individuals

While this approach gives the agency recourse against the commercial partner, and limits the release of information to a set of nominated personnel, it does not impose any obligation on the personnel themselves not to release that information.

A commercial partner's employees are not parties to any confidentiality agreement that a Commonwealth agency may enter into with the commercial partner. The same goes for subcontractors, and the employees of subcontractors, as well as the employees of any other companies related to the commercialisation partner. So, if it is considered important to fully protect the agency's IP, then it may also be important for the agency to enter into confidentiality arrangements with relevant nominated personnel.

Unlike the agreement with a commercial partner, the purpose of entering into confidentiality arrangements with nominated personnel is not primarily so that the Commonwealth can sue individuals (this is highly unlikely in practice), but to act instead as a clear reminder to those individuals of their responsibilities to protect the confidentiality of the agency's IP. This method can be highly effective when used in conjunction with a confidentiality agreement with the commercial partner, because the element of personal responsibility missing from the agreement with the partner is provided through the agreements with the individuals.

It may also be important for the agency to enter into confidentiality arrangements with relevant nominated personnel.

It is worth noting, however, that this approach may not be acceptable to the commercial partner. It requires a case-by-case approach depending on the risks to the agency's IP and the desirability of binding individuals to confidentiality agreements.

Structuring confidentiality agreements with individuals

A confidentiality agreement with an individual would broadly follow the same lines as the agreement with the company. However, an individual agreement would generally be less formal, and would explain clearly, in plain language, the operation of the agreement and the obligations that the person was agreeing to.

Application of this approach in the SmartGate project

Overview of SmartGate

The Australian Customs Service SmartGate project illustrates where strategic confidentiality arrangements were both required and successfully implemented. SmartGate is an automated border processing system that provides face-to-passport checks that normally would be conducted by a Customs officer. SmartGate uses facial recognition technology to verify a traveller's identity by taking an image of the traveller and comparing it to one or more digital images stored on the traveller's ePassport.

SmartGate was introduced for trial use at Sydney and Melbourne international airports from November 2002 to June 2005, for selected inbound travellers. Qantas crew were the initial trial users, followed from November 2004 by Qantas Platinum Club frequent flyers. Over 10,000 passengers and crew undertook in excess of 295,000 transactions during this period.

The trial results provided Customs with the confidence that facial biometrics can be utilised for identity verification purposes, and that Australia's border security will not be compromised by the introduction of automated border processing.

Development of SmartGate

Behind the SmartGate technology is leading-edge IP, and there is a keen interest from international companies involved in biometrics to develop and use the technologies involved. In order to further develop the concept for production, Customs sought proposals from 12 companies to determine the most suitable strategic partner.

The successful company was Sagem Australasia, a subsidiary of Sagem SA, a large French-based multinational communications and technology company.

Although the Commonwealth is primarily interested in developing the technology for use in Australian airports, to assist with managing the growing number of travellers, there is a wider commercial potential for the facial recognition technologies, especially given the increase in security precautions against terrorist activity, and tighter immigration controls.

Evaluation of SmartGate technology for commercialisation

A number of risk factors were present for Sagem's evaluation of the SmartGate technologies. First, Sagem comprises a large company with a host of related companies. Second, the SmartGate system has world-leading technology. Third, there is a large potential market for the IP that is being developed in the project. There was, therefore, a potential risk that unless the SmartGate IP was closely protected, technologies or products could be developed from it without the appropriate return on investment to the Commonwealth.

Accordingly, a confidentiality agreement of the type outlined earlier in this note was entered into with Sagem prior to the evaluation, limiting disclosure to a set list of nominated personnel. Individual agreements were also developed to be signed by those nominated personnel, including personnel in Sagem's related companies, who would have access to the SmartGate IP. These agreements proved successful, both in being agreed by Sagem and in achieving their aim of protecting the SmartGate IP.

Individual agreements were also developed to be signed by those nominated personnel, including personnel in Sagem's related companies, who would have access to the SmartGate IP.

Results of evaluation

In May 2004 Customs engaged Sagem Australasia as its strategic partner to design and develop the necessary hardware, software and business processes required to implement a production version of SmartGate. The rollout of SmartGate Series 1.0 is scheduled to occur at the first Australian international airports during 2007.

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* AGS gratefully acknowledges the assistance of the Australian Customs Service for permission to use this example and for providing the latest information on the SmartGate project.

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AGS has a national team of lawyers specialising in intellectual property law (IP). For further information on the articles in this issue, or on other IP matters, please contact the network coordinator, Philip Crisp, or any of the lawyers listed below.

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AGS's third Commonwealth IP Policy and Practice Seminar is planned to be held in Canberra on 27 July 2006.

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