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IDENTIFYING AND PROTECTING IP AS PART OF AN IP REVIEW AND POLICY DEVELOPMENT PROCESS

The *Statement of IP Principles for Australian Government Agencies* (the IP Principles),¹ released by the former Attorney-General in May 2007, is intended to provide a framework for effective management of intellectual property (IP) by Commonwealth agencies.

Agencies² were to have complied with the IP Principles by 1 July 2008. However, the compliance process is inherently iterative, and many agencies are still in the process of implementing or revising procedures to effectively manage the IP held and used by them.³

Notably, the IP Principles require development and implementation of appropriate measures for identifying and recording the IP that Commonwealth agencies create, use or manage. They also require the development and implementation of agency policies to appropriately protect such IP.

This article focuses on the identification and recording of IP by agencies, and protection of that IP as part of an IP review and policy development process. As such, it specifically addresses agency compliance with IP principles 3, 5, 6 and 7.

IP principle 3: Each agency should have an IP management policy which reflects its objectives and these IP principles.

IP principle 5: Agencies should maintain appropriate systems and processes to identify and record IP.

IP principle 6: Agencies should have strategies and guidelines to ensure that IP is protected in an appropriate manner.

IP principle 7: Agencies should have procedures in place to reduce the risk of infringement of the IP rights of others.

Identification and protection of IP represent the first stages in the life cycle of IP. Other articles in this edition of *Commercial notes* deal with subsequent stages in the IP life cycle, such as licensing and commercialisation of IP.

IP policy basics

Elements of an IP policy

There are usually two key elements to an IP policy or framework:

- the overarching IP principles for the management of IP by an agency which support the agency's key objectives and functions in the context of its broader governance framework



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— guidelines which are directed towards assisting an agency and its employees implement the agency’s overarching IP principles in practical terms.⁴

This approach is consistent with IP principle 3 and has been adopted by Commonwealth agencies and the New South Wales and Queensland governments in their IP management frameworks.⁵

Context of an IP policy: agency governance framework

An agency’s IP policy should obviously be developed in the context of its objectives and broader governance framework consistently with IP principle 3.

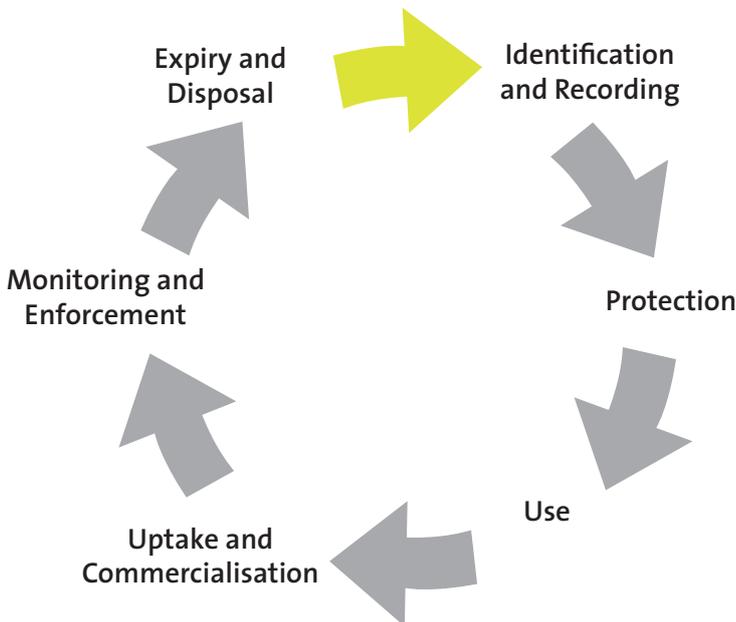
This broader framework would take account of relevant legislation and policies that the agency must comply with. For example, these could relate to matters such as procurement and contract management, records and information management, people and image management, asset management, and risk management.

Structure of an IP policy and guidelines

A convenient way of looking at managing IP within an agency is to consider its life cycle through the agency, from identification and recording of rights through to their expiry or disposal (see Figure 1).

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Figure 1: Life cycle approach to IP management



Adopting a life-cycle approach to IP management would suggest a structure for an IP policy and guidelines that is similar to the one set out below in Figure 2.

Figure 2: Structure for an IP policy and guidelines

- Scope and purpose
- Governance framework
- Overarching IP policy principles
- Guidelines for:
 - **identifying and recording IP**
 - **IP protection: focusing on particular IP regimes**
 - IP ownership choices
 - IP licensing choices
 - uptake and commercialisation of IP
 - monitoring and enforcement of IP
 - valuation of IP
 - disposal of IP
 - IP training and awareness
 - monitoring compliance with the guidelines

As noted previously, this article focuses on the IP life-cycle stages shown in bold type in Figure 2.

Stage 1: identifying IP

In order for agencies to make appropriate IP management decisions, they need to be clear, at least in broad terms, as to the nature and scope of IP that they own, use and manage.

As a first step in identifying the IP held by them, some agencies have found it useful to undertake an IP review.

What is an IP review?

An IP review can be targeted or comprehensive in scope, and can serve one or a number of different but related purposes. In particular, an IP review could encompass:

- conducting an IP audit which enables identification of key IP held by an agency and important information about that IP
- undertaking a 'SWOT analysis' of the IP identified, which would enable an agency to identify, assess and deal with any strengths, weaknesses, opportunities or threats to the IP; this analysis could result in the identification of gaps in protection, breach of IP rights or conditions of use, and any opportunities for commercialisation of the IP
- undertaking a review of an agency's governance framework, including relevant legislation, policies and relationships that may impact on the management of its IP.

The information obtained as a result of an IP review could therefore enable an agency to either develop an IP register or update an existing IP register. The information could also feed into and shape an agency's IP policy and guidelines (see further discussion below at pp 4–5).

In order for agencies to make appropriate IP management decisions, they need to be clear, at least in broad terms, as to the nature and scope of IP that they own, use and manage.

These outcomes clearly support compliance with the IP Principles—in particular, IP principles 3 and 5.

Conducting an IP review

When conducting an IP review, it is common to begin by distributing tailored questionnaires to people within the agency who have particular responsibility for managing agency IP or who are frequent users of key IP.

The questionnaires would normally seek to identify the IP held or controlled by the agency, the nature and purpose of the IP, ownership details, the conditions under which the IP is used, the significance of the IP to the agency, and any potential legal or policy constraints relating to the IP.

As part of the IP review process, the agency might also consider it advantageous to conduct interviews with relevant key personnel in order to clarify their responses to the questionnaire or to gather further information about IP held or used by them. In this context, it may also be appropriate for the agency to obtain copies of any relevant documents such as consultancy, funding and licence agreements, in order to verify information provided in response to the questionnaire and to assist with the review process.

Stage 2: recording IP

Appropriate recording of the IP identified from the IP review process can help to inform effective decision making in relation to management of agency IP in accordance with IP principle 5.

The creation and use of a formal IP register or registers can provide an effective means for recording, and readily accessing, details about IP held or controlled by an agency.

Creating an IP register

An IP register may be a separate stand-alone register or it could link to, or form part of, an existing register or registers. For example, an agency may have a central IP register which contains links or cross-references to other specialised ‘satellite’ registers that may already be in existence (e.g. registers for software licences). This type of IP register model therefore uses what may be described as a ‘hub and spoke’ arrangement (see Figure 3).⁶

What IP should be recorded?

Recording every single item of agency IP on an IP register would not generally be an effective or an efficient use of agency resources because it is likely to involve the recording of innumerable items of non-core IP, such as ordinary correspondence and emails.

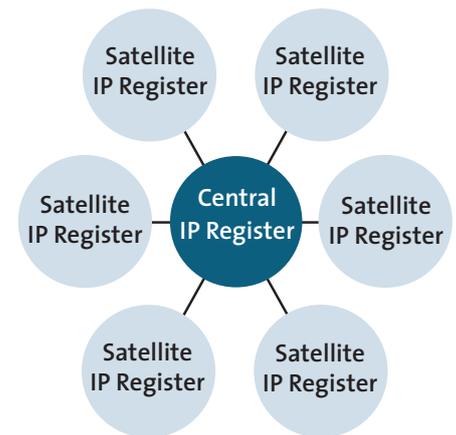
Accordingly, agencies should usually only record ‘key IP’ that will be the focus of their IP management activities. In this context, agencies should consider what criteria to apply in determining what constitutes key or significant IP for recording purposes.

What is ‘key IP’?

Examples of key IP could include IP:

- that is of strategic value or that is ‘mission critical’
- that has cost in excess of a certain dollar figure to produce
- that is of a particular monetary value
- that is of public value

Figure 3: ‘Hub and spoke’ arrangement



Agencies should usually only record ‘key IP’ that will be the focus of their IP management activities.

- that is registrable
- that carries a risk of loss to the agency; for example, where the agency may lose the opportunity to register the IP, including where the IP is publicly disclosed or where it may be registered by a third party in competition with the agency.

What details should be recorded?

The information recorded on an IP register would usually include a description of the IP, its ownership and authorship, any conditions of use or consents, any expiry dates, and any further action to be taken.

Verification and access

Agencies should consider whether it is necessary for designated people to separately verify that the key IP to be recorded meets the relevant criteria and that all key details have been captured.

They should also consider which of their officers should have access to the IP register or parts of the register, to facilitate appropriate management of IP.

Ongoing recording process

Ongoing identification and recording of IP on an agency's IP register should integrate seamlessly with existing agency systems where possible. For example, the IP recording process could dovetail with an agency's procedures for file opening, records or asset management, or contract and project management.

Recording of key IP could occur at various 'recording points' to be determined by agencies. For example, these could occur at the start of a project, at the time IP is acquired or created, when IP is registered, concurrently with the recording cycle for other assets held by an agency, or periodically.

The most basic process could require agency officers to complete IP register forms at the relevant recording points. The more sophisticated processes could involve adapting existing records management systems to accommodate recording of IP.

Reflect process in IP policy and guidelines

Once an agency has decided on an ongoing IP identification and recording process, this process should be reflected in its IP policy and guidelines.

Stage 3: IP protection issues

Guidance on protection of IP should be a core component of an agency's IP policy and guidelines.

Consistent with IP principles 6 and 7, IP protection issues could encompass:⁷

- practical measures that agencies can take to enhance protection of IP, particularly non-registrable IP
- formal registration of IP
- taking action to ensure that third-party IP is not used inappropriately by agencies.

As the IP regimes of relevance to most agencies will be copyright, moral rights, trade marks and confidential information, the following discussion focuses on IP protection as it relates to these IP regimes.

Ongoing identification and recording of IP on an agency's IP register should integrate seamlessly with existing agency systems where possible.

Copyright protection issues

Subsistence

Copyright protection arises automatically in material which falls within a category of protected subject matter provided the material is 'original' in the sense that it has originated from the author and has not been copied. The material must also have a sufficient connection with Australia.⁸

Common types of protected subject matter held by agencies include reports, publications, databases, website material, software, audio-visual material and photos.

Copyright notices

While there are no formalities for copyright protection, it is still good practice to use a copyright notice on relevant agency material. Copyright notices alert third parties to an agency's claims to copyright ownership and can deter copying. They can also make it easier to prove infringement and to obtain damages for infringement. The deliberate removal of electronic rights management information (including copyright notices) is actionable under the *Copyright Act 1968*.⁹

Copyright notices can incorporate permissions relating to use, and can be used in conjunction with disclaimer notices. Examples of copyright notices for print and digital publications are available from the Commonwealth Attorney-General's Department website.¹⁰

Click-wrap terms and conditions

Agencies may also wish to have users scroll through website terms and conditions of use and click on an 'I agree' button before giving them access to particular data or software that is available from their websites.

This type of access arrangement may give rise to 'click-wrap' agreements which could be enforceable as contracts in addition to any right of action agencies may have for copyright infringement.

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Technological protection measures

Agencies may also consider whether technological protection measures (TPMs) should be used to restrict access to, or copying of, any relevant online material or software. If TPMs are used, agencies could take action against use of devices which circumvent their TPMs.¹¹

Ownership presumptions

Agencies should be mindful of ownership presumptions relating to copyright material. Specifically, copyright in material created by an employee in the course of their employment is generally owned by their employer. The Commonwealth may also automatically own copyright in anything made or first published by it, or under its direction or control.¹² However, these default positions can be varied by agreement.

Agencies that need to own copyright in particular material, especially where the material is produced by a contractor or a funding recipient, should specify this by agreement in writing at the outset of a project to ensure that this position applies.

Moral rights protection issues

Where copyright subsists in a work or a film, the individual authors will also have moral rights in the copyright material.¹³ 'Performers' now also have moral rights protection in respect of their 'live' and recorded performances consisting of sounds.¹⁴

Moral rights consist of the right of attribution, the right against false attribution and the right of integrity (i.e. the right to prevent 'derogatory treatment'). These rights are personal to the author and cannot be assigned or transmitted.

From an agency perspective, it is important to remember that, even when an agency owns copyright or has a licence to use copyright material, it still needs to consider the corresponding moral rights of the author—whether that author is a contractor, a third party, or an employee. That is because moral rights remain with the author irrespective of who owns copyright in the material.

It follows that agencies should make sure that they obtain appropriate moral rights consents or otherwise take steps to increase the chances they can rely on the defence of 'reasonableness' in their use, alteration or non-attribution of copyright material.

If an agency notifies a party of its moral rights policy and then deals with copyright material in accordance with that policy, this use would arguably be 'reasonable'.

However, in this context, agencies may decide that, from a policy perspective, they will endeavour to respect moral rights in all cases—except to the extent that this would detract from the purpose of using or obtaining the relevant material or if it would otherwise be impractical to do so.

Trade mark protection issues

Deciding to register a trade mark

Trade marks can consist of a wide range of things, including words, logos, shapes, sounds, smells and colours.¹⁵ For example, Cadbury is currently seeking to register the colour purple in relation to chocolate.¹⁶

However, an important question to consider in this context is whether, in any given case, an agency should register their mark as a trade mark in the first place. This will depend on the significance of the mark to an agency, but it can also depend on whether the mark is likely to be registrable.

Registrability criteria

In order for a mark to be registrable the agency needs to be capable of distinguishing the goods and services claimed in the application from those of other persons. In other words, it needs to be 'distinctive' of those goods and services.

For example, trying to register 'blueberry ice-cream' as a brand for ice-cream would be virtually impossible unless the mark had acquired a secondary meaning through overwhelming use. But, if a distinctive logo were combined with a relatively descriptive term, the overall mark may be registrable.

Also, the trade mark application must not conflict with any prior trade mark application or registration—subject to certain exceptions.¹⁷ A search of the Register of Trade Marks can determine if this is likely to be a problem. However, the search should be done prior to seeking to register a mark or spending money on marketing material, stationery or signage featuring the mark.

Timing of the trade mark application

It is also important for an agency to apply for trade mark registration before publicly launching the mark to prevent other parties from attempting to do so in competition with the agency. Protection begins from the date of filing rather than the date the mark is registered.

Even when an agency owns copyright or has a licence to use copyright material, it still needs to consider the moral rights of the author—whether the author is a contractor, a third party or an employee.

Maintaining the validity of a registered trade mark

Once an agency has registered a mark, it should implement procedures to ensure the mark is not vulnerable to removal from the Register of Trade Marks.

If an agency does not use its marks correctly, or in relation to the goods or services claimed, or if it allows unauthorised use of its marks, the corresponding registrations could become vulnerable to removal on the basis that they have become generic, or deceptive or confusing in use, or on the basis of ‘non-use’.

Interestingly, the terms ‘aspirin’, ‘nylon’ and ‘escalator’ were once trade marks but have now become generic. There is some speculation that the trade mark registration for ‘Google’ is currently under threat because the term has recently appeared in a number of established dictionaries.¹⁸ For example, Australia’s *Macquarie Dictionary*¹⁹ lists the term ‘google’ as both a verb and a noun synonymous with both conducting an internet search, and the search that is conducted.

General rules for ‘correct’ trade mark use

Some general rules for the correct use of trade marks include distinguishing them as trade marks by capitalising them or using the ‘TM’ or ‘®’ symbol,²⁰ using them as adjectives rather than nouns, and always using the registered versions of the marks.

Where an agency allows a third party to use a mark, it is also important that it maintains sufficient control over this use by entering into an appropriate trade mark licence agreement so that any use of the mark by the party is taken to be use of the mark by the agency.²¹

It follows that agencies should ensure that appropriate action is taken against unauthorised or incorrect use of their marks.

Domain name registration

Domain name registration can also be an important mechanism in providing practical protection for valuable agency marks in the online environment.

Obtaining domain name registration for a trade mark and obvious variants in a number of popular domains—such as .com, .com.au etc—before any public launch will help prevent ‘cyberjacking’ activities by third parties who may register an agency mark as a domain name and set up a website under the name to divert traffic from an agency’s website to their own misleading site.

This happened to the Australian Taxation Office several years ago: a third party registered ato.com.au and was boasting 1,000 hits a day²² from people trying to find the official agency website at ato.gov.au.²³

While it may be possible to take legal action against these activities or to invoke the relevant domain name dispute resolution procedures in this context, it is far simpler and cheaper to engage in defensive domain name registration strategies to avoid this issue arising in the first place.

The multiple domain names can be set up so they automatically redirect users to the official agency website, thereby making it easier for users to find the site.

Protection of confidential information

Agencies should also consider their position in relation to the protection of agency confidential information and that of third parties.

The laws protecting confidential information are complex. Confidential information can be protected under legislation or under a contract or a deed. Even where there is no formal agreement, confidential information may still be protected by a court where the relevant information is inherently confidential and was received under an obligation of confidence.

If an agency does not use its marks correctly or in relation to the goods or services claimed, or if it allows unauthorised use of its marks, the corresponding registrations could become vulnerable to removal.

Domain name registration can provide practical protection for valuable agency marks in the online environment.

Agency confidential information

Prior to disclosing agency's confidential information to third parties, an agency should normally seek to obtain confidentiality undertakings from the parties under a contract or deed.

These undertakings can be used to support other forms of IP protection. For example, they can be used to keep a design or invention confidential until an agency is ready to proceed with a corresponding design or patent application.

Sometimes trade secrets are more effectively protected by confidentiality than under a patent. That is because information can be protected indefinitely if it is kept confidential. However, a patent application is normally published after 18 months²⁴ and patent protection only lasts for up to 20 years.

Examples of information that has been successfully protected by confidentiality include the recipe for Coca-Cola²⁵ and the 11 secret herbs and spices of KFC.²⁶

Contractor confidential information

Before agencies agree not to disclose third party information under a contract or deed, they should consider whether the information is in fact confidential and would satisfy the 'confidentiality test' referred to in the Guidance on Confidentiality in Procurement issued by the former Department of Finance and Administration in June 2007.²⁷

Even if agencies agree to keep information confidential, they can still be compelled by Parliament or a court to disclose that information. Accordingly, agencies should seek exceptions to their confidentiality undertakings which cover these situations, amongst others.

Incorporate 'IP protection' position in IP policy and guidelines

Once an agency has decided upon its IP protection position in relation to the IP regimes of importance to it, this position should be reflected in its IP policy and guidelines.

Conclusion

The issues surrounding identification, recording and protection of IP are central to the management of IP by agencies and accordingly require careful consideration by agencies in this context. It is inherent in the IP management process that agencies will need to monitor, and where appropriate, revise their IP management policies and practices on an ongoing basis, so as to ensure that key IP continues to be protected and dealt with in a manner that both supports their core objectives and is consistent with the IP Principles.

Rachel Chua is co-leader of AGS's national Technology and IP network. She regularly advises agencies on complex legal issues relating to protection and management of IP, and also acts for agencies in significant IT procurement and contracting matters. Rachel has a particular interest in strategic IP management and technology-related legal issues.

Notes

- 1 This can be found on the Attorney-General's Department website: http://www.ag.gov.au/www/agd/agd.nsf/Page/Copyright_CommonwealthCopyrightAdministration_StatementofIPPrinciplesforAustralianGovernmentAgencies
- 2 Specifically, those agencies that are subject to the *Financial Management and Accountability Act 1997*.
- 3 While there is no requirement to report compliance, it is envisaged that the Australian National Audit Office will at some stage conduct audits of agencies' compliance with the IP Principles.

Issues surrounding the identification, recording and protection of IP are central to the management of IP by agencies.

Agencies will need to monitor and, where appropriate, revise their IP management practices on an ongoing basis.

- 4 See IP principle 3.
- 5 New South Wales clearly distinguishes between its 'IP principles' and its 'Better practice guide' for implementing its IP principles, and Queensland has issued 'Intellectual property principles' and 'Intellectual property guidelines' as separate publications.
- 6 This terminology was used by Lynn du Moulin in her presentation, 'Agency Report— Medicare Australia' at AGS's 2008 *Intellectual Property Forum*, Canberra, 30 April 2008.
- 7 The issue of enforcement of agency IP rights against third parties is dealt with in a later stage of the IP life cycle: see Figure 2, above at p 3.
- 8 This would include a connection with another country that is party to a relevant copyright treaty.
- 9 Section 116B of the Copyright Act.
- 10 See <http://www.ag.gov.au/cca>
- 11 Section 116AN of the Copyright Act.
- 12 See ss 35(6) and 176 of the Copyright Act.
- 13 See R Chua, 'The moral of the story: moral rights in Australia seven years on', AGS *Commercial notes* 25 (11 January 2008), pp 1–8.
- 14 Performers' moral rights commenced from 26 July 2007 when the *WIPO Performance and Phonograms Treaty* entered into force for Australia.
- 15 See s 17 and also the definition of 'sign' under s 6 of the *Trade Marks Act 1995*.
- 16 Its applications are currently being opposed by Darrell Lea.
- 17 See s 44 of the Trade Marks Act.
- 18 S Hutcheon, 'From Google to just plain google', *The Age*, 7 July 2007, available at <http://www.theage.com.au/news/biztech/from-google-to-just-plain-google/2006/07/07/1152240473780.html>
- 19 4th ed, 2005.
- 20 The ® symbol should only be used where the mark is actually registered.
- 21 See s 8 of the Trade Marks Act.
- 22 See <http://web.archive.org/web/20020604052820/ato.com.au/advertising/intro.htm>
- 23 S Varghese, 'ATO Seeks to Stop Web of Confusion', *Sydney Morning Herald*, 26 July 2002, available at <http://www.smh.com.au/articles/2002/07/26/1027497405586.html>
- 24 For example, where a 'complete' application for a standard patent is filed.
- 25 See http://en.wikipedia.org/wiki/Coca-Cola_formula
- 26 See "'Secret' recipe to KFC's success is locked away" in *USA Today*, 22 July 2005, available from http://www.usatoday.com/money/industries/food/2005-07-22-kfc-secret-recipe_x.htm
- 27 http://www.finance.gov.au/publications/fmg-series/docs/FMG_3_Final_for_Publication.pdf

ALLOCATING INTELLECTUAL PROPERTY OWNERSHIP AND LICENCE RIGHTS: OLD RULES AND NEW TRICKS

This note expands on a proposition that has been made many times before, namely:

The key to IP management in any transaction is to allocate IP rights in a manner that is optimal in achieving the purposes of the agency.

The ‘purposes’ referred to include any of a number of things that may be important in the context of the transaction, such as:

- acquiring a solution for the agency
- protecting the integrity of the IP material
- communicating important messages to target groups
- providing opportunity for Australian industry.

The list is not complete, and it is not the intention of this note to attempt a full discussion of the purposes which drive IP transactions by Commonwealth agencies. It suffices to say that they ought to be reflective of the agency’s broad policy objectives; it is assumed that there is an awareness of these objectives which informs decision making in particular IP transactions.¹ The note will instead focus on the legal mechanisms for giving effect to the objectives in IP dealings.

The reference to ‘allocation of IP rights’ embraces the allocation of both:

- IP ownership rights
- IP licence rights.

It is commonly stated that joint ownership is to be avoided. Joint ownership is like having a cheque account with two signatures, where both account holders have to sign. Often it is more convenient to have an arrangement where:

- one party to a transaction takes ownership—and this should be the party best able to leverage the IP in the service of the ‘purposes’ mentioned above
- the other party takes a licence, which is drawn broadly enough for their needs.

But there is much more to be said about allocating IP ownership and licence rights. The intention of this note is to demonstrate some of the ways in which IP can be dissected at both levels. The focus of the note will be almost entirely on copyright, as that is the most likely category of IP for an agency to be dealing with.

We deal first with allocation of ownership rights and then with allocation of licence rights. Readers should bear in mind that very similar ways of dissecting IP rights can be applied *either* at the ownership level *or* at the licensing level. And there are consequences flowing from the choice of level.

Allocation of ownership rights

The *Copyright Act 1968*, s 196(2), provides that an assignment of copyright may be limited ‘in any way’, including:

- by reference to classes of acts that the copyright owner has the exclusive right to do
- by location, so as to apply to a place in or a part of Australia
- by time, so as to apply for a part of the period for which the copyright is to subsist.



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Note that this list is not exhaustive: classes of acts, location and time are just three of the ways in which a copyright assignment can be framed. It is worth commenting on each in turn.

Copyright partitioned by classes of acts: section 196(2)(a)

Copyright partitioned by classes of acts is dealt with in s 196(2)(a) of the Copyright Act. This is a common basis for allocating copyright amongst two or more owners.

The reference to ‘classes of acts’ clearly envisages that an assignment may be framed by reference to the copyright owner’s bundle of rights. For example, the rights comprised in the copyright in a literary work include the rights:

- (a) to reproduce the work in a material form
- (b) to publish the work
- (c) to communicate the work to the public
- (d) to make an adaptation of the work
- (e) where the work is a computer program, to enter into a commercial rental arrangement.

So clearly the copyright owner can subdivide their copyright in Australia along those lines: for example, the public performance right may be assigned.

But the possibilities do not end there. In Australia it is possible to partition the copyright along lines that cut across the descriptions in the Act of the copyright owner’s exclusive rights.² Thus a copyright owner may separately assign:

- rights to publish a novel as a serialisation in a newspaper or magazine
- rights to publish in condensed form or as a book club edition
- hardback and softback publication rights
- dramatisation rights for theatrical presentation.

In the case of a musical work, the copyright owner may separately assign:

- the mechanical copyright: that is, the right to manufacture recordings such as CDs
- synchronisation rights: that is, the right to synchronise the recording onto the sound track of a film
- adaptation rights, such as the right to make an arrangement for different instruments or for four-part voice harmony.

Copyright partitioned by location: section 196(2)(b)

Copyright partitioned by location is dealt with in s 196(2)(b) of the Copyright Act. This method of partitioning copyright between different places in Australia is not often used in government. It may, however be relevant in certain parts of the entertainment industry.

Scenario 1: The right to televise the Olympic torch relay or Olympic events may be assigned to broadcaster A in NSW, to broadcaster B in Victoria, etc.

It is more common for copyright to be partitioned between *different countries* than between *places within a country*. Section 196(2) has nothing to say about this scenario. This is because the operation of the Australian Copyright Act is limited to copyright subsisting in Australia. The subsistence of copyright in, say, UK is governed by the equivalent UK Act, and the rules regarding ownership

In Australia it is possible to partition the copyright along lines that cut across the descriptions in the Act of the copyright owner’s exclusive rights.

of copyright in UK are those laid down in the UK Act. The implications of this are that a single document which purports to assign all of a copyright owner's copyright will be interpreted and effective:

- under Australian law: in respect of the copyright in Australia
- under UK law: in respect of the copyright in the UK.

Note that the partitioning of copyright between different countries may have anti-competitive effects. This is particularly so when coupled with the proposition that copyright products (e.g. books, records, software etc.) made legally outside Australia cannot be imported without the permission of the Australian copyright owner. This prohibition on what is called 'parallel importation' has been slightly whittled away in recent years.³

Copyright partitioned by time: section 196(2)(e)

A copyright assignment may be limited to 'a part of the period for which the copyright is to run'. The following scenarios demonstrate why a copyright owner might want to do that.

Scenario 2: An agency appoints a distributor to commercialise a data product (e.g. a map, chart, statistical dataset etc.). The agreement might provide that:

- ***copyright in all improvements vests initially in the agency (in the same way as for the base product)***
- ***however, if and when the distributor has achieved sales on which the aggregate royalties paid to the agency exceed a specified amount ('the royalty target') then all copyright in the product (including improvements) is assigned automatically to the distributor for the balance of the copyright term.***

This hybrid distributorship/sale model has a number of advantages. One benefit is that it gives the distributor an incentive to improve, and vigorously promote, the product. Another is that the distribution services can easily be the subject of an RFT process in which bidding is concentrated around the royalty target.⁴

Scenario 3: A Commonwealth collection management agency⁵ enters into a co-publication agreement with a publisher, who is to prepare the work based on materials in Archives' collection. Copyright in the work itself (i.e. the newly written content) is to vest in the publisher. However, in the event that publication has not taken place by a certain time, the copyright vests from that time in the Commonwealth.

The end result is that the copyright owner has almost unlimited flexibility to divide up their copyright, and any assignee may in turn further subdivide the rights granted to them.

Choice of assignment or licence

In the examples given so far, the original copyright owner could have chosen to retain copyright and grant a licence only to the other party. But the choice is not arbitrary; there are certain consequences:

- With reference to Scenario 3: the person (in that case the publisher) who owns copyright—even if that is for a limited time—has a right to sell off merchandise printed or manufactured whilst they were the owner. By contrast, a mere licensee may not have this right: it would depend on the construction of the licence. The lesson to be drawn from this is that a well-drafted publication or distribution agreement should include express provision for a 'sell-off' period after the end of the licence.

The copyright owner has almost unlimited flexibility to divide up their copyright, and any assignee may in turn further subdivide the rights granted to them.

- An owner of copyright—even if that ownership relates to a part only of the copyright—can within the scope of their copyright take action against an infringer. By contrast, a mere licensee cannot generally take action unless they are an exclusive licensee, and even then subject to some limitations.
- There are a range of other situations in which the entitlement of a copyright owner is superior to that of a licensee—even an exclusive licensee (e.g. in cases of bankruptcy).

Formalities for assignment: section 196(3)

An assignment of copyright, whether total or partial, must be in writing and signed by or on behalf of the copyright owner.⁶

There is no prescribed form of words for an assignment. Occasionally, this can give rise to difficulty. It may be quite clear that there is ‘writing’, and that there is a sufficient signature, but the instrument is ambiguous as to its intention. This point is illustrated by the following two examples.

Example 1: Given that both ownership and licence rights can be delimited in very similar ways, there may be ambiguity as to whether an instrument is intended to operate as an assignment or licence. The instrument may say that one party ‘grants’ certain rights to the other, but is that to be taken as a grant of ownership or as a grant of licence rights? There is no hard-and-fast rule. Factors that a court will consider include:

- the scope of rights granted: the greater the scope, the more likely the instrument will be construed as an assignment
- if the recipient of the rights is obligated in return to pay ongoing royalties, this will suggest the instrument was meant to operate as a licence only rather than as an assignment⁷
- there is a greater tendency to construe a grant as an assignment where the right granted is the public performance right, because the producer or promoter must invest substantially in order to exercise the right effectively.

Example 2: Where a copyright owner gives away an artefact, there may be ambiguity as to whether the gift is limited to the physical property or extends to the copyright as well.

An interesting hypothetical

A well-known artist dies, bequeathing one of his original oil paintings to the National Gallery of Australia. It may be clear that the physical painting is transferred, but was the intention also to transfer the copyright in the painting?

The Act provides a rule of thumb in this case. Section 198 provides that the bequest is assumed to extend to the copyright unless the contrary intention appears. Note, however, that the presumption is available only when the work is unpublished at the time of death.

The moral behind this story is that it is highly desirable that any bequest of an original artwork or manuscript created by the testator *clearly states* whether copyright is intended to be transferred.

An even more interesting hypothetical

The testator in our example above, deranged by pain-killing drugs, destroys the painting before he dies.

An assignment of copyright, whether total or partial, must be in writing and signed by or on behalf of the copyright owner.

Clearly, the assignment of physical property in the will fails. But does the copyright still subsist, even if there are no surviving copies?

The answer may have something to do with the old question of whether copyright is about creation or discovery. Readers may have encountered the philosophical speculation that Michelangelo did not really create the statue *David*. On the contrary, it was there all along, and Michelangelo simply removed all the bits of marble that were not *David*. In the example above, there is an argument that copyright in the work still exists somewhere in the creative ether, waiting for the work to be re-instantiated by someone with a miraculous memory of its detail!

Equitable assignment

Where the intended assignor fails to comply with the requisite formalities, the court will usually imply an 'equitable interest'. This happens, for example, when the assignee purports to grant an *oral* assignment for some consideration. In that case, the court will hold that the assignee has a right in equity to have the assignment completed by execution of the appropriate formalities. An equitable interest in the copyright is not as strong as ownership, but it is a stronger interest than that of a mere licensee.

It may also arise where there is an agreement in writing signed by the assignor but the wording is along the lines that the 'assignee agrees to grant ownership'. That sort of wording is often seen. But it is to be avoided, because it is unclear whether the intention is that the copyright is transferred immediately by operation of the agreement or is intended to be perfected by a further instrument.

An equitable interest in the copyright is not as strong as ownership, but it is a stronger interest than that of a mere licensee.

Assignment of future copyright: section 197(1)

A slightly different case is that of an assignment of copyright that is *yet to come into existence*. This is very common. The AGS standard consultancy agreement, which is adopted by many agencies, includes the proposition that all contract material vests in the agency. The word 'vests' is deliberately neutral as to tense, and is meant to apply both to the contract material that *is to be created* and also to any *existing* material that is to be provided as part of the deliverables. But a purported assignment of future contract material is not legally straightforward. It used to be treated in the same way as other 'equitable assignments'.⁸ However, s 197(1) now provides (with some qualifications) that the assignment will be fully effective in law at the relevant time, even though the property to be assigned does not yet exist.

Assignment containing restraint on trade

Occasionally an assignment of copyright is coupled with conditions on the assignor that may affect their capacity to exercise their trade.

Example 1: Assignment of musical output

A composer assigns to a music publisher all his copyright in musical works that he has produced to date or will produce over the next five years. The agreement provides that the composer will receive royalties. But there is no absolute obligation on the publisher to publish or promote the works.

Example 2: Assignment with restrictive covenant on future activity

An artist assigns copyright in a series of her paintings, which are done in a distinctive style. The agreement contains a clause forbidding her from rendering any fresh works in that style.

The courts tend to side with the party with little bargaining power. The instrument may be read down or ruled absolutely void. Usually this will be justified on a combination of the legal doctrines relating to:

- restraint of trade
- unconscionable contracts
- breach of fiduciary duty.

Proper drafting of agreements can avoid these matters coming to court: in Example 1 above at p 15, it would have been desirable to include a clause providing for the copyright to revert to the assignor in the event that the publisher elects not to publish the future works.

Effect of an assignment on right to sue

The copyright owner has a right to commence legal action in respect of any infringements. It ordinarily follows that, where ownership is assigned:

- the assignor has the right to take action for infringements that have already occurred
- the assignee has the right to take action for any future or ongoing infringements.

However, sometimes the parties will want to adjust the position. If the assignee is to acquire any accrued right of action, the assignment should state this clearly.

Allocation of licence rights

It is important to understand where a copyright licence (or any IP licence, for that matter) sits in the scheme of things. There are three elements:

- The IP regime provides certain exclusive rights to the owner: that is, there are defined acts which the owner has the exclusive right to do (or authorise to be done).
- A person other than the owner who performs one of those acts without permission is guilty of an infringement.
- A 'licence' is the granting of such permission.

Thus, a licence converts what would have been an infringing act into a non-infringing act, *provided* the licensee has complied with the terms of the licence.⁹

A licence may be, and frequently is, delimited in many of the ways discussed above in relation to assignments. Indeed, the range of possible ways of framing a licence is even more extensive than for an assignment. Short of fraud or unconscionable conduct (as discussed earlier), it is hard to think of any constraints on what the parties may concoct.

The range of possible ways of framing a licence is even more extensive than for assignment.

Classification of licences

A copyright licence may be:

- exclusive or non-exclusive
- limited to particular acts, particular periods or particular places (as for an assignment)
- expressed in writing, oral or merely implied.

In addition, licences are often delimited by reference to the purposes, target groups and/or formats in which exploitation can take place.

Exclusive licences

In copyright law, an exclusive licence is one which entitles the licensee to perform the licensed acts to the exclusion of all persons—including the copyright owner. There are a number of important special rules for exclusive licences:

- Whilst most licences do not have to be in writing, an exclusive licence (like an assignment) must be in writing and signed by or on behalf of the copyright owner.
- Whereas an ordinary licensee has no right to bring an action against infringers of the copyright, an exclusive licensee does have this right. Sections 117-125 of the Copyright Act contain a variety of rules about how litigation is managed as between the copyright owner and the exclusive licensee. Without going into the details of this framework, in general the rules as to control of the litigation will depend upon the nature of the remedy sought (injunction, declaration, damages, account of profits, etc).

A warning: An exclusive licence can be hard to tell apart from a partial assignment of copyright. The wording used, for example, 'the Copyright Owner grants a sole and exclusive rights to [do certain acts]'; may be similar, and in many respects the practical implications are similar. However, there are some legal differences that may become crucial in particular cases; e.g. in relation to priorities between competing claims, and in bankruptcy situations. For that reason, great care should be taken in drafting copyright instruments to be clear whether the intention is to assign copyright or grant an exclusive licence.

Assignability of licences

When a Commonwealth agency takes a licence in relation to, say, a software product, an important issue is whether the licence is assignable. There is no hard-and-fast rule. Whether the licence is assignable is a matter of construction of the licence terms. Once again, the golden rule is to spell out clearly the parties' intentions about assignability.

Implied licences

A court may imply a licence from the circumstances, such as:

- industry practices
- the conduct and past dealings of the parties.

It is arguable that the courts will be more ready these days to draw such an implication because of advances in technology. A case in point is the internet. It is curious that one still sees websites with copyright notices which purport to assert copyright and reserve all rights. These copyright notices cannot be taken at face value. From the very nature of the internet, material placed on a website must be downloaded, stored in screen RAM, displayed and probably printed if the user is to make effective use of the website. Thus, despite a restrictive copyright notice, some sort of licence can be inferred from the mere fact that the material has been placed on a publicly accessible website.

One situation that crops up quite frequently is that of an architect's plans being used in construction after the architect's services have been dispensed with.

Case study

An architect prepared architectural drawings for a commercial building and was paid properly for his efforts. Before any construction work commenced, the land was sold. The new owners engaged a different architect to adapt the plans (slightly), and the construction proceeded.

The court held that there was an implied licence for construction of the building based on the plans.

In copyright law, an exclusive licence is one which entitles the licensee to perform the licensed acts to the exclusion of all persons—including the copyright owner.

Interestingly, this case also illustrates that the implied licence was assignable, although, of course, that was never said. Also, note that nowadays this case study would raise issues in regard to the moral rights of the original architect. Finally, note that, if the payment for the initial work had been nominal only, the inference would most likely be that no licence at all is implied.

Revocability of licences

Whether a licence is revocable depends on a range of factors. For this purpose, licences are usually dissected into:

- **a bare or 'mere' licence:** that is, a simple, unilateral,¹⁰ non-exclusive permission for the licensee to perform a copyright act; in this case, the licence can be revoked at will
- **an exclusive licence:** this would generally not be revocable
- **a licence contained within a contract or under seal:** in this case there is no presumption one way or another. The words of the agreement are crucial. The golden rule is to spell out the intention explicitly.

Some licensing building blocks

As discussed already, there are innumerable combinations of conditions which may be applied to define the scope of a licence.¹¹

One schema, which has been applied successfully in AGS's legal practice, entails a subdivision of IP rights as follows:

- **Use rights:** means the right to read, view, play, perform, operate or execute the licensed material (depending on its nature and format), within the functionality that is offered to an ordinary user. (Note: 'use' is confined to activities that do not involve a third party.)
- **Copying rights:** in relation to the original licensed material or a derivative, means the right to make an embodiment or reproduction of the material in some tangible medium or format. (Note: the word 'tangible' covers both digital and non-digital forms. Typical examples are printed formats and removable magnetic media.)
- **Development rights:** means the right to make a derivative of the original licensed material. There are different types of derivative, depending on the relationship between the original material and the newly-developed material. Derivative types may include:
 - **Enhancements:** means substantive modifications to the licensed material, but only to the extent that the enhancements are an integral part and cannot meaningfully inform or entertain independently of the original material
 - **Supplement:** means substantial additional material which appends, incorporates, is appended to, or is incorporated into, the licensed material, but which has some capacity to inform or entertain independently of the original material
- **Supply rights:** means the right to communicate, or distribute a copy of, the licensed material to a third party, or to cause it to be broadcast or performed in public.
 - **Communicate:** means to communicate material by making it available online where it can be accessed by recipients, or by emailing it to recipients
 - **Distribute:** means to provide copies of material to recipients

There are innumerable combinations of conditions which may be applied to define the scope of a licence.

— **Sub-licence rights:** means the right to give permission for a third party to exercise rights of the licensee in relation to the licensed material.

A full discussion of this schema is beyond the scope of this note. AGS can assist agencies who wish to apply the schema to their licensing transactions.

Conclusion

In all transactions involving IP rights, agencies should be mindful that there are innumerable ways of allocating those IP rights—both ownership rights and licence rights. An experienced IP practitioner may be able to suggest approaches that are not immediately obvious and can assist in optimising the allocation of rights in the service of an agency's objectives.

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Notes

- 1 This relationship is depicted in the diagram attached at page 18 of the *AGS Methodology for developing an Agency IP Policy*, available at: <http://www.ags.gov.au/whotocontact/areasoflaw/ip.htm>
- 2 The position is more restricted in the UK.
- 3 That is a separate topic, and is beyond the scope of this article.
- 4 The hybrid distributorship/sale model is described in the Commonwealth IT IP Guidelines: see http://archive.dcita.gov.au/2004/09/commonwealth_it_ip_guidelines
- 5 Commonwealth collection management agencies include the National Archives of Australia, the National Library of Australia, the National Gallery of Australia, the National Museum of Australia, the Australian War Memorial, the Australian National Maritime Museum and the Australian Institute of Aboriginal and Torres Strait Islander Studies.
- 6 The words 'on behalf of' mean that an agent may sign for the copyright owner.
- 7 It is not impossible that an assignment could be granted in consideration of future royalties; however, that approach would generally be inadvisable as the (contractual) entitlement to royalties is less secure than (proprietary) copyright ownership.
- 8 And probably still is in some common law countries.
- 9 Note that a permission can be a unilateral act of the copyright owner. A licence is not the same as a contract, although frequently a contract may contain licence clauses; indeed, that may be the main purpose of the contract.
- 10 That is, the permission is not given as part of a contract.
- 11 Or, for that matter, an assignment.

WHO GETS WHAT: COMMON ISSUES IN NEGOTIATING IP OWNERSHIP AND LICENSING IN A CONSULTANCY AGREEMENT

Australian government agencies frequently enter into consultancy agreements with other parties, pursuant to which an agency will receive services.¹

A contractor will typically provide intellectual property (IP) to, or develop IP for, an agency under a consultancy agreement. Control of that IP may be important to an agency for a variety of reasons, including to allow it to continue managing its operations and undertaking its functions, for policy reasons and to assist value creation and commercialisation.

An agency should bear in mind that each consultancy is different and must be considered on an individual basis, with reference to the parties' needs, interests and purposes. For these reasons, this article highlights and provides general guidance in relation to the common issues in negotiating IP clauses with contractors. Individual advice is, of course, necessary for any particular consultancy.

Steps in considering IP clauses in a consultancy

Consider the definition of IP

The first step in considering the IP clauses in a consultancy is to look at how IP is defined for the purposes of that agreement. IP is an intangible personal proprietary right,² and refers to the bundle of rights which the law accords to protect human creative efforts. In consultancy agreements, it will typically be defined to include copyright, rights in relation to inventions, plant varieties, trade marks, designs and circuit layouts and other rights resulting from intellectual activity in the industrial, scientific, literary or artistic fields. In most consultancy agreements, the major form of IP that requires consideration is copyright.

IP is usually defined not to include moral rights,³ the personal rights of performers or rights in relation to confidential information.⁴ In the Commonwealth context, these issues are generally dealt with under separate clauses if they are relevant to the consultancy.

Consider the IP framework

IP can be best understood in the following framework:

1. IP has to do with a range of subject matters, or categories, of material. Examples include 'works' (such as literary works), inventions, brands and similar.
2. IP subject matter is embodied in a physical medium, such as paper or a compact disc.
3. IP subject matter or material is protected by various regimes: for example, the *Copyright Act 1968* (Cth).⁵
4. The IP regimes confer characteristic exclusive rights on the owner of the IP, which may include the right to use, copy, develop, exploit and license the relevant IP.
5. The owner of the IP can allocate those rights: for example, by assignment or licensing pursuant to a consultancy agreement. The owner of the IP may specify conditions or limitations on the grant of licence rights.

IP clauses are included in a consultancy agreement in order to allocate rights and responsibilities in relation to IP between the parties.



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Distinguish between 'background IP' and 'foreground IP'

When negotiating the IP clauses in a consultancy agreement, an agency should distinguish between 'background IP' and 'foreground IP', as a consultancy will usually involve both. Typically:

- 'Background IP' means any IP created independently of the consultancy agreement (and may include any such IP owned by third parties depending on how 'background IP' is defined in the agreement) that a party makes available for performing the consultancy agreement.
- 'Foreground IP' means IP developed in the course of and as a direct result of carrying out the consultancy agreement.

Negotiating the IP clauses in a consultancy agreement

An agency's aim in negotiating the IP clauses in a consultancy agreement will be to achieve a solution that best meets its objectives;⁶ in other words, a solution that achieves an optimal allocation of IP for the agency. To determine what an optimal allocation of IP in a consultancy agreement may be, an agency should carefully consider:

- its and the other party's needs, interests and purposes in entering into the consultancy agreement
- the nature of the services contemplated under the consultancy agreement
- the contractual and legal consequences of the consultancy agreement
- whether the agency will be providing or receiving the services
- any relevant Chief Executive Instructions, policies,⁷ guidelines and legislation⁸
- in particular, its IP management policy. In accordance with the *Intellectual Property Principles for Australian Government Agencies*⁹ (IP Principles), all agencies subject to the *Financial Management and Accountability Act 1997* (Cth) (FMA Act) were required to have such a policy in place by 1 July 2008.

Common issues in negotiating IP clauses in a consultancy agreement

The most common issues that an agency may face in achieving an optimal allocation of IP rights relate to ownership and licensing of IP. Generally, the party which is best able to 'leverage' the IP to achieve their objectives should own the IP.

The standard default position for many agencies is that the parties will retain ownership of their own background IP, but the agency will own any foreground IP. The introduction of the IP Principles bears on this position. When an agency¹⁰ negotiates a consultancy agreement, the IP Principles require that it:

- (a) maintain 'a flexible approach in considering options for ownership, management and use of IP'¹¹
- (b) ensure that the agreement addresses 'IP issues where relevant', including the following:
 - (i) identifying background and foreground IP
 - (ii) the arrangements that will apply to owning and using the IP, including licensing
 - (iii) securing IP rights in accordance with the agency's identified needs and objectives. An agency should seek to acquire the IP only when it has taken into account questions of the efficient, effective, and ethical use of agency resources.¹²

The most common issues that an agency may face in achieving an optimal allocation of IP rights relate to ownership and licensing of IP.

More particularly, agencies should consider the following issues when negotiating IP clauses in consultancy agreements.

Common issues when negotiating IP clauses to achieve an optimal solution

Background IP

Ownership: Each party will generally retain ownership of its background IP.

Although this will generally be the case, it will not always be optimal for both parties to retain ownership of their background IP. In some circumstances it may make sense for an agency to assign its ownership of background IP to the contractor, particularly in a commercialisation. In other cases, an agency may have strategic purposes in seeking to acquire background IP of the contractor, at least insofar as it is embedded in a deliverable or solution developed for the agency's needs. In this respect, it may be necessary to consider the extent to which foreground IP is capable of functioning separately from the background IP or whether the two layers of IP are essentially entwined.

Licensing: Each party should license its background IP to the other party (including procuring any necessary licences from third parties), but only to the extent necessary for the purposes of the consultancy agreement. When granting or receiving licences, an agency should consider the rights granted and any necessary limitations on those rights.

Foreground IP

Ownership: As noted above, a consultancy agreement will often have the agency owning the foreground IP as its default position. However, any decision regarding whether the agency should own the foreground IP should be informed by consideration of:

- which party is best placed to maintain, further develop and exploit the foreground IP
- the extent to which background IP will be incorporated or layered with the foreground IP¹³
- whether the foreground IP relates to a core objective of the agency
- whether there are public interest reasons for the agency to own the foreground IP.

Alternatives to the default position include the following:

- the agency will own the foreground IP but will licence it to the other party¹⁴
- the agency will own the foreground IP but will share the benefits of it with the other party. For example, a common option here would be to share revenue from commercialisation with the other party
- the parties will jointly own the foreground IP¹⁵
- the other party will own foreground IP and license it to the agency.¹⁶

A consultancy agreement will often have the agency owning the foreground IP as its default position.

Licensing: If an agency wishes to grant a licence to the foreground IP, it should consider:

- what rights the other party requires
- what rights it is prepared to grant
- what limitations it will impose.

If an agency wishes to receive a licence to the foreground IP, it should consider:

- what rights it requires
- what limitations it will accept.

A party may limit the licence granted:

- to non-exclusive use
- to a particular geographical area or field of use
- to a certain duration
- by making it either revocable or irrevocable
- by preventing assignment of the licence or a right to sublicense, and/or
- to certain purposes only, such as internal research and development.¹⁷

Associated issues

When negotiating ownership and licensing of IP in a consultancy agreement, an agency should also bear in mind that there are a wide range of other issues which may arise.¹⁸ These issues relate to:

- the deliverables, including the issues of:
 - who will have ownership of the physical copies of any deliverables such as a report
 - how any IP in the deliverables will be owned and licensed
 - any moral rights
- commercialisation: for example, consideration will need to be given to which party should own the relevant background and foreground IP
- warranties and representations: an agency should carefully consider whether it is able to give warranties or representations in relation to the IP because in some cases the ownership of the IP may not be known. However, the agency should consider obtaining warranties and representations from the contractor: for example, where the contractor is granting a licence to the agency in respect of a third party's IP. This is generally because the contractor will be a commercial party and supply of licensed products is part of its business: IP risks therefore represent a commercial risk which a contractor can factor into its pricing
- confidential information: the agency should consider ways in which to protect confidential IP, including through requiring deeds of confidentiality from the contractor and potentially also the contractor's employees and subcontractors¹⁹
- infringement and enforcement action in relation to the IP
- obligations to maintain the IP
- publication.²⁰

The agency should consider obtaining warranties and representations from the contractor: for example, where the contractor is granting a licence to the agency in respect of a third party's IP.

Negotiating the IP clauses in a consultancy agreement in practice: an example

An FMA Act agency negotiates with a consultant to perform a consultancy. The consultant will perform all of the services and the agency will pay for all of those services.

The consultant has developed a project plan for the consultancy. Under that plan:

- the consultant will use its own background IP in the consultancy, but the consultant will not need to use any of the agency's background IP
- the parties anticipate that the background IP will be layered to some extent with the foreground IP. The agency will therefore need a licence to the consultant's background IP in order to use the foreground IP.

While negotiating, the parties initially agree that under the terms of the consultancy agreement:

- the consultant will retain ownership of its background IP
- the consultant will grant the agency a licence to use the consultant's background IP. That licence will be royalty free and irrevocable, and not limited to the term of the consultancy. On the other hand, it will be non-exclusive and not assignable or able to be sublicensed without the consultant's prior written consent. The agency's use will also be limited only to the extent necessary to use the foreground IP.

However, they then run into disagreement in relation to the foreground IP. The agency considers that, in accordance with its IP management policy and all other relevant considerations, it should be the sole owner of the foreground IP, as it wants to distribute and communicate the foreground IP to certain stakeholder groups in the community. The consultant initially disagrees, as the foreground IP relates to its core business and it wants to be able to commercialise it more generally and to further develop some or all of the IP material for subsequent clients.

On further negotiation, the parties agree that the consultant will:

- own the foreground IP
- grant the agency a licence to use the foreground IP to distribute/communicate it to target groups. The licence will be non-exclusive, permanent, irrevocable and royalty free, but will be limited to the core business of the agency and stakeholder groups.

Siobhan Andersen has commercial experience across a range of legal areas, including negotiating the contract documentation for and advising on intellectual property and IT transactions. Siobhan's practice extends to other commercial matters, such as drafting and advising on leases and securities documentation.

Alexandra Hall has broad commercial expertise which includes advising on, drafting and negotiating consultancy, information and communications technology, funding and intergovernmental agreements and memorandums of understanding. Alexandra has also advised on legal issues relating to protection and management of IP.

Notes

- 1 This article is concerned only with the situation where an agency receives services, although similar issues will arise where an agency provides services.
- 2 J McKeough, A Stewart and P Griffith, *Intellectual Property in Australia* (3rd ed, 2004), p 3.
- 3 In this article, 'moral rights' refers to the personal rights of an author as set out in the *Copyright Act 1968* (Cth), Part IX:
 - (a) the right of attribution of authorship;
 - (b) the right against false attribution of authorship; and
 - (c) the right of integrity of authorship (that is, the right not to have a work subjected to 'derogatory treatment' which is prejudicial to an author's honour or reputation).
 For a more complete consideration of moral rights, see R Chua, 'The Moral Of The Story: Moral Rights In Australia Seven Years On' *Commercial notes* 25 (11 January 2008), p 1.
- 4 For a more complete consideration of confidential information, see A Snooks, 'Protecting Confidential Information' *Commercial notes* 25 (11 January 2008), p 14. Under Australian law, confidential information is not regarded as being in the nature of a proprietary right. In this regard, it differs from IP rights such as copyright and patents and should therefore usually be excluded from the definition of IP in a consultancy agreement.
- 5 For example, an intangible musical work (physically embodied in a compact disc) may be subject to a number of forms of copyright protection.
- 6 Negotiations should generally be conducted on a principled, problem-solving basis, with reference to the agency's needs, interests, purposes and any other objectives, and should be commenced early. *Intellectual Property Principles for Australian Government Agencies 2007* (Cth) principle 10 reinforces this point in relation to IP, as it requires that 'IP issues should be addressed at an early stage, in developing contracts for the creation of IP'.
- 7 In particular, an agency's IP management policy to the extent that it is relevant.
- 8 For example, the *Financial Management and Accountability Act 1997* (Cth) and associated *Financial Management and Accountability Regulations 1997* (Cth).
- 9 The IP Principles do not apply directly to agencies coming under the *Commonwealth Authorities and Companies Act 1997* (Cth). However, as set out in the IP Principles, these agencies can also consider the IP Principles as an expression of good practice in managing IP.
The agency's IP management policy should deal with the matters set out in the IP Principles. For further information in this regard, see, for example, P Crisp, 'Commonwealth Intellectual Property Management' *Commercial notes* 24 (30 June 2007), p 1.
- 10 Particularly FMA Act agencies, which, as set out above, were required to have an appropriate IP management policy in place by 1 July 2008.
- 11 IP Principles, principle 8.
- 12 IP Principles, principle 10.
- 13 That is, an agency should consider how intertwined the background and foreground IP will be.
- 14 Any such licence would typically be on a non-exclusive basis.
- 15 However, this may not be desirable, as it will require that both parties give permission to, for example, any commercialisation of the foreground IP, which could fetter the effective development of the foreground IP.
- 16 Where the other party is entirely funding the services or is providing the services, it may insist on this outcome.
- 17 These are not considered in any detail here. However, an agency should bear in mind that such limitations are useful tools when negotiating the IP clauses in a given consultancy agreement. For example, referring to a particular 'purpose' is useful because it enables the market to be divided, with each party free to exploit the market it is best able to leverage.
- 18 Due to the breadth of these issues, they are not considered in detail here. AGS has previously considered issues of this type. See, for example, K Eagle, 'Commercialisation of Technology in the Commonwealth Context: Some Issues' *Commercial notes* 24 (30 June 2007), p 10; in this issue, see P Crisp, 'Allocating intellectual property ownership and licence rights: old rules and new tricks', p 11 above; A Snooks, 'Commercialisation of IP: addressing commercialisation as part of an agency IP policy', p 26 below.
- 19 Disclosing IP may have negative consequences; for example, in relation to patenting.
- 20 Again, disclosing IP may have negative consequences.

COMMERCIALISATION OF IP: ADDRESSING COMMERCIALISATION AS PART OF AN AGENCY IP POLICY

Commercialisation of IP in the Commonwealth context generally involves a process by which agency-owned IP is developed by, or for, the agency and provided to other entities (generally those in the private sector) for a return of some type to the agency—which might include, for example, the payment of royalties, a one-off licence fee or some type of ‘in kind’ contribution.

While agencies with a research focus will generate significant amounts of IP that can be commercialised, all agencies will potentially own IP that has a commercial value and therefore is a potential candidate for commercialisation.

The *Statement of IP Principles for Australian Government Agencies*¹ (the IP Principles) requires that all agencies subject to the *Financial Management and Accountability Act 1997* implement the IP Principles within the agency by 1 July 2008. As almost half of the IP Principles have a direct bearing on commercialisation of IP, it is an issue that should be fully canvassed even in those agencies that do not routinely develop IP for commercialisation purposes.

One of the key management mechanisms for IP within an agency will be the agency’s IP management policy. The most useful way to demonstrate the requirements of the IP Principles in the commercialisation context is to consider the lifecycle of a commercialisation process and identify the issues that need to be addressed in an agency IP policy to cover each stage of that lifecycle.

Stage 1: identifying commercialisation opportunities

The first stage in any proposed commercialisation should be to identify whether the IP has sufficient commercialisation potential to make it worthwhile for the agency to invest the necessary resources to commercialise it. While in some circumstances, the commercialisation potential of a set of IP may be obvious (for example, a world-leading piece of software that has value in a range of commercial applications), in many situations it will not be—especially if the agency is not fully aware of the IP that it in fact owns.

A useful way to identify commercialisation opportunities is through the development, and regular updating, of an agency-wide IP register. Once the IP is identified, the agency should consider whether any of that IP could have commercial value and therefore might be a candidate for commercialisation. This approach is at the core of IP principle 13 in the IP Principles. As implied in that principle, agencies should consider commercialisation of IP not only where this might generate royalties for the agency but also where it might result in cost savings and continued development of the product for the benefit of the agency.

An IP policy therefore should encourage periodic examination of agency IP to determine if there are commercial benefits for the agency in commercialising that IP.

Stage 2: is the commercialisation within the power of the agency?

IP principle 14 states:

Unless commercial activities are required as an integral part of an agency’s objectives, commercialisation of IP by an agency should be no more than an ancillary part of its activities and should not become a core business activity.



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In part, this reflects the constitutional limitations on the power of the Commonwealth which mean that not all commercialisation will be within the power of an agency. This is because the Constitution does not contain a general power for the Commonwealth to engage in commercial activities. As a result, commercial activity by the Commonwealth must be for a purpose connected with one or more of the Commonwealth's areas of power.

While some agencies may have functions conferred under legislation that more easily allow commercialisation of IP, even these agencies will need to be mindful that not every potential commercialisation of IP will be within power. Generally speaking:

- the further away from the core functions of an agency that the commercialisation is, or
- the greater the scope of the agency's involvement in the commercialisation (for example, through directly licensing a product to end users and maintaining that product as if it were a commercial entity)

the less likely it will be that the commercialisation would be considered to be connected with the Commonwealth's exercise of its constitutional powers.

As the power of an agency to commercialise IP will strongly depend on the individual circumstances of the agency, an agency's IP policy could set out the broad circumstances in which that agency can commercialise IP. This is likely to be limited to relatively high-level advice on the rights conferred by any legislation establishing the agency and the more general limitations imposed by the Constitution. More detailed advice in this area would need to be obtained on a case-by-case basis for specific commercialisations.

Stage 3: IP ownership and control—what can be commercialised?

In order for an agency to commercialise IP, it must own that IP or at least have a right to exploit it under a licence from the owner. It is quite common though that multiple parties may have been involved in contributing IP to the set of IP that the agency wishes to commercialise. In order to ensure that the agency does not infringe another party's IP and potentially open itself to being sued, it is important at the start of any potential commercialisation to identify the rights that the agency has in respect of each component of IP.

Typically, IP may have been sourced by or developed for the agency in a number of ways:

- IP developed by the agency itself
- IP developed by contractors to the agency—the ownership and rights to the IP in this situation will generally depend on the terms of the contract. However, if there is no contract or the contract does not deal with ownership of IP, then in some situations the agency may still be the owner of the IP. For example, under the *Copyright Act 1968*, an agency that is part of the Commonwealth for the purposes of that Act is the owner of IP that is generated under the direction or control of the agency, unless an agreement has been made to vest copyright in another party
- IP sourced under licence from third parties—a very broad licence will generally give the agency almost the same rights as an owner, including to commercialise the IP, while a more limited licence is likely to prevent commercialisation. In this case the agency may need to negotiate further with the third party to obtain the relevant rights or, alternatively, have the commercialisation partner (if there is one) or end users obtain the licence for themselves.

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It is worth noting that there are potential alternatives if the agency does not have the rights to commercialise all of the necessary IP. For example, if relevant components of IP are owned by a third party then a joint venture to commercialise the full set of IP between the agency and the third party might be an appropriate way to proceed. Alternatively, if the IP owned by third parties is relatively generic then other IP may be able to be obtained and retrofitted into the set of IP that is to be commercialised.

So, in summary, an agency will need to develop a strategy to ensure that it has the package of IP rights necessary to allow its commercialisation to proceed. Therefore, an agency IP policy should stress the need to develop an appropriate strategy well in advance of proceeding with a commercialisation. The policy should note that, ideally, consideration should be given to this issue when the agency is entering into contracts to procure the development of IP or contracts to obtain licence rights to use third-party-developed IP if there is a reasonable possibility that the agency will want to commercialise the product at some later point.

An agency will need to develop a strategy to ensure that it has the package of IP rights necessary to allow its commercialisation to proceed.

IP principle 10 states that agencies should ‘ensure that IP rights secured are appropriate to identified needs and objectives and should only obtain those rights required taking into account questions of the efficient, effective, and ethical use of agency resources’. While this is in part aimed at ensuring that agencies do not obtain in contracts IP rights that are not needed (as this may unnecessarily increase the cost associated with those contracts) it also requires that agencies do obtain relevant IP rights where necessary; for example, in respect to a future commercialisation. This is because, if an agency does not obtain the relevant rights, the agency will not be making efficient use of their resources, as the cost of retrospectively obtaining those rights might be considerably higher than would otherwise be the case or, alternatively, it may not be possible to obtain those rights at all in which case the entire commercialisation may fail.

Stage 4: commercialisation options and application of Commonwealth policies to commercialisation

There are a number of Commonwealth policies that may be relevant to an agency’s commercialisation of IP. IP principle 15 identifies the need to consider these when conducting a commercialisation. A key policy that must be considered is the *Commonwealth Procurement Guidelines* (CPGs).

The CPGs will often be applicable to commercialisations because the agency is seeking services (for example, of a commercialisation partner to distribute the product).²

Where the value of a procurement in a commercialisation is likely to exceed the relevant mandatory procurement threshold,³ agencies will need to apply the Mandatory Procurement Procedures, and this generally requires an open tender process unless the requirements for a select tender or direct source are met.

Therefore, an agency IP policy should identify when the agency needs to have recourse to such options. It should also cover, at a high level, the types of commercialisation options open to an agency to give agency staff an idea of what type of structure a commercialisation may take in order to assist staff with planning the process. The primary commercialisation options are:

- **Distributorship:** this is one of the most common ways to commercialise IP. Essentially, the agency appoints an entity to distribute the product. The agency only licenses the distributor and retains ownership of the IP itself.

- **Sale:** this involves the agency selling the IP to a commercialisation entity and largely leaving that entity to market and sell the product to end users and to further develop the IP embodied in the product.
- **Direct licence:** where the agency directly licenses the IP to end users itself. This model may not always be appropriate for Constitutional reasons, as discussed earlier.
- **Joint venture:** where the agency partners with another entity to jointly develop and commercialise the IP. A joint venture is normally appropriate where both the agency and the other party have significant IP or other assets to bring to the commercialisation. Given the legal and taxation complexities of a joint venture, it is of little value in circumstances where the agency owns or controls most of the IP.
- **A combination of models:** For example, a hybrid sale/distributorship model – which, depending on the circumstances, may offer the greatest advantages to the agency in a commercialisation.

When determining the appropriate model to choose, an agency will need to consider:

- the control that the agency has over the IP
- the value of the IP
- the powers of the agency to commercialise
- the nature of the market.

Each model also has its pros and cons, and it may be worthwhile in an agency IP policy briefly explaining each major type of model and its advantages and disadvantages in order to provide a background for agency staff that will assist them in understanding any legal advice the agency obtains in respect of each specific commercialisation.

Stage 5: markets for the agency IP

When selecting a commercialisation partner, it is important to consider the best way to obtain value for money for the agency in the commercialisation. While a competitive process may assist this, it is often appropriate to conduct market research in advance of approaching the market to determine:

- what the potential interest may be in the agency IP to allow the agency to better evaluate commercialisation proposals put to it
- whether it makes sense to divide the market for the IP into different geographical units (for example, appoint separate distributors in Australia and the US) or different industry sectors (for example, the private sector and the government sector).

IP principle 12 states:

Australian Government agencies should be mindful of opportunities to share IP for which they are responsible with other agencies.

So, for example, if agency IP could usefully be used by both the private sector and by the Commonwealth, the agency should consider separating these markets in any commercialisation and providing the IP to other Commonwealth agencies on more favourable terms (including, for example, on a cost recovery basis).

When selecting a commercialisation partner, it is important to consider the best way to obtain value for money for the agency in the commercialisation.

This is particularly important in the current environment, where the government is particularly interested in cost savings being achieved. So, again, an agency IP policy should note and explain these issues.

Stage 6: protecting IP during commercialisation

Confidentiality is a critical consideration in any commercialisation. While IP may be protected from infringement by legislation (for example, under the Copyright Act or the *Patents Act 1990*) it may be difficult to prove an infringement. The greatest risk of infringement occurring will be during the initial commercialisation of the IP where it may not be well known in the market.

IP principle 6 states that agencies 'should have strategies and guidelines to ensure that IP is protected in an appropriate manner' and also that they 'should take care in disclosing any information regarding their IP' prior to commercialisation.

The most effective way to protect confidential information is to utilise an appropriate combination of legally binding confidentiality obligations.⁴ Confidentiality agreements provide the opportunity for parties to unambiguously determine the scope and nature of the information which is to be protected, any special measures and procedures to be used to secure the information and the consequences for unauthorised release of that information.

The most effective approach may be to layer confidentiality protections by obtaining confidentiality obligations from the commercialisation entity and its personnel and from any other parties which may have access to sensitive information.

A possible structure for protecting confidential intellectual property during a competitive commercialisation process is:

- at the approach to market stage: require that the download of the tender be contingent on the potential tenderer signing a deed of confidentiality. Consider whether personnel of the potential tenderer should also sign confidentiality undertakings
- once a preferred tenderer is selected, ensure that the contract with the tenderer includes robust confidentiality obligations
- require confidentiality deeds to be provided by personnel of the successful commercialisation entity (including subcontractors) who are likely to obtain access to the information.

Obligations can also be imposed requiring the commercialisation entity to:

- ensure that its nominated personnel have been informed of the confidential information that requires protection
- train its nominated personnel in how to ensure that information is not used contrary to the agreement with the agency for particularly sensitive information.

Other specific measures could also be taken to protect the confidential information against disclosure, such as:

- limits on the number of copies
- a requirement to store the information in a particular way (for example, lockable secure storage cabinets or on encrypted electronic media).

The most effective way to protect confidential information is to utilise an appropriate combination of legally binding confidentiality obligations.

The agency IP policy should therefore set out the requirement for strong confidentiality protections including types of protections that can be put into place and when these should be called upon in a commercialisation.

Conclusion

Commercialisation of IP is an issue that is relevant to a large number of the IP Principles and therefore is an important issue to deal with as part of an agency IP policy. Even for agencies that do routinely engage in commercialisation, having in place a policy that sets out the important factors to consider at each relevant stage of a commercialisation process will assist in minimising the costs and potential difficulties that can be involved in commercialising IP and will assist FMA Act agencies in demonstrating that they have met their obligation to implement the IP Principles.

Adrian Snooks has considerable experience in intellectual property law and commercial drafting. He has advised on some of the largest procurements of technology by the Australian Government and has worked in the field of intellectual property and technology law both in the UK and Australia.

Notes

- 1 This can be found on the Attorney-General's Department website: http://www.ag.gov.au/www/agd/agd.nsf/Page/Copyright_CommonwealthCopyrightAdministration_StatementofIPPrinciplesforAustralianGovernmentAgencies
- 2 See paragraph 2.2 of the CPGs.
- 3 See paragraph 8.6 of the CPGs.
- 4 For further detail on protecting IP during commercialisation, refer to Adrian Snooks, 'Protecting Confidential Information', AGS *Commercial notes* 25 (11 January 2008), pp 14–19.

AGS contacts

AGS has a national team of lawyers specialising in advising agencies on a wide range of intellectual property (IP) and technology matters, including establishing agency-specific IP policies, managing IP in connection with specific transactions and initiatives, and handling IP disputes. For assistance with any IP matters, please contact one of our national Technology and IP network leaders, Philip Crisp, Rachel Chua or Tony Beal, or one of our specialist IP lawyers listed below.

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