

The Government's Intellectual Property Policy and ICT Contracts

Explanatory Material

Information about the New Policy

1. Procuring information and communication technology – supplier to own the intellectual property in the developed software

For information and communication technology (ICT) procurement contracts relating to developed software, agencies that are subject to the *Financial Management and Accountability Act 1997* (FMA Act) need to adopt a default position (or a starting contractual position) in favour of the ICT supplier owning the intellectual property (IP) in the software the supplier develops under the contract.

An agency is still required to conduct an IP needs analysis (see chapter 7 of the *Australian Government Intellectual Property Manual*) to determine whether the Commonwealth should retain IP ownership (for example, the Commonwealth might need to retain IP ownership to ensure the IP is licensed under open source terms or for reasons of national security). However, an agency's starting position in its analysis is to be the default position described above.

Importantly, if an agency adopts the default position, the position is to be conditional on the supplier granting the Commonwealth a perpetual, irrevocable, world-wide (if required), royalty free, fully paid up licence to all rights normally accompanying IP ownership (including a right to sub-license but excluding a right of commercial exploitation) in the developed IP for government activities. Where the supplier is not willing to agree to the whole-of-government licence, the supplier should not retain ownership of the IP and a contractual negotiation process should occur to determine IP rights.

The exclusion of a right of commercial exploitation should not be regarded as extending to circumstances where an agency seeks the services of another ICT supplier to modify, enhance or further develop the software for the agency for government purposes on commercial terms.

The Commonwealth's ability to sub-license the developed software does not extend to sub-licensing the IP to non-government or government entities for commercial exploitation. The sub-licence only extends to non-commercial use of the developed software for government activities.

It is for an agency to determine when use of the developed software is for 'government activities'. However, 'government activities' should be regarded as extending to include circumstances where an agency decides to share its developed software with a State or Territory Government.

2. Commencement of the policy

The policy applies to ICT contract negotiations starting from 1 October 2010. It does not have retrospective application. Accordingly, the policy does not apply to ICT procurement contracts negotiated and finalised before 1 October 2010 nor to contract negotiations which were commenced prior to 1 October 2010 but which have not yet been finalised.

3. Application of the policy

The policy is contained in the *Intellectual Property Principles for Australian Government Agencies* (Statement of IP Principles) which applies to agencies subject to the FMA Act. For agencies subject to the *Commonwealth Authorities and Companies Act 1997* (CAC Act), as with the Statement of IP Principles generally, these agencies may consider the new policy an expression of good practice.

4. Scope of the policy

The following are excluded from the scope of the policy:

- IP in ICT products that is governed by open source licences, and
- IP that includes or contains personal information.

ICT procurement contracts only

The Government's policy centres on procurement contracts only. Contracts, such as employment contracts, are not covered by the policy. For example, the policy does not apply to a situation where an agency intends for its employees to develop software 'in-house'. The policy is directed at external ICT providers to the Commonwealth and applies where an agency 'outsources' the development of software.

However, even if an agency outsources development of software, an agency may still rely on one of the exceptions (such as national security or law enforcement purposes) to own the IP in the developed software where necessary.

5. Relying upon an exception - the Commonwealth retains IP ownership

An agency's starting contractual position should be the default position established by the policy. However, if there are *exceptional* reasons, then an agency may enter the procurement negotiations with a view to retaining IP ownership in the developed software. Principle 8(a) provides a non exhaustive list of reasons where it may be necessary for the Commonwealth to retain IP ownership. When evaluating whether to depart from the default position, agencies should also take into account any Government policies that relate to how an agency should determine IP ownership in relation to ICT IP or IP generally.

The reasons listed in Principle 8(a) were developed following consultation with agencies during the development of the policy.

Model Contract Clauses

The model contract clauses have been designed by a working group of agencies, including the Attorney-General's Department and the Departments of Finance and Deregulation and Innovation, Industry, Science and Research, to assist agencies to implement the policy. The clauses are 'model' and may, in certain parts, be adapted or tailored by an agency to suit its procurement contract templates. The clauses are only a snapshot of a procurement contract and therefore are likely to require tailoring to suit an agency's contract template.

The model contract clauses set out the default position agencies must adopt when entering any new procurement contract for software from 1 October 2010 unless there is an exceptional reason for the Commonwealth to own the IP in the developed software. The clauses also set out the whole-of-government Commonwealth licence the ICT supplier should provide to the agency in return for IP ownership.

6. Additional terms to the model contract clauses

It is for an agency to determine whether to negotiate additional terms, including pricing concessions, discounts or free access to upgrades, enhancements and new products based on the original or commercial version of the developed software. For example, see the drafting note in relation to clause 17.

7. Optional clauses

The model contract clauses also contain some suggested 'optional' clauses. It is for an agency to determine whether to include these clauses in its negotiations. For example, some of the optional clauses (such as the clauses on warranties) may already exist elsewhere in the contract and therefore may not be required.

Clause 7 contains the optional expression 'world-wide'. Agencies should include this term if it is necessary for their use. For example, the term may be necessary where the software needs to be used at an overseas Australian embassy post.

An optional clause for ownership of IP by the Commonwealth has not been included in the model contract clauses. If this option is selected for exceptional reasons, agencies should use existing template clauses for this purpose, in consultation with their legal advisers.

8. Definitions used in the model contract clauses

Many of the definitions used in the model contract clauses are based on definitions used in the Department of Finance and Deregulation's SourceIT model contracts – see <http://www.finance.gov.au/procurement/ict-procurement/contract-framework/sourceit-model-contracts/index.html>. Accordingly, an agency may determine that some of the definitions in the model contract clauses need to be adjusted to suit the agency's internal contract templates.

However, there are certain key terms used in the model contract clauses that an agency should avoid altering as they have been carefully drafted to reflect the scope and nature of the policy.

These terms are:

Agency – This definition has been deliberately limited to agencies subject to the FMA Act. This is because the new policy is part of the *Statement of IP Principles* and the Principles only apply to these agencies. CAC Act agencies may consider principle 8(a) to be an expression of good practice in IP management and may apply the principle to their negotiations and contract templates as they determine to be appropriate.

Associated Documentation and Associated Tools - These definitions are designed to ensure that the Customer receives adequate documentation and tools to allow the developed software to be properly used and for it to function properly.

Developed Software – This term should not be replaced with ‘foreground IP’. The policy is deliberately limited to the supplier (‘Contractor’) receiving ownership of the IP in the developed software only.

Commercial Exploitation – The Government determined that the licence to the Commonwealth from the supplier is *not* to include a right of commercial exploitation for the Commonwealth. However, this does not prevent an agency from renaming the expression ‘commercialisation’ instead of ‘commercial exploitation’ as long as the essential definition remains unchanged.

Software and Tools – These definitions ensure the ability for the Agency and the Commonwealth more broadly to use the Contractor’s software and tools if needed to allow the proper functioning of the developed software.

The terms **Contract**, **Harmful Code** and **Open Source Licence** are based on, or taken from, the Department of Finance and Deregulation’s SourceIT model contracts and may be varied as required by the agency.

9. References to ‘Commonwealth’

The references to ‘Commonwealth’ throughout the clauses reflect the scope, extent and nature of the policy. An agency needs to receive a licence for the Commonwealth (not just the Agency) to use the developed IP. Accordingly, the references to ‘Commonwealth’ in the model contract clauses are deliberate.

10. References to ‘Customer’

The references to ‘Customer’ in the model contract clauses are intended to clarify when clauses specifically relate to the contracting agency rather than *any* agency that is subject to the FMA Act. For example, see clause 5 – Provision of Associated Documentation.

However, there are other instances in the model contract clauses where it is necessary to make clear that the clause specifically relates more broadly to agencies subject to the FMA Act. For example, see clause 12 (no obligation to receive support, maintenance, etc or other services from the Contractor) and clause 13 (ability to rely on licence to Commonwealth even if the agency is not party to the contract).

11. Terms of the licence to the Commonwealth

An agency should not modify the terms of the licence to the Commonwealth from the supplier in clauses 7–13 as the terms reflect the scope of the policy.

Definition of ‘use’

The word ‘use’ in clause 7 (‘any use for government activities’) is intended to cover a broad range of activities, including copying, reproduction, adaptation, modification, enhancing, distributing, communicating etc. It should not be restricted in scope.

An agency may replace the word ‘use’ with a more detailed list of the permitted activities if it considers it necessary.

12. Why has a definition of ‘intellectual property’ not been included in the model clauses?

Since the model contract clauses only reflect part of the entire procurement contract or agreement that an agency will be using, IP may be defined elsewhere in the agency’s contract template.

13. Why are the words ‘all relevant intellectual property’ used in clause 2?

The expression ‘all relevant intellectual property’ is used in clause 2 because not all types of intellectual property may be relevant (for example, ‘circuit layouts’).

Only intellectual property rights relevant to the Developed Software, Associated Documentation and Associated Tools are to be covered in the licence.

To avoid ambiguity or debate between contracting parties as to the intellectual property rights covered in clause 2, agencies should clearly identify what constitutes the Developed Software, Associated Documentation or Associated Tools in their contract. The contracting agency is in the best position to do this. In doing so, an agency may redraft the phrase ‘all relevant intellectual property rights’ to be more specific if the agency considers it necessary.

14. Source code and the definition of ‘Developed Software’

To ensure an agency’s ability to use and further develop the source code for the developed software, the definition of ‘Developed Software’ has been defined to include ‘source code’.

15. What is the difference between clauses 4 and 15?

Clause 4 states that the Contractor needs to provide the Customer with the Developed Software, Associated Documentation and Associated Tools that have been created by the Contractor in relation to the Developed Software, at a certain point. This is necessary to allow the Customer and other agencies that rely on the licence to be able to use the software and to ensure the developed software functions.

Clause 15 centres on the situation where there are Tools that have not been created by the Contractor specifically in relation to the Developed Software but the use of the Tools is necessary to allow an agency to rely on the licence provided to the Commonwealth.

16. The requirement to provide up to date Associated Documentation (clause 5)

Clause 5 provides that the Contractor is to provide the Customer with up to date Associated Documentation that allows the Customer to make full use of the Developed Software.

This clause does not create an obligation for the Contractor to 'update' the Associated Documentation throughout the life of the Developed Software. Rather, clause 5 is only directed at the initial or first occasion when the Contractor provides the Associated Documentation to the Customer. The clause is intended to ensure the quality of the material provided to the Customer so that the Developed Software may be used by the Customer.

17. Clause 18 – open source software

This optional clause is based on the open source software clause contained in the SourceIT model contracts. An agency may determine whether it is necessary and / or needs to be modified.

18. Clause 19 – software warranties

Similarly, this clause is based on clauses from the SourceIT model contracts and if an agency chooses to retain the clause, it may be modified as necessary.