

Commercialising
Tasmanian Government
IT- related Intellectual Property:
an Information Toolkit

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1. Introduction

The Tasmanian Government (“the Crown”) generates valuable intellectual property (IP) through the business of serving the Tasmanian community, particularly in relation to information technology (IT).

As part of its goal to support IT industry development, the Crown:

- **is willing to negotiate the ownership of IP rights for the purpose of commercialisation; and**
- **aims to make the process of negotiating the ownership of IP rights with local IT firms as streamlined as possible.**

The default Crown policy position is that IP produced through Crown outsourcing activities properly belongs to the Crown, as does IP produced by any Crown employee. This is the position specified in the Government Information Technology Conditions (GITC).

The Crown is, however, keen to ensure that its contracting practices support local industry development. For this reason, it is also Crown policy for its Agencies to negotiate the ownership of IP rights for the purposes of commercialisation.

Whilst this paper does not attempt to cover the area of moral rights in any detail, the importance of this new area of the law is briefly discussed in Section 5.

This guide has been developed to assist with the process of negotiation. It is also important to understand that this Guide is only intended as an aid in understanding issues that arise in relation to the negotiation and settlement of IP rights. It is not intended to constitute a legal opinion on issues which readers may rely on in negotiating or implementing actual contracts. Nor is it intended as a substitute for legal advice when documenting proposed contracts. It is strongly recommended that readers seek independent professional legal advice before acting on the basis of any advice contained in this Guide.

Accordingly, while every care has been taken in preparing this Guide, the Crown in Right of Tasmania does not accept any responsibility for any losses suffered by persons negotiating or contracting in the manner suggested by this Guide or arising from any error or omission from this Guide.

Example: Dytech Solutions (The Learning Edge) and the Department of Education – Digital Content Repository and Essential Planner (Activity Assembler)

The Tasmanian Department of Education (DoE), worked closely with Hobart-based Dytech Solutions, on a development project to produce a Digital Content Repository and Planner (Assembler) for DoE as part of the Learning Architectures Project (LeAP).

Development of the product commenced in April 2002. Dytech principals soon received strong evidence from potential customers that the product would be likely to be of significant commercial value. As a result, Dytech established a subsidiary company, The Learning Edge Pty Ltd (TLE), and transferred ownership of the intellectual property vested in the product to this new company.

An agreement was established as an Order to the existing Government IT Contract (GITC) between Dytech and DoE, with the following considerations in accordance with the Tasmanian Government IT-Related IP Management Policy, 2002:

- DoE agreed to assign full ownership rights for the intellectual property vesting in the product to The Learning Edge to enable the company to commercialise the product
- Dytech agreed to grant DoE a non-exclusive, non-transferable perpetual licence for any release or upgrade on an unconditional unlimited user basis in return for transferring IP rights
- DoE agreed to pay for product customisations, but may negotiate a reduced fee for such services

Thanks to this partnership DoE was able, in 2005, to implement its Resource Centre and integrate the DoE-badged Essential Planner into its suite of ICT products to support teaching and learning in Tasmanian Government Schools.

2. Tasmanian Government Policy on IT-related IP

1. Information Technology-related Intellectual Property is a valuable resource

The Tasmanian Government generates valuable intellectual property (IP) through the business of serving the Tasmanian community, particularly in relation to Information Technology (IT).

- All State Government IT and project managers should be aware that their agency has a role as a producer, instigator and consumer of IT-related IP, and the value of that IP as a strategic resource.
- Tasmanian Government Agencies must respect the IP rights of private individuals and organisations.

2. All agencies have a role in encouraging industry development

IP produced through Government outsourcing activities properly belongs to the Crown, as does IP produced by any Government employee. However, IT contracting should take account of broader industry development and other policy objectives of the State Government.

- Agencies should be willing to negotiate with local IT firms regarding the ownership and transfer of IP rights for the purposes of commercialisation, and be committed to making the negotiation process as streamlined as possible.
- Commercialisation by Government agencies is generally a peripheral activity. Commercialisation needs should never dominate or jeopardise an Agency's core business. As major users of IT services, agencies should encourage commercialisation of IT services by local industry, where appropriate.
- In contracts relating to IT-related IP, agencies should proactively consider whether vesting IP in, or granting licence to, a supplier or contractor might yield savings, and a product in the longer term that more effectively meets Agency objectives.
- Financial arrangements should encourage agencies to acquire only the IP they really require, and to allow commercialisation of their IP if this is appropriate.
- Agencies should be open to negotiation with past suppliers regarding the commercialisation of IT services previously developed by the supplier. Agencies must not agree to transfer intellectual property rights developed by an original supplier to another party without first:

(i) Consulting the original supplier; and

(ii) Confirming that the Crown has the right to transfer the intellectual property rights in question.

3. Agencies should manage their IT-related IP to best effect

IP should be managed and used to best effect, as with any other asset.

- Agencies may choose to develop an IP inventory and formally evaluate their IP. However, this may be more cost-effective on a selective rather than comprehensive basis.
- Decision-makers should be encouraged to develop an understanding of the issues, options and risks in managing and commercialising IT-related IP.
- Agencies should have regard to the package of ‘alternative’ *Government Information Technology Contract* clauses, which have been endorsed by the Department of Treasury and Finance, and consider whether one of these alternative positions should be adopted in place of the standard default position.
- Agencies should seek appropriate legal advice from the Crown Solicitor’s Office prior to and during the negotiation process.

What this policy means for IT industry players is that all Crown Agencies are willing to negotiate IT-related IP rights if a company wishes to pursue the commercialisation of that IP, *unless this would interfere with the primary work or objectives of the Agency.*

The standard Crown default position is negotiable and there is a set of standard alternative clauses that can be used. However, it is recognised that, in some instances, IP should remain vested in the Crown as it forms part of the public good.

Subject to negotiated terms and conditions, a company may be allowed full or joint ownership of the IP rights that have come into existence in the course of performing a service for the Crown, or be granted an exclusive or non exclusive licence.

Example: ICS Multimedia and the Department of Tourism, Parks, Heritage and the Arts (DTPHA) – Development of Business Needs Modules

The Tasmanian Government is always striving to operate in a more efficient and effective manner. In 2004, DTPHA contracted a Hobart-based company, ICS Multimedia (ICS), to address a number of the agency's IT business needs and help improve the agency's performance.

To date, six business solutions have been developed and more are scheduled. These impressive solutions include:

- a department-wide grant management system, Grants-Tracker
- an administrative system for the management of the Overland Track known as the Overland Track System
- a system for the management and coordination of visiting journalists to Tasmania, Media-Tracker
- an internal departmental knowledge management system called Knowledge Share
- a publicly accessible events management and promotions system, Events-Tracker
- a protected area management system that is yet to be named.

In developing these modules, ICS soon recognised the products' commercialisation potential of these products. It approached DTPHA to request an intellectual property commercialisation agreement, as per State Government policy. DTPHA agreed to provide a commercialisation licence that allows ICS to use the intellectual property to create and commercialise a number of Tasmanian products. The agreement includes a number of terms related to exclusivity periods, with exclusivity periods for each module to be negotiated on an individual basis.

The DTPHA will benefit from this agreement by gaining access to product improvements at no cost. More importantly, the economic value of its original purchases will be multiplied as the intellectual property is exploited for further industry growth. Indeed, thanks to this agreement, ICS is already using the intellectual property to create products to take to market. The first sale, to the South Australian Tourism Commission, has been made and there are strong prospects of further sales to other states and territories.

3. Initiating the process of negotiating IP rights

3.1. *For Companies Dealing with the Crown*

3.1.1. With respect to contracts which will result in the creation of IP rights

If a company wishes to negotiate an alternative IP position it should:

- (i.) obtain a copy of the approved alternative GITC contractual provisions.
- (ii.) review the above alternative provisions and decide which one best suits its requirements; and
- (iii.) negotiate the inclusion of the preferred alternative provision into the contract.

3.1.2. With respect to IP rights which are already owned by the Crown

- (i.) a company should identify the rights in question and the Agency which has control of those rights;
- (ii.) lodge an application with the Agency for the use of those rights; and
- (iii.) ensure the application provides full details of the rights in question and the proposed use.

3.2. *For Crown Agencies Dealing with Companies seeking an Alternative IP Position*

The relevant agency should consider submissions by companies on a case-by-case basis in terms of the following issues:

- What benefits are there for the Tasmanian Government if this IP is to be commercialised? Is it worth the effort for the Agency involved? Agencies have an obligation to taxpayers that publicly funded activity is used for public gain. Just as the Government is unlikely to give away physical assets, such as buildings, the Agency is likely to expect some return for transferring IP rights.
- What ongoing involvement will the Agency and the Crown have in the commercialisation process (eg as a reference site etc)?
- What issues of liability need to be addressed?
- Are there other commercial interests that should be considered?
- Is there related IP developed by a separate commercial entity, where the interests of that commercial entity need to be recognised?

In some cases the Agency may choose not to have a further involvement. In others, it may wish to retain an on-going involvement. Again, however, given the potential risks and liabilities that may be involved with

any joint venture or partnership it is recommended that Agencies seek the advice from the Crown Solicitor's Office before proceeding.

3.2.1. With respect to contracts which will result in the creation of IP

If a company seeks to negotiate an alternative IP position regard should be had to:

- (i) the approved alternative GITC contractual provisions;
- (ii) the Crown's policy on IT-related IP;
- (iii) the rights that the Crown will need to effectively use the material in point; and whether it will need to own the IP or whether a licence will suffice. As a minimum the Crown would expect to receive a perpetual irrevocable non-exclusive licence to reproduce, support, and adapt the material for its own internal purposes. The key point is that Agencies have a responsibility to ensure that the Crown's needs are properly catered for;
- (iv) whether the product or service will be cheaper if the company is allowed to retain all or some IP rights. In general terms the Crown would expect a product or service to be provided at a cheaper price if a company is to retain ownership of the IP. This is because IP rights have financial value;
- (v) whether there are any benefits to the Agency in allowing the company to retain some or all of the IP rights; and
- (vi) (additionally, if the arrangement being negotiated involves the commercialisation of the IP rights), the matters specified in Section 4 of this Guide.

Having considered the above matters, an informed decision can be made. Agencies should of course seek the advice from the Crown Solicitor's Office in relation to any legal matters and in particular in relation to any proposed variations of the approved alternative GITC provisions.

3.2.2. With respect to IP Rights which are already owned by the Crown

IP rights have financial value, as does other Crown property. It follows in addition to the matters noted in 3.2.1 the Agency should also have regard to the relevant Crown Policy in relation to the disposal of Crown assets (refer to Section 4.12 of this Guide).

In this instance an appropriate Assignment/Licence document will need to be drafted with reference to the facts involved. It is recommended Agencies should forward instructions to the Crown Solicitor's Office to prepare this document.

Agencies should also ensure that the IP in question is wholly owned by the Crown.

It is important to note here that where pre-existing IP has been incorporated into a product which has been developed for the Crown it would be unusual for the Crown to have acquired the right to on-sell or on-licence the use of that pre-existing IP to another person.

4. Specific issues to consider

Due to the inherent complexity of this area, the process of negotiating the commercialisation of IP rights should only be initiated when there is strong commercial potential.

The following issues may be relevant to any negotiations.

4.1. *Ownership and licence rights of each party*

Is the company granted full or joint ownership of the IP, or there is an exclusive or non-exclusive licence?

4.2. *The payment of Royalties (including the timing of payments)*

In some cases, the Crown may agree to royalties only being paid once a certain level of sales is reached. In this case, the Crown will probably require access to ongoing financial statements from the company. Financial specialists can be called upon to help calculate an appropriate level of royalty payment.

4.3. *The method of delivery of the product to the company*

The Crown will probably seek assurances that the base product/service has been made available to the company in an acceptable form.

4.4. *Future Crown access to Upgrades and New Releases*

The Crown will probably require a non-exclusive, non-transferable perpetual licence for any release or upgrade on an unconditional unlimited user basis in return for transferring IP rights. All new releases supplied to the Government should comply with the original product/service specifications. The Crown would pay for further product/service enhancements or modifications that are needed, but may negotiate a reduced fee for such services.

In some cases, the Crown may seek to have some control over the ongoing development of a product to ensure the product will continue to be developed in a manner that continues to support their requirements.

One specific issue to consider is the erosion of Crown IP rights, as the company changes the technology through further development. This can be a complex issue to negotiate. In some cases, the easiest resolution is to acknowledge the Crown has no further IP rights in a technology once the company has spent a certain amount of money in developing it further.

4.5. *The ongoing role of the Crown*

Issues to consider include the following:

- Who will provide what resources for the ongoing development of the product?
- What role will the Tasmanian Government continue to have in the commercialisation process? Will the Tasmanian Government be a reference site?

4.6. *Rights of reversion where breach of Contract occurs*

This is a complex issue that should be addressed by your legal advisers (Crown Law in the case of Tasmanian Government Agencies).

4.7. *Confidentiality*

In broad terms, all parties should agree to maintain the other party's confidential information.

4.8. *Liability, indemnity and insurance*

The Crown will aim to indemnify itself against legal action and require the company to have appropriate insurance cover in all potential markets for the product being commercialised, including overseas markets. That is, the company will need to organise appropriate insurances including public risk and professional indemnity (covering information technology products and services) insurance.

4.9. *Conflicts of Interest*

Any existing or potential conflicts of interest should be carefully considered.

4.10. *Dispute Resolution*

The process for dispute resolution will usually be outlined in the Commercial Arbitration Act 1986.

4.11. *Pre-existing Intellectual Property*

Where a product is developed for the Crown, which includes pre-existing IP rights (whether owned by the developer or a third party), agencies should require the developer to provide the Crown with an appropriate licence or ownership right to use that IP. What is appropriate would of course depend upon the needs of the Crown. Again, it is recommended Agencies seek the advice of the Crown Solicitor in relation to any issues of concern.

4.12. *Disposal and Tendering Procedures*

Further information should be obtained from the Department of Treasury and Finance (see www.treasury.tas.gov.au).

4.13. *Government Information Technology Conditions (GITC)*

It is currently a mandatory requirement for Crown procurements that contracts for the supply of information technology, good and services are to be subject to GITC. It follows contracts are to be in the form of and subject to the Government Information Technology conditions (GITC) Version 2. Contractors are required to sign a formal Head Agreement containing those terms and conditions supplemented by a GITC Official Order that incorporates all relevant factual information.

A copy of the GITC Head Agreement and the standard GITC Official Orders can be viewed on the website established by the Tasmanian Department of Treasury and Finance.

The website particulars are:

- Treasury Website - www.treasury.tas.gov.au

Once this Website is accessed, you should refer to:

- (i) Procurement and Contracting
- (ii) The Government Information Contract (GITC)
- (iii) Having accessed this site, downloadable Versions PDF format and Word 97 format are available for the Tasmanian Government GITC Version 2.

4.14. *Alternative GITC Clauses*

The alternative GITC clauses endorsed by the Department of Treasury and Finance may be obtained by contacting Jason Fyfe, Senior Contracts Officer, Department of Treasury & Finance on 6233 2301.

5. Moral Rights

This paper does not attempt to cover “Moral Rights” which are:

- (a) non-proprietary IP; and
- (b) incapable of assignment or transfer.

These rights were established by the *Copyright Amendment (Moral Rights) Act* on 21 December 2000 to:

- (c) protect and preserve an author’s reputation and honour in his/her work; and
- (d) attach to unexpired copyrightable works.

Despite Moral Rights being non-assignable by the author, they can be an impediment to any future transaction relating to a work.

This is because any person who breaks an author’s moral rights exposes himself/herself to litigation and potential claim for:

- damages;
- injunction;
- public apology; or
- reversal.

It is for this reason that persons wishing to acquire ownership or user rights in a copyright work should also consider whether it will also be necessary to obtain a written consent (to the infringement of moral rights) from the author/s of the work.

Readers requiring further information on Moral Rights should contact the Crown Solicitor’s Office for specific advice.

6. Further assistance

For further information about intellectual property generally, see The Commonwealth IT IP guidelines (Management and commercialisation of Commonwealth intellectual property in the field of information technology) produced by the Commonwealth Department of Communication, Information Technology and the Arts, 2000 <http://www.dcita.gov.au>.

For further information about tendering procedures with the Tasmanian Government, see the Tasmanian Government's Purchasing Website, www.purchasing.tas.gov.au. This site also includes a copy of the standard Government Information Technology Contract (GITC).

If the technology involved is patentable, a patent lawyer can provide assistance. The Department of Economic Development has details about a specialised patent attorney who visits the State on a regular basis.

Commercial financial advisers (such as the major accounting firms) can provide advice concerning setting an appropriate level of royalty payment and for establishing processes for managing royalty repayments.

Government agency personnel should obtain specific legal advice from Crown Law. Any company should obtain its own independent legal advice when negotiating IP rights.