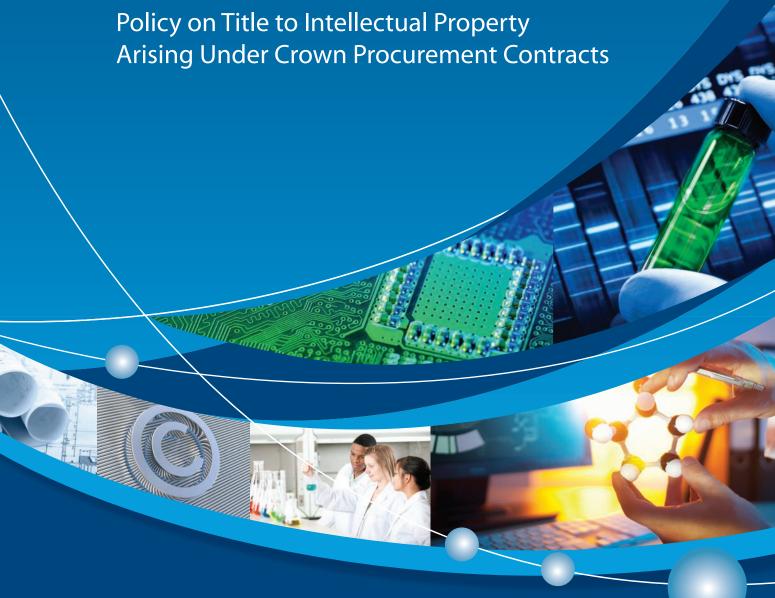
Implementation Guide





For copies of this publication, please contact:

Publishing and Depository Services
Public Works and Government Services Canada
Ottawa ON K1A 0S5

Telephone (toll-free): 1-800-635-7943 (Canada and U.S.)

Telephone (local): 613-941-5995

TTY: 1-800-465-7735

Fax (toll-free): 1-800-565-7757 (Canada and U.S.)

Fax (local): 613-954-5779

Email: publications@tpsgc-pwgsc.gc.ca Website: www.publications.gc.ca

This publication is available upon request in accessible formats. Contact:

Multimedia Services Section Communications and Marketing Branch Industry Canada Room 441F, East Tower 235 Queen Street Ottawa ON K1A 0H5

Telephone: 613-947-5177 Fax: 613-954-6436

Email: production.multimedia@ic.gc.ca

This publication is also available online at http://ic.gc.ca/ipguide.

Permission to Reproduce

Except as otherwise specifically noted, the information in this publication may be reproduced, in part or in whole and by any means, without charge or further permission from Industry Canada, provided that due diligence is exercised in ensuring the accuracy of the information reproduced; that Industry Canada is identified as the source institution; and that the reproduction is not represented as an official version of the information reproduced, nor as having been made in affiliation with, or with the endorsement of, Industry Canada.

For permission to reproduce the information in this publication for commercial redistribution, please email droitdauteur.copyright@tpsgc-pwgsc.gc.ca.

Cat. No. i.e. lu37-1/2012E-PDF ISBN 978-1-100-54215-7 60994

Table of Contents

1.	Context	1
	a. Objective of the Policy	1
	b. Purpose of the Implementation Guide	1
	c. Responsibilities	1
2.	Understanding Intellectual Property (IP)	2
	a. What is IP?	2
	b. "Background" and "Foreground" IP	2
3.	Application of the Policy	3
4.	Using the Policy to Decide on Title to (Ownership of) IP Arising Under Crown Procurement Contracts	4
	Decision Tree	
5.	Use of Model Clauses	8
Ar	opendix: Frequently Asked Questions	q



a. Objective of the Policy

The Policy on Title to Intellectual Property Arising Under Crown Procurement Contracts (the Policy) addresses the ownership and licensing of intellectual property (IP) arising during a Crown procurement contract. The primary objective of a Crown procurement contract is to receive the deliverables contracted for and to have the use of those deliverables and any arising IP. The Policy recognizes the socio-economic benefits of promoting the commercialization of IP and acknowledges that the private sector is generally better positioned than government to commercialize IP.

Thus, the Policy establishes the default position of allowing, as often as reasonably possible, the contractor to own the IP arising under Crown procurement contracts. The Policy simultaneously provides a framework allowing the government to use the IP. In appropriate circumstances, the Crown may choose to own the IP via one of several specific exceptions (Section 6 of the Policy) or a Treasury Board (TB) exemption (Section 8 of the Policy). It is important to note that contractor ownership does not preclude the Crown from using the IP, provided that the Crown obtains an appropriate licence. A licence will, in many circumstances, satisfy the Crown's needs with respect to the IP.

b. Purpose of the **Implementation Guide**

This Implementation Guide is intended solely for the use of public servants (e.g., managers engaging in contracting, procurement officers, etc.) to assist with the application of the Policy. It illustrates, step by step, the process for determining the ownership or licensing of IP arising under Crown procurement contracts. A decision tree that deals with common issues of IP ownership and

use is provided. Departments are encouraged to use the model clauses included in Appendix A of the Policy¹ or, in consultation with their legal counsel, to adapt the model clauses to their specific needs.

c. Responsibilities

- Deputy Heads are accountable for the implementation of the Policy and for the training of their personnel.
- **Departments** are responsible for:
 - ownership decisions related to the Foreground IP;
 - submitting data on IP ownership to Public Works and Government Services Canada (PWGSC) in a timely and accurate manner; and
 - ensuring that solicitation and contract documentation is complete and consistent with the Policy.
- Industry Canada will use data from PWGSC to provide an annual update to departments and agencies on their use of Crown IP ownership exceptions through the Assistant Deputy Minister Committee on Science & Technology (ADMCST) and the Federal Partners in Technology Transfer (FPTT).
- Treasury Board Secretariat will update the Treasury Board Advisory Committee on Contracting (TBACC).

^{1.} Policy on Title to Intellectual Property Arising Under Crown Procurement Contracts, Appendix A. (See www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=13697§ion=text#appA.)



Understanding Intellectual Property (IP)

a. What is IP?

IP, very broadly, refers to the legal rights that result from intellectual activity in the industrial, scientific, literary and artistic fields. IP rights — whether in the form of patents, trademarks, copyright, industrial designs, integrated circuit topographies or plant breeders' rights — reward this intellectual activity.²

In the course of Crown procurement, IP rights may, or may not, be generated. Some of these rights are automatically protected by legislation (e.g., when a contractor writes a paper, it is automatically protected by copyright). Other rights (e.g., patents, industrial designs) need to be applied for and granted by a national IP office such as the Canadian Intellectual Property Office (CIPO).

Example: The Crown procures research and development services and the contractor (a private lab) produces a novel research product in the form of an invention that could be patented; IP is created.

In many cases, however, IP will not arise under a contract. For example, if the Crown is purchasing an off-the-shelf product, there is no IP created.

Example: The Crown buys a one-year subscription to a nanotechnology journal. While IP exists in the journal, no new IP is created through the procurement (subscription purchase).

b. "Background" and "Foreground" IP

Section 4 of the Policy defines Background and Foreground.

Background is defined as all relevant pre-existing IP (owned by the Crown or contractor) that is **not** created through the Crown procurement contract.

Foreground is defined as IP that is first created or developed under a Crown procurement contract.

Examples: The Crown signs a contract to purchase four dozen "off-the-shelf" fluorescent light fixtures. While there is likely Background IP associated with the fixtures, no Foreground IP is created under the contract.

A contractor uses his/her own software application (Background) under a Crown procurement contract to develop an interface (Foreground) for a government database.

A firm develops a speech (under contract) for the Minister. The speech created under the contract is the Foreground. Any data, reports, or newspaper articles that the contractor incorporated into the speech are Background.

^{2.} www.cipo.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/h_wr00331.html.

In complex situations, it may be challenging to distinguish between Foreground and Background IP. It is important to ensure that IP rights are respected and to understand the nature of the Crown's rights to the IP. Advice should be sought from departmental IP specialists and legal advisors.

Example: One situation that may present challenges in separating Background from Foreground IP occurs when a contractor develops or modifies software under a Crown procurement contract. For example, if the Crown owns the Background software (developed in-house by the Crown) that the contractor is building on, then the resulting Foreground may be a modified version of the Background.

Note: Before issuing solicitation documents (e.g., a Request for Proposals) and the contract, departments should first define their IP requirements, particularly the ownership and licensing rights to the Foreground and the licensing rights to the Background. Contracting authorities must clearly articulate these requirements in the contracts. Modifications to the standard contractual clauses may be necessary to properly reflect the department's needs.



Application of the Policy

The Policy applies to:

- all departments, unless specifically exempted by an Act of Parliament or by Treasury Board (e.g., Canada Revenue Agency);
- IP that is developed by a contractor pursuant to a Crown procurement contract;
- a procurement contract of any value.

The Policy does not apply to:

- the sale, transfer or disposal of Crown-owned IP, as the Policy deals only with the IP arising under procurement;
- collaborative research agreements or Memoranda of Understanding (MOUs) (these are not Crown procurement contracts);

- prototypes or any other physical embodiments of intellectual creation that may be deliverables of a Crown procurement contract (the Policy deals with intellectual property, not tangible property);
- the ownership of, or the right to use, any trademarks or trade names:3
- personal information as defined under the Privacy Act (R.S.C.) c. P-21 or to Foreground in any compilation or database containing personal information or Crown-supplied information if that Foreground cannot be exploited without using that personal information or Crown-supplied information.

The Policy does **not** affect existing ownership rights of the Crown, the contractor or a third party to their respective Backgrounds.

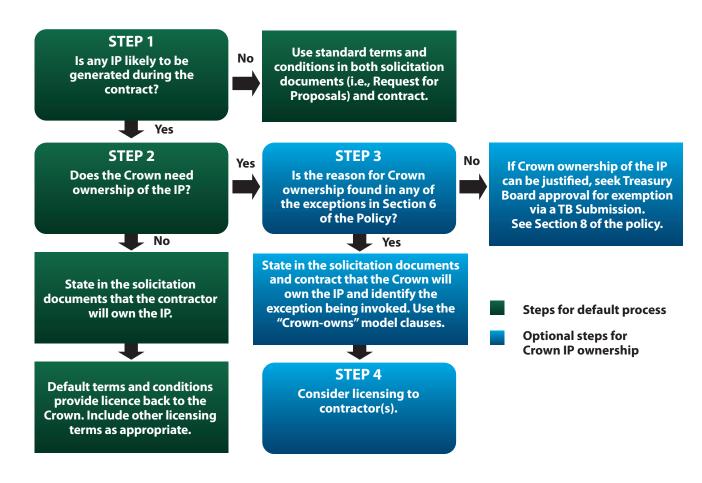
Departments may determine their own positions on the matter of ownership of trademarks and trade names, according to other relevant government policies.



Using the Policy to Decide on Title to (Ownership of) IP Arising Under Crown Procurement Contracts

When the Crown intends to enter into a contract, it is important that the solicitation documents and the contract clearly specify who is to own the Foreground IP. The following flow chart provides the key considerations under the Policy.

Decision Tree



Step 1: Is any IP likely to be generated during the contract?

Before the solicitation document is generated, managers, technical authorities, procurement officers and/or the contracting authority should determine whether or not they believe IP will be created under the contract. Departmental IP experts and/or legal counsel should be consulted as necessary to assist with this determination.

If no, use standard contracting terms and conditions.

Note: If IP is generated in the contract, even though none was anticipated, it would likely belong to the contractor in the absence of a provision to the contrary in the contract.

If yes, incorporate clauses into the solicitation documents and the contract that stipulate who will own the Foreground IP (see Step 2).

Step 2: Does the Crown need ownership of the IP?

If no, state in the solicitation documents and include appropriate clauses in the contract providing that the contractor will own the IP. Recall that the intention of the Policy is that the contractor should own the Foreground IP unless there is a reason for the Crown to own it.

If the contractor will own the IP, departments should obtain a licence to the Foreground and Background. In determining the type of licence required, managers, project managers, scientists/researchers, procurement officers, etc. must consider current and future needs in a government-wide context. This includes the Crown's needs to the Foreground and Background to use, operate, maintain and make improvements to the contract deliverables.

Example: A Crown procurement contract to purchase a fleet of military armoured vehicles was awarded to Contractor A. Under the contract, Contractor A owns the Foreground. The Crown now wants to improve the vehicles; however, the Crown did not obtain a licence to the Foreground and Background IP. Therefore, the Crown does not have the appropriate IP rights to enable it to improve the vehicles. The Crown now has no choice but to purchase a licence allowing it to improve the vehicles or sole-source the work to Contractor A.

Appendix A of the Policy includes model clauses for licensing. Departments may need to consult experts for trade policy advice.4

If yes, state in the solicitation documents and the contract that the Crown will own the IP. The reason for the Crown's ownership must fall within one of the exceptions in Section 6 of the Policy; otherwise, an exemption to the Policy must be obtained from Treasury Board as per Section 8 of the Policy via a TB Submission (see Step 3).

Step 3: Is the reason for Crown ownership found in any of the exceptions listed in Section 6 of the Policy?

It is important to note that, just because an exception could be invoked to give the Crown IP ownership, this does not mean that the exception should be invoked. For example, exception 6.5 of the Policy (copyright) could potentially be invoked in a large number of circumstances. However, before invoking an exception (Step 3), departments and agencies should consider whether they in fact need to own the IP (Step 2). Crown ownership of the Foreground may not be needed, even when there is an available exception.

Contracting authorities should always seek trade legal advice from their departmental legal services unit regarding any proposed requirement for commercial development in Canada that may be affected by trade agreements, e.g., World Trade Organization-Agreement on Government Procurement (WTO-AGP), the North American Free Trade Agreement (NAFTA) and the Agreement on Internal Trade (AIT).

If no, see Section 8, Treasury Board Exemption, of the Policy.

There may be cases in which Crown ownership of the IP could be justified, but none of the exceptions listed in Section 6 applies. In these cases, departments must request an exemption under Section 8 by making a submission to Treasury Board. The submission must be approved by Treasury Board for the department to claim ownership of the IP.

If yes, insert the appropriate clauses into the solicitation documentation and procurement contract to clearly provide that the Crown is claiming Foreground IP ownership, as described in Section 6 of the Policy.⁵ Exceptions listed in Section 6 are the following:

6.1 National security. The Policy allows the Crown to own the IP when it is judged that national security could be at stake.

Example: The Crown contracts for the services of a private biotech company to undertake research to develop a biological agent, which could be patented. However, the new biological agent has the potential to become a threat to national security. As such, the Crown would want to retain ownership of the IP.

- **6.2** Where statutes, regulations or prior obligations of the Crown to a third party or parties preclude contractor ownership of the Foreground. This exception covers two cases:
- where laws or regulations preclude contractor ownership of the new intellectual property that the contractor creates in the course of the Crown procurement contract;

 where the Crown has a pre-existing obligation to a third party regarding intellectual property (e.g., Memorandum of Understanding and Collaborative Research and Development Agreement) that may preclude vesting ownership of the IP to the contractor.

Example: A federal laboratory has acquired the use of a technology from a large pharmaceutical company via an agreement. This agreement states that the Crown must pay licence fees and allows the pharmaceutical company to own the IP rights in any further discoveries or improvements made to the technology. This type of prior agreement may limit the IP rights provided to future contractors.

6.3 When the contractor declares in writing that he/she is not interested in owning the Foreground. It is important to keep a paper or electronic record of this declaration on file. Use of this exception does not preclude the contractor from seeking a licence.

Example: The protection of IP takes resources that many small and medium-sized enterprises (SMEs) may not possess. Rather than defend their IP from competitors, the contractor may prefer that the Crown own the IP and grant them a licence. In such a scenario, the contractor would have to state in writing that it does not want to own the IP.

- 6.4 Where the main purpose of the Crown procurement contract, or the deliverables contracted for, is:
 - **6.4.1 To generate knowledge and information for public dissemination** (but not necessarily free dissemination).

^{5.} In instances where the Crown owns the Foreground as set out in Section 6, the Crown may require that the contractor provide, at the Crown's expense, any reasonable assistance to enable the Crown to seek and secure intellectual property rights in the Foreground.

Example: The Crown procures research that is used to develop a model building code to guide construction practices in Canada. The code is intended to be made available to the public (at a cost). In the contract for the procured research, the Crown could claim IP ownership because its intention is to disseminate (and commercialize) the code. In this example, if the Crown owns the IP, the Crown could sell (or give away) the code.

6.4.2 To expand upon an existing body of Crown Background as a prerequisite to the transfer of the expanded Background to the private sector, through licensing or assignment of ownership (not necessarily to the original contractor), for the purposes of commercial exploitation.

This exception has three objectives:

- 1. to maintain the integrity of the resulting IP package;
- 2. to avoid the fragmentation of the IP package (i.e., multiple ownership of the various pieces of IP); and
- to simplify the process for transfer of the resulting IP package, at a later date, to the private sector for the purpose of commercial exploitation.

Example: A contractor is contracted to build interfaces to a legacy system to allow it to communicate with the departmental financial system. The Crown developed the legacy system 10 years ago using government employees and owns the IP on the legacy system. To prevent fragmentation of the IP, the Crown retains the ownership on the legacy system as well as any newly created IP in order to facilitate transfer to the private sector for the purposes of commercial exploitation.

6.4.3 To deliver a not-yet fully developed component or subsystem that will be incorporated into a complete system at a later date (Foreground deliverable to be a single component of a final product to be completed in the future by the Crown), as a prerequisite to the planned transfer of the complete system to the private sector, through licensing or assignment of ownership, for the purposes of commercial exploitation.

Example: A device will be developed through Crown procurement contracts by two contractors. Both contractors will be developing Foreground IP that will be required for a complete system. The Crown requires IP ownership of the deliverables (from both contractors) in order to incorporate each deliverable into a complete system as a prerequisite to the planned transfer to the private sector for the purposes of commercial exploitation. In this example, if the Crown did not take ownership of the IP created by both contractors in the deliverables (using the fragmentation exception), IP rights in the complete system may be fragmented. If the IP in the deliverables was owned by the contractors (and not the Crown), the compilation of the complete system could be hindered.

6.5 Where the Foreground consists of material subject to copyright, with the exception of computer software and all documentation pertaining to that software. This exception applies only to non-software material subject to copyright.6

Example: The Crown contracts with a contractor to prepare a report. The Crown may choose to own the copyright in the report by using this exception.

Under this exception, the contractor would own the intellectual property attached to software and its documentation, unless the Crown invokes one of the exceptions specified in subsections 6.1, 6.2, 6.3, 6.4.1, 6.4.2 and/or 6.4.3.

Step 4: Consider licensing to contractor(s).

To encourage commercial exploitation of IP that has been generated by a contractor in circumstances where the Crown owns the IP, the department should consider licensing the IP to the contractor (see Appendix A of the Policy, "Crown-owns" optional model clauses: Licence to Intellectual Property Rights in Foreground Information). The Crown may decide whether to grant a licence to the Contractor and the terms of any such licence. When the following two conditions are met, the Crown must grant the licence royalty-free:

- the Crown relied on the exceptions described in Section 6.4.2 or 6.4.3 to justify its ownership of the Foreground; and
- the licence to the Foreground is not being granted as part of the transfer of the final product or complete system to the private sector.

In other cases, where the Crown grants a licence as part of the transfer of the final product or complete system to the private sector or when the Crown takes ownership through the use of any other exception, the Crown may require royalties.



Use of Model Clauses

Model clauses that may assist departments and agencies in implementing the Policy can be found in Appendix A of the Policy. These clauses are generic in nature to allow them to be modified and used by various departments. Other standard clauses may be tailored to each individual department's contracting context. For instance, the

Standard Acquisition Clauses and Conditions (SACC)
Manual from PWGSC provides suppliers and clients of
PWGSC with information on terms and conditions
commonly used in the contracting process by the federal
government and PWGSC.⁸ With proper legal counsel,
these clauses from PWGSC may be modified and used.

^{7.} www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=13697§ion=text#appA.

Standard Acquisition Clauses and Conditions (SACC) Manual, http://ccua-sacc.tpsgc-pwgsc.gc.ca/pub/acho-eng.jsp.

Appendix: Frequently Asked Questions

Intellectual Property

How does one protect IP?

IP can be protected in a variety of ways including patents, trademarks, copyright, industrial designs and integrated circuit topographies.9 Protection of IP may arise automatically (such as with copyright) or may require that the IP be registered with the Canadian Intellectual Property Office (such as with patents).

When should IP ownership be decided? Q:

A: Decisions about the ownership of the IP need to be made before entering into a Crown procurement contract. In a competitive bidding situation, the Crown must identify in the solicitation documents its intention with regards to the ownership of the IP. In the case of a sole-source contract, the Crown should indicate whether the Crown or the contractor will own the arising IP before entering into negotiations with the contractor.

Is there a difference between IP ownership and use?

Yes. The Crown does not necessarily need to own A: the IP in order to use it. The model clauses in Appendix A of the Policy provide the Crown with a perpetual royalty-free licence, as well as other rights (e.g., right to publish, reproduce, modify, etc.). Consultations with legal representatives can determine if the general terms and conditions used by your department include these rights.

Why does the government want suppliers to keep the IP created in the course of a Crown procurement contract?

The Government of Canada believes that commercial exploitation of IP is best achieved by the private sector.

Can the Crown share the IP ownership with the contractor?

A: It is generally considered inadvisable for the Crown to jointly own IP.

Q: If IP is owned by the Crown, is it reported anywhere?

A: Yes. There is an obligation for departments and agencies to report on all forms of ownership (Crown-owns or contractor-owns) for contracts valued at greater than \$25,000. It is mandatory that the organization identify in both the contract and in each department's contract reporting system which exception was the justification for the Crown retaining the ownership. The data from the departmental system are provided annually to Public Works and Government Services to capture the number of times when the Crown owns the IP, and which exceptions are claimed. Given the potential value of IP as an asset to the organization, care should be taken to properly manage the IP.

Q: Whom can I contact in my department/agency to help decide on the ownership of the IP in the contract?

A: There are a number of resources available within your department or agency. Your central contracting group, material management or IP specialists would be a good resource. Your organization's legal services unit can also provide assistance.

Common Misunderstandings

- If IP ownership is given to the contractor, what has the Crown paid for?
- A: The Crown has received the deliverable contracted for in the contract. By using the model clauses in Appendix A of the Policy or similar clauses, the

www.cipo.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/h_wr00331.html.

Crown has likely obtained a licence that provides the Crown with certain rights: the right to make certain uses of the deliverables of the contract forever, without paying any more money to the contractor, and with the ability to copy, translate or change the products without seeking permission from the contractor provided that you are using it for government purposes.

If the department agrees that the contractor is to own the IP, does the department have to go back to that contractor every time we need to change something or want more work?

- A: Not necessarily, as long as the Crown obtains an appropriate licence to the IP. This could be accomplished by using the model clauses in Appendix A of the Policy, whereby the contractor provides the Crown with a perpetual, non-exclusive, royalty-free licence to use the IP for government purposes. If the Crown has a perpetual licence and the terms and conditions of that licence are quite broad, then the department does not have to go back to the contractor each time the Crown wants to do something with the IP.
- Q: If the Crown agrees that the contractor is to own the IP, can the contractor be required to report on their use of the IP?
- A: This type of obligation could be made a part of the contract. It is important that all obligations for the contractor are outlined in the Statement of Work. These obligations can include a reporting requirement. In such cases, you may need to consult with your material management/procurement specialists for the correct wording. Given that reporting can place a burden on the contractor, it is recommended that this requirement be used only in cases where the Crown believes that commercialization/use of the IP is likely.
- Q: Will the Crown need to own the IP if it does not want the contractor to disclose information they gained in doing the work?
- A: Not if the obligation not to disclose the information is specified in the contract.

Use of Model Clauses

Q: Do I need to use the government contracting clauses?

- A: No. A department or agency has the freedom to draft its own clauses if it wishes. Note that, as a contract is a legal document between the Crown and contractor, legal services should be consulted to ensure that appropriate contractual language is used.
- What if a supplier wants to change one or two Q: words in the clauses?
- A: Consult your legal services unit and the material management/procurement resources in your organization. They will review the request and help in any drafting/changes to the clauses.

Data Collection for IP Contracts Management Information Systems

- How does a department report on the cases where the Crown retains IP ownership?
- A: The data on the ownership of the IP are collected at the time of contract approval in departments' and agencies' financial/procurement systems. This information is then reported by departments and agencies to PWGSC, which, in turn, compiles the data for the government and reports annually to the Treasury Board Secretariat.
- Q: How long does the department need to track what happens to the IP owned by the Crown?
- A: Contracts are to be retained for a minimum of three years after all action related to the contract has been completed.