DETERMINATION OF THE STATUS

OF THE FEDERAL GOVERNMENT POLICY

ON OWNERSHIP OF INTELLECTUAL PROPERTY

ARISING FROM R&D CONTRACTS

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EXECUTIVE SUMMARY

On September 19, 1991, the Treasury Board of Canada brought in a new policy on ownership of intellectual property arising from contracts for goods and services involving research and development (R&D) issued by government departments and agencies. This new policy stated, "intellectual property (IP) resulting from the performance of the contract is presumed to vest with the contractor unless the contracting department determines that Crown ownership is justified". The intent of the policy was to encourage commercial exploitation of IP developed in the course of Crown contracts. The driving forces behind this change were complaints from the private sector over the ownership issue and a speech by the then Minister of Science, Dr. Bill Winegard promising to vest ownership of IP with the contractor.

The objective of this overview framework review is to determine the actual state of implementation of the revised intellectual property policy and to identify the barriers to, and the problems encountered in implementing the revised policy by both the Crown and the private sector. Interviews were held with representatives of eleven government departments and agencies closely involved in intellectual property issues or contracts. In addition, cross-Canada interviews were held with representatives of nineteen industrial associations, thirty-four companies, and six legal firms to obtain their input to this review.

Right from the beginning, there was confusion over the scope of the new policy; did it apply only to R&D contracts, did it apply only to general procurement contracts in which the development of R&D-based intellectual property was incidental to the contract, or was it to encompass both categories of contracts. Application and interpretation of the policy was left to the departments and the confusion over the scope of the policy still exists.

The policy initially allowed for six broad exceptions to contractor ownership that could be invoked by government departments wishing to retain Crown ownership of intellectual property. Guidelines and procedures on how these exceptions should be employed were also provided. A subsequent letter from Treasury Board in December of 1991, weakened the policy by allowing departments to make up additional exceptions to contractor ownership, and advising the departments that they did not have to follow the procedures outlined in the policy.

Promulgation of the 1991 policy was not an assigned responsibility for any department or agency and thus timely dissemination of information about the policy to both public servants and the private sector was not adequate to ensure that all were familiar with the scope and intent of the policy.

Further complicating the ownership issue was the approval, in July of 1993, of another Treasury Board policy on intellectual property which allowed departments and agencies to retain revenues arising from the licensing of Crown-owned intellectual property; a powerful incentive not to apply the 1991 policy which does not provide for any revenue stream coming back to the contracting department.

GOVERNMENT DEPARTMENTS' POSITION ON THE POLICY

In general, the spirit and intent of the policy are, with few exceptions, not being followed by the government departments and agencies reviewed. While many claim to follow the policy, their practice is to interpret the six allowable exceptions to vesting ownership with the contractor quite liberally. This results in relatively few contracts that might result in commercializable intellectual property being vested with the contractor. The attitude of many public servants interviewed can be summed up as, "if the Crown pays, the Crown owns".

In most departments, the initial decision on IP ownership is made by the contract requisitioner; a bench scientist or engineer in the case of an R&D contract. Given the opportunity of revenue resulting from Crown owned IP, this gives the appearance of conflict of interest as the requisitioner or his/her laboratory could benefit financially if a Crown owned position on IP is taken.

Government respondents see the perceived benefits of Crown ownership as:

- avoiding the fragmentation of ownership of technology that is part of a large system;

- being able to license the resulting intellectual property to a firm that is capable of fully exploiting it, which may not be the initial contractor;

- avoiding creating a sole source situation for further government procurements;

- easier to administer by bench scientists or engineers who have limited knowledge about intellectual property issues;

- easier to monitor, and if necessary, revoke a license for non-exploitation of the intellectual property than it would be to take away ownership: and

- making potential infringers of the intellectual property more reluctant to act especially in the case of small firms that would not have the financial resources to fight a patent litigation battle.

Another benefit given for Crown ownership of intellectual property was the generation and retention of license and royalty fees that could accrue to the laboratory or department. Budget cuts and the encouragement given to departments by the government to generate and retain revenues are making this an important reason to retain ownership.

A major weakness in encouraging uniform application of the policy across government departments and agencies is the lack of monitoring or policing of the policy. We were advised by respondents that neither Treasury Board or Public Works and Government Services Canada see it as their responsibility to monitor or enforce the application of the policy.

The 1993 Treasury Board Policy on retention of revenues from Crown owned intellectual property has had a significant impact on the decision whether to vest intellectual property with the contractor or the Crown. As one respondent stated, it is "an absolute incentive for the department to retain the intellectual property". Given the present financial situation of many of the government laboratories, the 1993 policy overwhelms and nullifies the 1991 policy.

The predominant view of the departmental representatives interviewed was that the 1991 policy on intellectual property should be re-examined as they do not support it in its present form. They also suggest the following modifications to the policy:

- clarify the scope of the policy;

- remove the presumption of contractor ownership while retaining the capability of vesting ownership with the contractor;

- define what is meant by R&D;

- simplify the contract clauses;

- improve the definition of what constitutes background and foreground information;

- inclusion of a clause that would enable ownership to be revoked in cases of non-exploitation; and

- creation of a central office to monitor compliance with commercialization conditions to reduce duplication of infrastructure across departments.

PRIVATE SECTOR VIEWS ON THE POLICY

The vast majority of the company representatives interviewed believe that the 1991 policy is not being effectively applied. They perceive that the government is still taking a position of Crown ownership unless forced to do otherwise. As one respondent said, "Nobody pays any attention to the new intellectual property policy".

Concerns about the application of the policy are mainly found in software or computer system firms.

Large company respondents stated that they were able to retain ownership of what they felt to be their intellectual property by simply refusing to go along with Crown owned conditions, while respondents from smaller firms felt that they had to comply with government clauses retaining Crown ownership or risk jeopardizing future contract opportunities.

Private sector respondents also commented on the lack of consistency in the application of the policy. Many stated that the application of the policy appeared to be dependent not only on which department they dealt with, but also on the person within the department. They perceived that individual public servants had too much latitude in deciding the ownership question.

Respondents in the private sector noted the confusion over the scope of the policy, and believed that departments were writing "Requests for Proposals" (RFPs) in such a way as to avoid having to comply with the policy.

Although called for in the policy guidelines and procedures, most respondents stated that RFPs did not clearly state the ownership position of the government, nor did they give the reasons when Crown ownership was invoked.

The private sector believes quite strongly that ownership of intellectual property is preferable to obtaining a license. They consider that when they have unencumbered ownership, they are in a better position to exploit market opportunities. Other perceived benefits of contractor ownership of the intellectual property are that:

- ownership provides assurance that they can capitalize on any additional investments in the intellectual property without fear of the government licensing a potential competitor;

- ownership puts a small company in a stronger negotiating position when dealing with venture capitalists; and

- ownership makes it easier to firms to partner with foreign firms because of the greater certainty of ownership over a just having a license to a technology.

Private sector respondents were aware of the financial difficulties facing government departments and their laboratories and the resultant efforts to generate and retain revenues. Many felt that revenue retention allowed by the 1993 TB policy was causing departments to take a harder stand on Crown ownership.

Software developers are especially upset with the government's lack of application of the policy. The lack of application is more frequent in general procurement contracts.

Many respondents felt that one of the difficulties in applying the policy was due to departmental personnel having little understanding of how business operates.

Several of the industry associations and many of the interviewees complained about the restrictive clauses employed by the government in both their contracts and licenses. In some cases, the time taken to get a license was also an issue.

The main suggestion put forward by the private sector respondents to improve the 1991 policy is for the government to actually apply it in an honest, consistent manner, and not hide behind real or imagined exceptions.

Among the more specific recommendations for improving the policy are:

- clarify the intent and scope of the policy and have clear rules that apply to all departments;

- inform the public servants who administer the policy of its intent and scope, so as to reduce individual interpretation;

- provide the public servants with benchmark examples to guide them in their application of the policy;

- set up an ombudsman or independent appeal process to allow for review and adjudication of Crown ownership decisions;

- force the departments to give a full explanation for Crown retention of IP ownership; not just ticking off a box;

- when the Crown is to own the IP, the department should have licensing arrangements already set out for discussion;

- limit the 1993 TB IP revenue retention policy to Crown **developed** IP, not Crown owned;

- remove the exception to contractor ownership that new work is just an addition to an existing government technology base; it is self-sustaining; and

- announce the 1991 policy change in detail so that business people are aware of it, the exceptions, and how it is applied.

A review of the policy and practices of some of our major foreign competitors did not reveal any consistent pattern to IP ownership. The U.S. for example, allows, with few exceptions, contractors to own the IP, while Japan and Germany take a government ownership position.

In its present form, with the existing low level of support by the line departments, the confusion among officials of the central agencies over its scope, the pressure for government departments to generate and retain revenue, and the impact of the 1993 TB policy on revenue retention from Crown-owned IP, the 1991 Treasury Board Policy on the Ownership of Intellectual Property Arising from Federal Government Contracts **is dead in the water**.

The result is that application of the 1991 policy by government departments and agencies to intellectual property that may have commercial potential ranges from almost total non-compliance to partial compliance at best. The complete latitude that departments have in interpreting the six exceptions to contractor ownership leads to inconsistent application, even within departments.

The government must decide how its procurement of goods and services that result in the development of potentially commercializable intellectual property can best benefit the Canadian economy. Are benefits maximized through Crown ownership and targeted licensing practices, and revenue retention from licenses; by vesting ownership with the private sector which gives it more control and encourages additional investment, or some other new approach.

One possible new approach may be to apply the 1991 policy more vigorously, but allow for the department to share in any profits resulting from successful commercialization of the IP.