

## **IT Matters for Hong Kong!**

### **Industry recommendation to HKSAR IPR Policy**

This paper is intended to provide the recommendation from HK IT industry to the Government of HKSAR regarding the policy on the Intellectual Property Right (IPR) clauses in Government procurement contracts.

Section 1 contains the background. Section 2 gives a brief legal framework of software IPR. Section 3 includes the preferred options by the IT industry. Section 4 provides recommendation from HKCS, HKITF, ISIA, WTIA and current ITPSA contractors. Section 5 is the recommendation and the associated benefits.

#### 1. Background on IPR

There is an inherited clause on all procurement contracts from the Government of HKSAR: 'The ownership and all Intellectual Property Rights of whatever nature in source code, data, software, reports, plans, models, documents and other materials developed by the Contractor, any of its Sub-contractors or agents of the Contractor in performing the SOA-QPS Programme Management Services under the Agreement shall be and at all times remain vested in the Government upon the creation of such items.

However, on current international software assignment practice, law of HKSAR and decided court cases, Copyright of the work (source code, documentation, manuals and models...) vests in the Contractor as and when their employees performed the work.

Due on the conflict of the above, we did a study on most advance IT countries such as US & Europe government IPR models. We found the EICTA Guide on modern T&C for Public Contracts on ICT sector shows those European Governments didn't demand to own IPR at all. They simply enjoy unlimited license on using the System.

Similarly, the standard provision of the US Government contracts and Federal Regulation (FAR) provide that when the government pays for the development, the government gets an 'unlimited rights license' but the contractor retains the intellectual property itself. That allows the contractor to sell the system elsewhere. That's their public policy to promote innovation.

While we understand a prime factor for the HK Government to retain IP Rights has always been the potential generation of revenue in sales of software to other governments, however such promises have yet to be abundantly realized through out the history of government's IT assignment outsource to service providers.

The insistency by the Government to own the intellectual property (IP) of the software developed for government contracts is not consistent with the policy designed to cultivate and grow an indigenous IT industry. Confidentiality of information provided to suppliers for the design and development of the IT solutions and software should be protected through non-disclosure agreements and not to confuse it with IP ownership.

## 2. Brief legal framework of software IPR

The laws of major countries and that of principal international Convention / Treaty / Directive provide that software IPR ownership belongs to the developer by default. Rationale being that, upon completion and handover of the commissioned software, the client obtains the use right of the software in their organization. This primary objective is often achieved by the developer granting a Perpetual Licence in favor of client. On occasions, copy of source code may be delivered to client for the limited purpose of maintenance and/or upgrade of the software.

Commercial exploitation of the software beyond the client organization is generally not contemplated. Therefore it is seldom seen the need for client to acquire software IPR.

The basic rule is that the author of a software is the first owner of the copyright subsisting in it. Any person commissioning the creation of a software does not automatically own the IPR in it. Therefore general law and international practice specifically require an expressly Assignment clause signed by the parties as a pre-requisite for client to acquire IPR ownership in the software yet to be created and for dealing with that "future copyright".

The European Directive on the Legal Protection of Computer Programs is the leading authority on this topic:-

### **Article 2 : Authorship of Computer Programs**

1. The author of a computer program shall be the natural person or group of natural persons who has created the program or, or where the legislation of the Member State permits, the legal person designated as the right holder by that legislation. Where collective works are recognized by the legislation of a Member State, the person considered by the legislation of the Member State to have created the work shall be deemed to be its author.
2. In respect of a computer program created by a group of natural persons jointly, the exclusive rights shall be owned jointly.
3. Where a computer program is created by an employee in the execution of

his duties or following the instructions given by his employer, the employer exclusively shall be entitled to exercise all economic rights in the program so created, unless otherwise provided by contract.

Reference is made to the Berne Copyright Convention which stipulates that protection is automatic and begins at the moment of the creation of the work, the IPR vests in the author but not client.

### 3. Options

Base on the Government commitment of Digital 21 Policy to encourage IT development and innovation, the industry believes the Government of HKSAR should remove the IPR clause from all procurement contracts in order to foster the local IT development.

- 1) Remove the IPR clause and follow the international software assignment practice. The IPR of the software will clearly reside with the contractors. As long as such rule applies to all bidders, it is a fair and open practice. Government is protected through non-disclosure of the documents provided to the contractors for its business processes and requirements. The government can enjoy perpetual right in the use of the software if so desired.
- 2) The Contractor shall pay a symbolic amount of HKD1 to the Government to signify the transfer of entitlement. This practice is similar to the SOA offer from the Government to the Contractors. HK\$1 will be paid by HKSAR to Contractors on SOA. Government reserves the right to review and adjust the amount from time to time.
- 3) For work already performed and those projects not covered under the "new" rules, the following steps can be taken to allow the private sector to "purchase" the IP from the government:
  - i. The government can regularly produce a list of "IPR" that it is willing to sell or license to the public. Such list can be amended or updated from time-to-time.
  - ii. Any legally formed organization, individual can "express interest" in the acquisition of certain IPR from the government in writing and offer a "floor price" for such IPR.
  - iii. The government will evaluate the offer and if the general terms are acceptable, it can then advertise the IPR for bid at no lower than the "floor price" by "qualified" parties.
  - iv. Through the bidding process, the government can "sell" or "exclusively license" the IPR to the winning bidder. (This is somewhat like the land sales practice in HK today).

In any cases, the Government can continue to enjoy the unlimited right license & freed from infringement of IPR.

#### 4. Recommendation

IT is the fastest evolving business among the society and time-sensitive to returns on investments. Government procurement strategies are critical for efficient and effective technology deployments and enable local IT companies to expand their scope of business and eventually benefit the economy. In this regard, the fastest and clean option will be Option 1, to remove the IPR clause and follow the international software assignment practice and law of HKSAR.

#### 5. Benefits

Software IP remains in the hands of the commercial sector can be more effectively exploited and turned into incomes. These incomes to the commercial sector indirectly increase the tax contributions to the government.

The IT industry benefits from the increased opportunities and reuses the experience gained from large and complex projects, particularly when procurements call for participation of local small and medium-sized enterprises (SME).

The society benefits from the introduction of proven and readily available IT solutions into the private sector, able to interoperate with government systems, and spurring the growth of the use of IT more generally in the economy.

The Government fulfills its commitment from Digital 21 Policy to support on IT Development.