



# **Australian Government**

## **Department of Defence**

### **DEFENCE INNOVATION HUB**

#### **INTELLECTUAL PROPERTY STRATEGY**

*December 2016*

## **1. INTRODUCTION**

### **1.1 Background**

On 25 February 2016 the Government released the *2016 Defence Industry Policy Statement (Industry Policy Statement)*. The Industry Policy Statement, together with the 2016 Defence White Paper and the 2016 Integrated Investment Program, set out the Government's strategy to enhance Australia's defence capability including through collaboration with defence industry and other science and technology research partners.

A key element of the Industry Policy Statement is the establishment of the Defence Innovation Hub (**Innovation Hub**) for the Department of Defence (**Defence**). The Innovation Hub will rationalise and simplify the existing Defence innovation programs into a streamlined program that nurtures and matures proposals through a single innovation pipeline.

Critical to the success of the Innovation Hub will be a supporting policy framework to transform the way that Defence approaches innovation and collaborates with industry and other research organisations. Among other things, the Innovation Hub requires a contracting and intellectual property (**IP**) framework that maximises incentives to innovation and attracts investment from a range of local and international sources for the purpose of:

- developing leading-edge innovation and technological expertise; and
- supporting Sovereign Industrial Capabilities (described in the Industry Policy Statement) that are strategically important within the Australian Defence industry.

### **1.2 Purpose**

Defence has developed this IP Strategy to facilitate and support participation in the Innovation Hub by providing a clear public statement of Defence's approach to the treatment and protection of IP used or created in connection with projects funded by the Innovation Hub, including existing IP contributed by both industry and Defence.

Defence recognises the critical role that IP plays in fostering and encouraging innovation and delivering vital capability to the Australian Defence Force (**ADF**). This strategy sets out IP Principles that seek to achieve an appropriate balance between the interests of Defence and industry.

### 1.3 Role of IP in supporting innovation

Defence recognises that innovation requires substantial financial investment and effort from industry over an extended period without any guaranteed return. IP rights are vital to encouraging industry to innovate over the long term by protecting industry's investment and providing a means for obtaining commercial returns that support the viability and sustainability of the industry.

Defence's primary goal is to ensure that it can deliver leading-edge military capability to the ADF in a way that delivers value for money to the Australian taxpayer. When Defence invests in new or developing technologies in partnership with industry, it relies on industry sharing its IP with Defence and others and collaborating to support the ADF's capability needs without Defence being unduly restricted by industry's commercial interests.

### 1.4 Key Concepts

The following key concepts are used in this paper. Each Innovation Contract will set out the legal meaning and application of terms used for the purposes of the Innovation Contract.

<b>Background IP</b>	Existing IP, or IP created independently from the Innovation Contract, in respect of the technology developed or deliverables provided under an Innovation Contract. Background IP includes IP owned by the Participant or any "Other Significant Background IP Owner".
<b>Capability Development Activities</b>	Activities relating to: <ul style="list-style-type: none"><li>• scientific, technical or applied research and development activities;</li><li>• studies, analyses and investigation in relation to current and future technology and capability (including the technology developed under the Innovation Contract);</li><li>• assessment, investigation and development of options to meet Defence's capability needs and operational requirements; and</li><li>• development and definition of functional and performance requirements to support the procurement of technology or capability,</li></ul> for Defence Purposes. This does not include commercialisation of IP in return for a royalty or commercial return.
<b>Defence IP</b>	Innovation IP owned by Defence or IP in data, software or other items provided by Defence to a Participant for the purposes of the development of the technology under an Innovation Contract.
<b>Defence Purposes</b>	Purposes within the power of the Commonwealth with respect to the defence of the Commonwealth and includes activities for the purposes of peace-keeping and emergency aid to the civil community.
<b>Innovation Contract</b>	A contract entered into between Defence and one or more Participants in connection with the Innovation Hub.
<b>Innovation IP</b>	IP created or developed under or in connection with an Innovation Contract or a key subcontract.

<b>Other Significant Background IP Owner</b>	A subcontractor or third party that owns or provides Background IP that is significant for the development, testing, production, installation, integration or use of the technology developed under or in relation to the Innovation Contract.
<b>Participant</b>	An industry participant or research organisation involved in developing technology under an Innovation Contract.
<b>Third Party IP</b>	Any IP in respect of the technology developed or deliverables provided under an Innovation Contract that is owned by a person other than Defence, the Participant or an Other Significant Background IP Owner.

## 2. **BALANCING THE INTERESTS OF DEFENCE AND AUSTRALIAN INDUSTRY**

Given the legitimate interests of both Defence and industry in relation to IP rights, the approach in this IP Strategy seeks to achieve an appropriate and reasonable balance between the commercial interests of industry and Defence's objective of maintaining a regionally superior ADF with the highest levels of capability necessary to protect Australia's national interests. The IP Strategy seeks to recognise the contribution of both parties to an Innovation Contract, including IP, expertise, know-how, resources and funding.

The objectives of this IP Strategy (**Objectives**) are to:

- (a) encourage and facilitate the development by Australian Defence industry (including small to medium enterprises (**SMEs**)) of innovative, effective, leading-edge technologies aligned to Defence strategic priorities;
- (b) protect, maintain and support strategically important Sovereign Industrial Capabilities within Australian Defence industry;
- (c) secure for Defence, on a value for money basis, the IP and other rights in technologies funded by the Australian taxpayer through the Innovation Hub that are needed for effective Defence use of these technologies;
- (d) ensure that industry can maximise the benefits of technologies and other assets developed through the Innovation Hub, taking into account Defence's interests and the ability of industry to exploit commercially (including through export opportunities and participation in global supply chains) the innovative technologies developed; and
- (e) achieve these goals by leveraging the existing capabilities of the defence industrial base in Australia, including using and developing the expertise of companies and research bodies (such as CSIRO, Cooperative Research Centres (**CRCs**) and universities) and working collaboratively and cooperatively with Defence to create innovative solutions in the shortest practicable timeframe.

## 3. **INTELLECTUAL PROPERTY PRINCIPLES**

The IP arrangements for the development of innovative technologies for the Defence Innovation Hub will be set out in the Innovation Contracts. The following principles will underpin these IP arrangements:

### 3.1 Principle 1 – Ownership of Innovation IP

Defence will not seek to own Innovation IP (including Innovation IP created jointly by Defence and Participants), unless there are compelling reasons to support Defence ownership.

An Innovation Contract may impose restrictions or conditions on the use of Innovation IP if necessary to achieve the Objectives or national security or strategic military objectives.

- This principle recognises that IP is generally better managed and exploited where owned by industry through vesting ownership of Innovation IP in the Participant (or a subcontractor). (It also recognises that IP ownership arrangements as between the Participant and its subcontractors are generally a matter best determined by the Participant and its subcontractors.)
- This principle reduces the issues and limitations associated with different rights applying to different 'elements' of IP in the relevant technology (ie Innovation IP and the Participant's Background IP) by consolidating, to the greatest extent practicable, ownership of IP in the Participant.
- The compelling reasons where it may be appropriate for an Innovation Contract to provide for Defence to own the Innovation IP, include where:
  - there are national security or strategic military considerations that necessitate Defence control over the further development, use or dissemination of the IP;
  - Defence is contributing significant Background IP and it may therefore be preferable for ownership of the IP to be consolidated with Defence;
  - there are legitimate concerns or limitations in relation to a Participant's ability, capability or willingness to develop or exploit the technology in a way that is consistent with the Objectives; or
  - Defence agrees to enter into an Innovation Contract with two or more Participants (see **Principle 5** below).
- In circumstances where Defence does not own the Innovation IP, it may be necessary, from a national security perspective, to impose restrictions or conditions on the Participant's ability to further use the Innovation IP or the technical data or technology in which the Innovation IP is embedded. If the Innovation IP relates to a Sovereign Industrial Capability, Defence may impose restrictions on the use of the Innovation IP for the purpose of supporting the Sovereign Industrial Capability within Australia.

*Case Study: An innovative upgrade for a maritime sensor system is being developed under an Innovation Contract incorporating critical technology developed by the Defence Science & Technology Group. The sensor system provides enhanced force protection for maritime platforms against subsurface maritime threats and is therefore of high strategic importance to Australia. Given the sensitive nature of this technology and reflecting Defence's significant investment and contribution of Background IP to the development of this system, it is considered necessary for Defence to own the Innovation IP developed in relation to this sensor system.*

- In some cases, a subcontractor that contributes significant IP to an Innovation Contract may require that it have ownership of that portion of Innovation IP created under the subcontract, with the remaining Innovation IP being owned by the Participant. Defence's preference is to avoid this situation as it increases the

Participant's management of IP. Nevertheless, if necessary, Defence will consider allowing ownership of different items of Innovation IP to be split between the Participant and subcontractors.

### 3.2 **Principle 2 – IP rights will recognise the relative contributions of Defence and the Participant**

The Innovation Contract template will provide a minimum "default" set of IP rights that may be tailored by agreement to reflect the specific circumstances of an Innovation Contract, including the relative contributions of Defence and the Participant towards the development of the technology. This assessment may be done, and changes agreed, for each new funding phase of an Innovation Contract.

The contributions of the parties will include Background IP, expertise, know-how, resources or funding provided by the parties in connection with the Innovation Contract.

- This principle recognises that there will be a range of circumstances that will apply to Innovation Contracts and the relative contributions of the parties will vary from project to project. This principle also recognises that the relative contributions of the parties will change over time as the technology is developed with ongoing support from the Innovation Hub. For example, the Participant may initially have a greater contribution (by providing significant IP and expertise). However, as a result of Defence's funding accumulating over time, the contribution of the parties may become more equal or Defence may be providing a greater contribution.
- The rights of the parties to use and sublicense Innovation IP and Background IP under an Innovation Contract may need to be tailored to reflect the relative contribution of the parties. In particular:
  - if the Participant's contribution is materially greater than Defence's contribution, Defence's rights to use and sublicense the relevant IP will generally be limited to the default set of rights (refer **Principle 3**); and
  - if Defence's contribution is materially greater than the Participant's contribution, Defence may seek broader IP rights than the default set of rights (see **Principle 3**) (for example, that the IP may be used internally by Defence without restriction, or sub-licensed to certain third parties with fewer restrictions).
- The relative contributions of the parties in connection with a proposed Innovation Contract will be assessed as part of the Innovation Hub procurement process and will be reflected in the final IP arrangements in the Innovation Contract. If the parties propose to move to the next phase of an Innovation Contract to continue development of the technology, the relative contributions of the parties may be reconsidered at that time and reflected in revised IP arrangements for the new phase.

### 3.3 **Principle 3 – Defence rights to Innovation IP and Background IP**

The Innovation Contract template is based on an assumption that the Participant's contribution is greater than Defence's contribution and therefore provides for only limited IP rights to be granted to Defence:

- Defence will be granted a licence to use Innovation IP and Background IP internally within Defence for Capability Development Activities; and
- Defence's rights to sublicense Innovation IP or Background IP to third parties will be limited to the following:
  - default or insolvency situations; and

- where IP in technical data relating to form, fit and function, external interface or test data is sublicensed in connection with the integration of the technology into a Defence system, or the integration of third party technology into a Defence system relevant to the technology.

However, consistent with Principle 2, Defence may seek broader IP rights where Defence's relative contribution is more significant or to deal with other specific circumstances of a Project.

The Participant will be responsible for ensuring that Other Significant Background IP Owners provide licences to Defence in accordance with this principle.

- This principle recognises the importance for Defence of having certain minimum IP rights with respect to Innovation IP (where owned by the Participant - see **Principle 1** above) and Background IP owned by a Participant or Other Significant Background IP Owner, while at the same time, recognising and protecting the Participant's (and other relevant third parties') legitimate interests as owner of the IP to exploit its commercial value. This principle does this by ensuring Defence (including Defence personnel) has the ability to use the IP internally within Defence for Capability Development Activities and has the right to sublicense the IP to third parties, but only in very limited circumstances.
- Consistent with **Principle 2**, this principle also recognises the need for the IP arrangements of Innovation Contracts to be flexible to respond to the circumstances of each Project. In particular, it allows the IP rights of the parties to be adjusted (as necessary) to reflect their relative contribution to the development of the technology and other project-specific circumstances. It recognises the "investment" that the Participant will have made in development of the technology and IP (including the possible contribution of the original "idea", Background IP, funding and resources).
- The relative contribution of the parties will be reflected by including "additional purposes" or "additional restrictions" in the Innovation Contract to expand or reduce the "default" IP arrangements. This will ensure that the Participant and Other Significant IP Owners are able protect their commercial advantage and their investment in the development of this IP.
- If the parties do not agree to include additional rights for Defence, the "default" position is that Defence will only have the right to use the Innovation IP or Background IP for Capability Development Activities, and Defence will have limited rights to sublicense the IP to a third party. These include the right to sublicense the IP:
  - to complete the development of the technology if an Innovation Contract is terminated for default of the Participant; and
  - if the Participant suffers an insolvency event.
- Defence will also have the default right to sublicense the Innovation IP and Background IP in technical data relating to form, fit, function, external interface or test data for integration purposes where the technology forms (or may form) part of a capability system or subsystem. In this situation, Defence may require third party assistance or involvement in order for the technology to be installed, integrated or tested with other technology forming part of the same system or subsystem. For these purposes, Defence may need to provide a limited amount of Innovation IP and Background IP to third parties separately engaged by Defence in connection with that system or subsystem.

*Case Study: A novel helicopter safety device was invented by an Australian company and further developed with Defence innovation funding creating Innovation IP. In order to enable the developed device to be fitted to particular helicopters for testing purposes, it is necessary for external interface data relating to the device to be provided to the helicopter airframe manufacturer. Similarly, information relating to the helicopter needed to be provided by Defence to the Australian company that invented the safety device. In each case, appropriate confidentiality arrangements would be sought to support the sublicense and protect the interest of the inventor and helicopter airframe manufacturer.*

#### 3.4 Principle 4 – Participant (and other third party) rights to Defence IP

The Participant will be granted a licence (with appropriate rights to sublicense the IP to subcontractors) to use any Defence IP for the purposes of undertaking the development of the technology or other activities required under an Innovation Contract. The parties may agree that the Participant will be able to use Defence IP for additional purposes as specified in the Innovation Contract.

The Participant may, at any time, request that Defence grant a broader licence of Defence IP and the parties will negotiate in good faith to agree the terms of such a licence in accordance with this principle, taking into account such factors as national security considerations, the relative contribution of Defence IP to the relevant technology and the corresponding risks and benefits to both parties of the broader rights.

- This principle ensures that the Participant (and relevant subcontractors) can use any Defence IP in carrying out the development of technology or other activities under an Innovation Contract.
- However, it is recognised that there may be good reasons for why Defence may agree to provide a broader licence of Defence IP, either as an additional purpose under the Innovation Contract or separately from the Innovation Contract. This could be appropriate to allow for the further development, testing and production of the technology by the Participant or to allow the Participant to more fully exploit the commercial value of the technology, including for non-Defence purposes.
- Defence would consider any request for broader rights to Defence IP applying the *Intellectual Property Principles for Commonwealth Entities* (September 2016) and associated Defence policy that provide:
  - Defence should be responsive to opportunities for commercial use and exploitation of its IP. Defence should consider the potential benefits that may be realised through commercialisation by the private or other sectors which can result in cost savings, and continued development of Defence capability.
  - However, any commercialisation of IP must be undertaken in an accountable manner, consistent with Australian Government legislation, policies and guidelines. Defence should assess the commercial potential of the IP and potential costs and risks and consider competitive neutrality principles and the potential impact on industry.
- In considering whether or not to grant a broader licence, Defence will therefore take into account a range of matters including the following:
  - national security and strategic considerations, including export control restrictions;

- the capability that may be provided by the technology, the maturity of the technology and the extent to which the technology relies on the Defence IP;
- the relative contributions of the parties in the development of the technology;
- the commercial potential of the Defence IP and the value of the Defence IP to the Participant or others in industry;
- the risks, costs and benefits for Defence (and the achievement of Defence's policy goals) in providing a broader licence of Defence IP;
- the terms of any such licence, including the royalty or revenue regime, duration, degree of exclusivity and the level of co-investment from the Participant. This will involve consideration of the *Australian Government Charging Framework* which will require Defence to take into account a range of considerations when deciding whether or not to charge a royalty for the grant of a broader Defence IP licence;
- whether the Participant has the capacity, capability and resources to properly exploit the Defence IP to support the development of the technology or for the benefit of the industry or Defence more generally; and
- the risks, costs and benefits for the Participant (and other third parties), including whether any such licence may provide the Participant with an unfair advantage or unjustified preferential treatment.

### 3.5 Principle 5 - Collaborative development by multiple Participants

Defence's preference is to enter into Innovation Contracts with only one "lead" Participant, with all other participants being identified in the Innovation Contract as subcontractors. The "lead" Participant will provide licences (including in respect of IP owned by other participants (i.e. subcontractors)) to Defence as described in **Principle 3** above.

However, in limited cases, Defence may assume a coordination role with Defence entering into a single Innovation Contract with all of the Participants. In this case, Defence may own the Innovation IP and provide broad unrestricted licences to each Participant, unless national security or strategic military considerations require otherwise.

In these limited cases where Defence assumes a coordination role, each Participant will grant a licence of its Background IP to the other Participants to the extent necessary to enable them to perform their respective roles under the Innovation Contract. The Participants will also grant licences of their Background IP to Defence as described in **Principle 3** above.

- Through the Innovation Hub, Defence encourages entities to enter into collaborative arrangements which support the joint collaborative development and sharing of innovative technology, expertise and knowledge for the benefit of Defence and participating entities, but in a manner which also protects the commercial interests and sensitivities of individual participants. While the collaborative development of technology or products offers many proven advantages and benefits, it often gives rise to additional complexity from a contractual perspective in handling the flows of information and licensing of IP that need to be carefully managed.
- To minimise this complexity, Defence's preferred position for collaborative arrangements is that Defence enters into an Innovation Contract with a "lead" Participant who will then coordinate the involvement of other participants under subcontract arrangements, including managing information flows and the granting of

IP rights. At the participants' election, a lead Participant may take the form of a special purpose vehicle established specifically for the purposes of the development of the Innovation Contract, with appropriate licences being granted by the participants to the special purpose vehicle (similar to the approach adopted for CRCs).

- Under Defence's preferred approach, Innovation IP will generally be owned by the Participant as described in Principle 1 above, and any further assignment or licensing of that IP as between the participants will be a matter determined by the participants. In addition, the lead Participant will be required to provide Defence with rights to Innovation IP owned by the Participant and also to Background IP owned by the other participants as described in Principle 3 above.
- If the preferred position is not feasible, Defence may act in a coordination role, by entering into a single multiparty Innovation Contract involving all of the nominated Participants. In this case:
  - Defence may require the Innovation IP to be owned by Defence and licensed to the Participants. These licences will be broad in nature, subject only to restrictions or conditions required for national security or strategic military reasons;
  - the Participants will be required to grant licences of Background IP to each other to the extent necessary to enable each to perform their respective roles under the Innovation Contract; and
  - Defence will be granted licences of Background IP by all Participants as described in **Principle 3** above.
- Defence does not generally favour an arrangement involving joint ownership of Innovation IP between Defence and industry, unless the Participants can clearly demonstrate a viable and effective way of managing joint ownership that is in the interests of both the Participant(s) and Defence.

### 3.6 Principle 6 – Third Party IP

Participants will be required to ensure that Defence is granted licences of all Third Party IP on the best available commercial terms.

- Third Party IP will include IP relating to commercial items (e.g. "commercial off the shelf" software such as Microsoft Excel®) and other IP that is not provided by the Participant or Other Significant Background IP Owners.
- Any IP provided or created by the Participant or Other Significant Background IP Owners will be regarded as either Innovation IP or Background IP and will need to be licensed to Defence as described at **Principle 3** above.
- Innovation Contracts will require Participants to obtain licences of Third Party IP on the best commercial terms available to the Participant. This recognises that it may not be possible, necessary, nor represent value for money, to obtain a licence in respect of Third Party IP other than on those commercial terms.
- However, the licences of Third Party IP must not, without Defence approval, require Defence to provide an indemnity or warranty to the relevant third party or to pay any additional royalty or amount to the third party. This is because Defence would need to reassess whether the proposed arrangement still provides value for money and obtain a range of additional approvals before it could provide an indemnity or warranty or

commit to additional ongoing royalty payments and these may not be appropriate in the circumstances.

### 3.7 **Principle 7 – Protections for commercially sensitive information**

Innovation Contracts will contain a framework for protecting the confidentiality of commercially sensitive information, while still facilitating the exchange of that information to the extent necessary to undertake the development of the technology under the Innovation Contract and without limiting the benefit of the IP rights provided in accordance with these Principles.

- Defence recognises the importance of ensuring appropriate controls for the protection of commercially sensitive information of Defence and Participants (and Other Significant Background IP Owners). However, the confidentiality arrangements need to be consistent with and support the IP regime and not inhibit the exchange and use of information needed to develop innovative technologies in a collaborative and co-operative manner and in a manner consistent with these Principles.
- Innovation Contracts will include obligations on all parties to ensure that the confidentiality of commercially sensitive information is appropriately protected and that use or release of this information does not result in uncontrolled disclosure or unauthorised use.
- Defence will ensure that any third party receiving a Participant's confidential information signs a confidentiality deed. Similarly, Defence may also require that Participants ensure that any person receiving Defence's confidential information signs a confidentiality deed.