



Ref. OGCI OCC No. 1/2010

28 June 2010

**Office of the Government Chief Information Officer  
Circular to Contractors No. 1/2010**

**Commercial Exploitation of Government IT Systems**

(Note: This circular is published through the OGCIO web site to IT contractors of the Government of the Hong Kong Special Administrative Region for general reference only)

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This circular announces the Government's policy to open up the intellectual property (IP) created in new Government IT systems.

**Background**

2. To facilitate commercial exploitation of Government IT systems, the Office of the Government Chief Information Officer (OGCIO) launched a three-year pilot scheme to open up the IP created in new Government IT systems in March 2006. Under the pilot scheme, the ownership of the IP created in new Government IT systems was vested in the contractor that developed the system, except where the IP needed to be retained for public interest, legal or regulatory reasons.

3. In April 2009, the OGCIO conducted a review on the pilot scheme to ascertain its effectiveness and identify areas for improvement. In the review, we have solicited feedback from the IT industry. The review affirms the industry's unanimous support for the Government to open up the IP of its IT systems. The review also affirms that the scheme is beneficial to the Government as well as to the ongoing development of the industry.

4. The Government decided to continue with the scheme taking into account the feedback and suggestions from the IT industry.

### **The Policy**

5. With immediate effect, the ownership of the IP created in new Government IT systems will be vested in the contractor that develops the system, except where the IP needs to be retained for public interest, legal or regulatory reasons. The Government will obtain from the contractor a perpetual and royal-free licence to use, modify and replicate the IT system.

6. Contractors that obtain IP rights from the Government are required to offer IP licences to third parties on reasonable price as well as terms and conditions. Contractors are also required to either (i) offer such IP licences complying with the criteria of the Open Source Definition<sup>1</sup> or (ii) exploit the IP obtained within a reasonable period specified by the Government. If a contractor fails to satisfy the obligation to exploit the IP at the expiration of the specified period, the contractor will be required, at the discretion of the Government, to provide to a third party specified by the Government at no cost a non-exclusive, perpetual and royalty-free licence permitting the commercial exploitation of the IP rights. Such right to use shall include adaptation, enhancement, modification and further development, and the IP rights arising from which shall be owned by the party designated by the Government.

7. A list of major issues that need to be considered when arranging a licence agreement is enclosed at Annex.

### **Applicability**

8. The policy applies to IP created in new Government IT systems. For existing IT systems where the Government currently owns the IP, the Government will consider requests by contractors for commercial exploitation, if any, on a case-by-case basis.

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<sup>1</sup> "Open Source Definition" means the definition of Open Source published by the Open Source Initiative (<http://www.opensource.org/docs/osd>), as in force from time to time.

## **Exceptions**

9. As stated in paragraph 5 above, there may be circumstances under which the IP needs to be retained by the Government. The Government department concerned will decide prior to service acquisition whether to retain the IP ownership and make known of its decision to bidders at the time of invitation to bid.

## **Contact**

10. In case of any enquiry in relation to this circular or any disputes in relation to a contractor having problems to fulfil its obligation as mentioned in paragraph 6 above, please send an email to Ms Yvonne O at [ysyo@ogcio.gov.hk](mailto:ysyo@ogcio.gov.hk).



(Victor LAM)

for Government Chief Information Officer

## Major Issues to Consider When Arranging a Licence Agreement

The terms and conditions on which IP<sup>2</sup> is licensed can vary from one licence to another. The licensor and licensee negotiate the terms and conditions to suit the needs of both parties. Below are some common issues which you should think about before entering into any licence agreement. The issues listed are not meant to be exhaustive. Your particular circumstances may give rise to other considerations. You should seek professional advice where necessary.

Issue	Consideration
Parties	<ul style="list-style-type: none"> <li>• Who are the parties entering into the licence agreement? Who is the licensor<sup>3</sup>? Who is/are the licensee(s)<sup>4</sup>?</li> <li>• Are other members of the licensee's group of companies included?</li> </ul>
What is being licensed	<ul style="list-style-type: none"> <li>• What IP is being licensed? Does the licensor have the right to licence it?</li> <li>• Are there any terms and conditions that apply to any of the IP being licensed that must be carried through to the licence agreement in concern?</li> </ul>
Type of licence	<ul style="list-style-type: none"> <li>• Exclusive – only the licensee can use the IP, the licensor will not be able to use the IP for the duration of the licence.</li> <li>• Non-exclusive – licensor can use the IP and grant other licences.</li> <li>• Sole – the licence is granted to a single licensee, licensor may use the IP but will not grant other licences.</li> </ul>
Term	<ul style="list-style-type: none"> <li>• Would the licence be perpetual or of a limited duration? What is the duration of the licence agreement?</li> <li>• Would the licence agreement be renewable? What are the terms and conditions for renewal?</li> </ul>
Fees and payment	<ul style="list-style-type: none"> <li>• Is there any upfront/lump sum payment?</li> <li>• Will there be ongoing payments and royalties? How are they calculated? What is the frequency of such</li> </ul>

<sup>2</sup> Intellectual property (IP) is the name commonly given to a group of separate intangible property rights. These include trademarks, patents, copyright and designs etc. For details, please refer to [http://www.ipd.gov.hk/eng/intellectual\\_property.htm#01](http://www.ipd.gov.hk/eng/intellectual_property.htm#01).

<sup>3</sup> The party (typically the owner of the IP) granting the licence to use the IP.

<sup>4</sup> Licensee refers to the user to whom permission to use IP is granted by the owner of the IP.

	<p>payments and royalties? Are there any minimum payments? Is there any mechanism to review/change the payments and royalties? Any penalty on late payment?</p> <ul style="list-style-type: none"> <li>• Does the licensor have the right to audit the licensee's books and who pays for the audit?</li> </ul>
Rights and restrictions	<ul style="list-style-type: none"> <li>• Does the licensee have a right to grant sub-licences to others or such sub-licence be granted only with the licensor's permission? Are there any terms and conditions that apply to any of the IP being licensed that must be carried through to the sub-licence?</li> <li>• Is the licensee allowed to transfer (assign) the licence to another party?</li> <li>• Will there be any restrictions on the use of the IP? For example : <ul style="list-style-type: none"> <li>- purpose of use (e.g. academic teaching/research, non-profit making purposes)</li> <li>- fields of use (e.g. biochemical industry)</li> <li>- geographical area</li> <li>- distribution channels</li> <li>- right to incorporate into another work/with other IP</li> <li>- right to share with others</li> <li>- requirement to meet sales or other targets</li> </ul> </li> </ul>
Improvements	<ul style="list-style-type: none"> <li>• Is the licensee allowed to make improvements?</li> <li>• How are improvements defined?</li> <li>• Is there a duty to inform the other party?</li> <li>• Who will own the IP in any improvements/developments/modifications/translations?</li> <li>• If the improvement is made by the licensor, can the licensee obtain a licence to the improvement and on what terms?</li> <li>• If the improvement is made by the licensee, will the licensor obtain a grant back licence of the improvements/developments/modifications/translations?</li> </ul>
Termination	<ul style="list-style-type: none"> <li>• Under what conditions can each party terminate the agreement?</li> <li>• What are the consequences, rights and obligations of each party upon termination of agreement?</li> </ul>
Revocation	<ul style="list-style-type: none"> <li>• Is the licence irrevocable or revocable? Under what conditions can the licence be revoked?</li> </ul>

IP protection and infringement	<ul style="list-style-type: none"> <li>• Which party will be responsible for registering any IP, or renewing any existing registration? Who pays for the cost involved?</li> <li>• Which party have the right to initiate infringement action? Jointly or solely? Is there a duty to consult the other party before instituting action? Who pays for the cost incurred?</li> </ul>
Infringement of third party IP	<ul style="list-style-type: none"> <li>• Will the licensor defend any claims that third party IP has been infringed by the use of the IP licensed by the licence agreement? Will the licensor bear the financial consequences arising out of allegations or claims of infringement of third party IP?</li> <li>• Will the licensor indemnify the licensee for the liabilities, costs and expenses arising out of allegations or claims of infringement of third party IP?</li> </ul>
Confidentiality	<ul style="list-style-type: none"> <li>• What are the confidentiality-related obligations of the licensor and licensee?</li> <li>• Will the obligations survive the expiry, completion or termination of the licence agreement or for a fixed period?</li> </ul>
Warranties	<ul style="list-style-type: none"> <li>• What are warranties provided by the licensor? For example : <ul style="list-style-type: none"> <li>- warranty that the licensor is the rightful owner of the IP</li> <li>- warranty that the licensor has the right to grant licence</li> <li>- warranty that the licensed IP will not infringe other party's rights</li> <li>- warranty that the licensor has sought appropriate IP protection (e.g. IP registration)</li> </ul> </li> </ul>
Other issues	<ul style="list-style-type: none"> <li>• What provisions of the licence agreement will survive the expiry, completion or termination of the agreement?</li> <li>• What are the consequences of not meeting any targets or complying with any restrictions (see Rights and restrictions above)? For example, will the licence be terminated or will the type of licence be changed (e.g. loss of exclusivity)?</li> <li>• What services will the licensor provide? For example, technical assistance, training, support and maintenance.</li> <li>• Which law governs the licence?</li> </ul>

## Disclaimer

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