



**HOUSE OF COMMONS
CANADA**

**CHAPTER 2, "INTELLECTUAL PROPERTY," OF
THE SPRING 2009 REPORT OF THE AUDITOR
GENERAL OF CANADA**

**Report of the Standing Committee on
Public Accounts**

**Hon. Shawn Murphy, MP
Chair**

APRIL 2010

40th PARLIAMENT, 3rd SESSION



Published under the authority of the Speaker of the House of Commons

SPEAKER'S PERMISSION

Reproduction of the proceedings of the House of Commons and its Committees, in whole or in part and in any medium, is hereby permitted provided that the reproduction is accurate and is not presented as official. This permission does not extend to reproduction, distribution or use for commercial purpose of financial gain. Reproduction or use outside this permission or without authorization may be treated as copyright infringement in accordance with the *Copyright Act*. Authorization may be obtained on written application to the Office of the Speaker of the House of Commons.

Reproduction in accordance with this permission does not constitute publication under the authority of the House of Commons. The absolute privilege that applies to the proceedings of the House of Commons does not extend to these permitted reproductions. Where a reproduction includes briefs to a Standing Committee of the House of Commons, authorization for reproduction may be required from the authors in accordance with the *Copyright Act*.

Nothing in this permission abrogates or derogates from the privileges, powers, immunities and rights of the House of Commons and its Committees. For greater certainty, this permission does not affect the prohibition against impeaching or questioning the proceedings of the House of Commons in courts or otherwise. The House of Commons retains the right and privilege to find users in contempt of Parliament if a reproduction or use is not in accordance with this permission.

Additional copies may be obtained from: Publishing and Depository Services
Public Works and Government Services Canada
Ottawa, Ontario K1A 0S5
Telephone: 613-941-5995 or 1-800-635-7943
Fax: 613-954-5779 or 1-800-565-7757
publications@tpsgc-pwgsc.gc.ca
<http://publications.gc.ca>

Also available on the Parliament of Canada Web Site
at the following address: <http://www.parl.gc.ca>

**CHAPTER 2, "INTELLECTUAL PROPERTY," OF
THE SPRING 2009 REPORT OF THE AUDITOR
GENERAL OF CANADA**

**Report of the Standing Committee on
Public Accounts**

**Hon. Shawn Murphy, MP
Chair**

APRIL 2010

40th PARLIAMENT, 3rd SESSION

STANDING COMMITTEE ON PUBLIC ACCOUNTS

40th PARLIAMENT, 3rd SESSION

CHAIR

Hon. Shawn Murphy

VICE-CHAIRS

David Christopherson

Daryl Kramp

MEMBERS

Josée Beaudin

Earl Dreeshen

Derek Lee

Bev Shipley

Hon. Stéphane Dion

Meili Faille

Andrew Saxton

Terence Young

CLERK OF THE COMMITTEE

Joann Garbig

LIBRARY OF PARLIAMENT

Parliamentary Information and Research Service

Maria Edwards

Alex Smith

STANDING COMMITTEE ON PUBLIC ACCOUNTS

40th PARLIAMENT, 2nd SESSION

CHAIR

Hon. Shawn Murphy

VICE-CHAIRS

David Christopherson

Daryl Kramp

MEMBERS

Bonnie Crombie

Andrew Saxton

Meili Faille

Bev Shipley

Derek Lee

John Weston

Pascal-Pierre Paillé

Terence Young

CLERK OF THE COMMITTEE

Joann Garbig

LIBRARY OF PARLIAMENT

Parliamentary Information and Research Service

Andrew Kitching

Alex Smith

THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

NINTH REPORT

Pursuant to its mandate under Standing Order 108(3)(g), the Committee has studied Chapter 2, “Intellectual Property,” of the Spring 2009 Report of the Auditor General of Canada and has agreed to report the following:

INTRODUCTION

Intellectual property includes intellectual creation legally protected through patents, copyright, industrial design, and trade secrets. The creation, development, and protection of intellectual property are critical in the innovation process. Effective management of intellectual property allows an organization to identify opportunities for protecting, transferring, and commercializing intellectual property. Failure to do so could lead to legal liability or a failure to maximize financial performance.

In May 2009, the Auditor General provided Parliament with a performance audit whose objective was to determine whether the National Research Council Canada, Health Canada, and Fisheries and Oceans Canada could demonstrate that they managed Crown-owned intellectual property assets effectively.¹ The audit covered the management of externally generated intellectual property resulting from Crown procurement contracts, as well as the management of internally generated intellectual property. The audit also examined Industry Canada's and the Treasury Board of Canada Secretariat's obligations under federal policies.

Given the potential value of intellectual property and its importance for innovation, the Public Accounts Committee (the Committee) held a hearing on this audit on 16 November 2009.² From the Office of the Auditor General of Canada (OAG), the Committee met with: Sheila Fraser, Auditor General of Canada and John Affleck, Principal. From the Treasury Board of Canada Secretariat, the Committee met with Daphne Meredith, Chief Human Resources Officer. From Industry Canada, the Committee met with Paul Boothe, Senior Associate Deputy Minister. Health Canada and Fisheries and Oceans Canada were represented by their respective Deputy Ministers: Morris Rosenberg and Claire Dansereau. The National Research Council Canada was represented by its President, Pierre Coulombe.

¹ Auditor General of Canada, Spring 2009 Report, Chapter 2, *Intellectual Property*.

² House of Commons Standing Committee on Public Accounts, 40th Parliament, 2nd Session, Meeting 39.

BACKGROUND

The federal government creates intellectual property in two ways: internally, by federal government employees during the course of their work, or externally, by contractors during contracting activities. The federal government has policies governing each.

With respect to internally generated intellectual property, Treasury Board's *Award Plan for Investors and Innovators Policy* allows inventors within the federal government to receive a financial award arising from the licensing of, or government use of, their invention. Under the *Retention of Royalties and Fees from the Licensing of Crown-owned Intellectual Property Policy*, federal organizations can receive an appropriation equal to all the revenues received from licensing Crown-owned intellectual property.

The policy governing externally generated intellectual property is the Treasury Board's *Policy on Title to Intellectual Property Arising under Crown Procurement Contracts*. The objective of this policy is to allow contractors to keep ownership of intellectual property developed through contracting activities. Industry Canada and the Treasury Board of Canada Secretariat share responsibility for monitoring and evaluating the application of this policy.

Within the federal government, the National Research Council Canada is the government's foremost organization for research and development, and its largest generator of inventions. Health Canada and Fisheries and Oceans Canada also conduct research and development in support of their mandates, and thereby generate intellectual property.

PROGRESS REPORTS

The audit found a number of weaknesses in the management of intellectual property by Health Canada and Fisheries and Oceans Canada. There were some gaps in the practices of the National Research Council Canada, but it was a leader in other areas.

With respect to externally generated intellectual property, the National Research Council Canada, Health Canada, and Fisheries and Oceans Canada did not consistently identify whether intellectual property was expected to result from contracts. The audit found that numerous contracts that had been reported to contain intellectual property did not in fact do so. The Crown took ownership in over half of all contracts reviewed, in many cases without justification. In many of the files reviewed by the OAG at Health Canada and Fisheries and Oceans Canada, ownership of intellectual property was not stated or was contradictorily stated in the advanced bid or negotiation bid solicitation documents. Also, there was often no clause requiring sub-contracting arrangements to reflect the Crown's ownership or licensing rights.

With respect to internally generated intellectual property, the National Research Council Canada has its own policy and is interested in using its expertise to support other departments. Health Canada has a draft policy, but it had not been implemented at the time of the audit due to a lack of resources. Fisheries and Oceans Canada has an intellectual property policy, but it was not department-wide. All three departments license internally generated intellectual property, but Health Canada and Fisheries and Oceans Canada lacked guidelines for doing so. The National Research Council Canada has a process for identifying inventions that involves its researchers, business development officers, and its central intellectual property office. On the other hand, Health Canada and Fisheries and Oceans Canada did not have a process for identifying inventions, and did not know whether all intellectual property was being disclosed.

It is clear that there were significant problems in the management of intellectual property at Health Canada and Fisheries and Oceans Canada. In response to the audit, both departments submitted action plans to the Committee, which outlined a number of actions they intend to take to address the OAG's recommendations. For example, Health Canada is training managers and procurement specialists to identify and properly report on intellectual property, and it is developing a department-wide intellectual property policy. Fisheries and Oceans Canada has developed two

department-wide policies and will be setting up an intellectual property office. As the Committee would like to monitor the progress these organizations make in implementing their action plans, the Committee recommends:

RECOMMENDATION 1

That Health Canada and Fisheries and Oceans Canada provide by 31 December 2010 a progress report to the Public Accounts Committee on the status of actions taken to address the recommendations contained in Chapter 2 of the Auditor General's Spring 2009 Report.

CENTRAL DIRECTION AND OVERSIGHT

Prior to 1993, inventions developed by public servants and derived from Crown procurement contracts were transferred to a Crown corporation, Canadian Patents and Development Limited, for processing, patentability assessments, and licensing. In 1993, the government dissolved the corporation, and instead, the management of intellectual property was decentralized to departments, who had to develop their own infrastructure, including internal policies and appropriate staffing for managing intellectual property.

However, as the findings of the audit indicate, at least with respect to Health Canada and Fisheries and Oceans Canada, departments have struggled to develop and implement their own policies, as well as put into place the appropriate infrastructure and staff. The Committee can only assume that the situation is likely to be similar at a number of other federal government organizations. There seems to be very little central guidance or support for departments in this area. The Auditor General told the Committee, "when we did our audit, that coordination was not in place; every department was doing its own thing."³

More than 15 years after the management of intellectual property was placed into the hands of departments, there does not appear to be much progress in ensuring that departments are managing it well. Industry Canada and Treasury Board of Canada Secretariat (the Secretariat) are responsible for monitoring the application of the *Policy*

³ Meeting 39, 16:10.

on Title to Intellectual Property Arising under Crown Procurement Contracts, which was adopted in 2000. The Policy was to be evaluated in 2003, but this was postponed due to inadequate data collection and reporting systems for procurement contracts. It was not until 2007 that a new plan was approved and the Secretariat advised departments to modify their reporting systems. The audit stated that the evaluation will not be completed until 2011, eight years later than originally intended.

In order to be able to proceed with the evaluation, the Secretariat had to modify its central system for organizations to report annually on intellectual property created through Crown procurement contracts. The Secretariat advised organizations that they would need to modify their own internal intellectual property reporting systems, and the audit found that the National Research Council Canada, Health Canada, and Fisheries and Oceans Canada had modified their systems. However, the audit also stated that much more needs to be done to ensure that the intellectual property data is accurately interpreted and correctly entered into reporting systems. The OAG recommended that Industry Canada and the Secretariat work with organizations to improve monitoring of the application of the *Policy on Title to Intellectual Property Arising Under Crown Procurement Contracts* and ensure the data is accurately interpreted and reporting systems correctly report ownership. As the Committee is concerned about the progress made on this issue, it recommends:

RECOMMENDATION 2

That Industry Canada and the Treasury Board of Canada Secretariat either report to the Public Accounts Committee by 31 December 2010 on the status of actions taken to address recommendation 2.25 of Chapter 2 of the Auditor General's Spring 2009 Report, or that the Secretariat provide the Committee with a copy of the completed evaluation of the *Policy on Title to Intellectual Property Arising under Crown Procurement Contracts*.

The Treasury Board of Canada Secretariat is also responsible for monitoring the effectiveness of the *Award Plan for Investors and Innovators Policy* and departmental award plans. The audit found that the Secretariat had not done so. In addition, while the

departments examined had distributed financial awards to inventors, the organizations had not reported this to the Secretariat.

The consequence of the lack of monitoring of the effectiveness of these policies is that the federal government does not know whether it is meeting its objectives of encouraging the commercialization of intellectual property or protecting intellectual property where appropriate. This is no small concern, because there are significant risks to not managing intellectual property well. Not only could the federal government not fully realize the value of intellectual property developed, but it could also end up paying twice for the same intellectual property. The Auditor General described the problem as follows: “when these contracts are made, there should be, to the extent possible, some identification of potential intellectual property, so that the government protects itself. In this way the complete title doesn't rest necessarily with the private sector, and if government wants to modify something, it doesn't end up paying the private sector for something it has already paid for, and it has access to those rights.”⁴ However, she also stated that, “in the contracts we looked at, there was not always a clause that outlined what would happen to intellectual property, which could mean that eventually there could be disputes with contracts.”⁵ When asked, government officials were unable to provide the Committee with figures on how much the government has been forced to pay for rights to use intellectual property that it had paid to have developed.

Officials from Industry Canada and the Treasury Board of Canada Secretariat told the Committee that they now plan to have the evaluation of the *Policy on Title to Intellectual Property Arising under Crown Procurement Contracts* completed in 2010. Also, Industry Canada intends to assess each contract that invokes an exception to the *Policy on Title to Intellectual Property* to ensure that it was an appropriate application of the Policy. With respect to the *Award Plan for Investors and Innovators Policy*, Daphne Meredith, the Chief Human Resources Officer, told the Committee that the Federal Partners in Technology Transfer Assistant Deputy Minister Committee was better

⁴ Meeting 39, 16:20.

⁵ Ibid.

placed than the Secretariat to develop guidelines related to the Award Policy, and the role of the Secretariat was to act as a “cheerleader,” encouraging departments to offer awards for internally generated inventions.

There are several problems with this approach. While Industry Canada may be able to assess the use of exceptions under the *Policy on Title to Intellectual Property Arising under Crown Procurement Contracts*, it is not a central agency and thus does not have the authority to take action if it finds a lack of compliance with the Policy. Similarly, the Federal Partners in Technology Transfer Assistant Deputy Minister Committee has no authority, may not reach agreement, and may not even meet regularly. While it is important to consult with the functional community, this cannot be used as a substitute for central direction and leadership.

The findings of the audit and the fact that the evaluation of the *Policy on Title to Intellectual Property Arising under Crown Procurement Contracts* had to be delayed due to a lack of understanding of the Policy and misreporting of intellectual property indicate that the current highly decentralized approach is not working well. It is clear that departments need guidance, and when appropriate, direction, on how to manage intellectual property. In order to have the required weight, guidance needs to come from a central agency and not from a line department or a committee. As the Committee believes that Treasury Board of Canada Secretariat needs to take more responsibility for ensuring that intellectual property is adequately managed within the federal government, it recommends:

RECOMMENDATION 3

That the Treasury Board of Canada Secretariat, in conjunction with Industry Canada, provide clear guidelines to federal government organizations with respect to managing intellectual property.

BEST PRACTICES

The audit found that the National Research Council Canada (the Council) has a number of good practices for managing intellectual property. For example, the Council's policy on intellectual property includes guidance on roles and responsibilities for managing intellectual property, as well as for disclosure, ownership, and protection of intellectual property. The Council is developing more comprehensive guidelines on licensing intellectual property. Also, the Council has a process for disclosure review, whereby intellectual property and business experts carry out both patentability and marketability assessments at the stage when someone invents something.

The Council told the OAG that it was interested in using its expertise to support the federal government's management of internally generated intellectual property. Pierre Coulombe, the President of the National Research Council Canada, told the Committee that they are currently working with the Canadian Space Agency and Health Canada, and "we also work here and there with other departments, helping them as they work to gain access to intellectual property."⁶ The Committee strongly supports the Council's willingness to share its expertise with other federal organizations. This is especially important in light of the current decentralized approach to intellectual property, as most federal organizations do not have expertise in identifying and protecting intellectual property, and instead often view it as a by-product of something else they are working on. The Committee believes that this sharing of expertise should be done in a more systematic way than the current ad hoc approach, but it also believes that it is the role of the Treasury Board of Canada Secretariat to ensure that federal organizations have access to best practices and expertise found elsewhere in the public service. The Committee recommends:

⁶ Meeting 39, 16:15.

RECOMMENDATION 4

That the Treasury Board of Canada Secretariat use best practices and expertise within the public service, notably at the National Research Council Canada, to develop tools and resources to assist federal organizations in developing policies and practices to better manage internally generated intellectual property.

COMMERCIALIZATION OF INTELLECTUAL PROPERTY

Treasury Board's *Policy on Title to Intellectual Property Arising Under Crown Procurement Contracts* governs externally generated intellectual property. The specific objective of this policy is "to increase the potential for commercial exploitation of intellectual property developed by a contractor in the course of a Crown procurement contract by having the ownership of such property vest with the contractor."⁷ Consequently, under this policy, when intellectual property is generated through government procurement contracts, the default position is that the contractor would have ownership of the intellectual property generated, subject to several exceptions, such as national security or where the purpose of the contract is to generate knowledge and information for public dissemination. The underlying assumption is that the private sector is better situated to commercialize intellectual property and thereby generate economic growth and create jobs. As long as the government achieves its goal of receiving and being able to use the goods or services it has contracted for, the government believes it does not need to retain ownership in any intellectual property created as a by-product of the contracting activities. Paul Boothe, Senior Associate Deputy Minister at Industry Canada, described the situation:

The main goal for many of the contracts that we have isn't to create IP; they're to get something done. Some IP may be created, and that's an extra that comes from it. Those kinds of things are not our core business. That's not why we entered into the contract, and I think that's why we believe the policy should be for it to go to the private sector unless there is a good reason to do otherwise.⁸

⁷ Treasury Board of Canada, *Policy on Title to Intellectual Property Arising Under Crown Procurement Contracts*, section 1.

⁸ Meeting 39, 16:20.

The Committee accepts that the private sector may be better situated to commercialize intellectual property in many instances, as most departments do not have expertise in this area (though, the Natural Research Council Canada has an impressive record of commercializing internally generated intellectual property). However, the Committee does not agree that the contractor should retain full ownership of intellectual property that was the result of federal spending. The goal for the contractor is to receive appropriate payment for goods or services provided. Any commercialization of intellectual property is an unanticipated benefit. The Committee believes that if there is value derived from the commercialization of intellectual property through a government procurement contract, then some of that value should accrue to the government, since it funded the creation of the intellectual property. This does not mean that the government needs to retain full ownership. Rather, the government could maintain a small minority ownership, so that it earns a percentage of proceeds from commercialization. The Committee believes that the default position of providing full ownership over intellectual property to the contractor does not allow the government, i.e. the taxpayer, to realize the potential value of intellectual property. At the very least, this is an issue that should be studied further. The Committee recommends:

RECOMMENDATION 5

That the Treasury Board of Canada Secretariat, in conjunction with Industry Canada, examine under what circumstances the federal government should retain full or part ownership of intellectual property arising from Crown procurement contracts, and report their conclusions to the Public Accounts Committee by 31 December 2010.

CONCLUSION

Intellectual property is an important resource that requires effective management to identify and protect it, and in some cases, commercialize it. If intellectual property is not managed well, the government may not fully utilize the value of intellectual property, and could potentially be forced to pay to use intellectual property that it had already paid for. The audit demonstrates that there are reasons to be concerned about the management of intellectual property in the federal government. While the National Research Council Canada had some effective practices, Health Canada and Fisheries and Oceans Canada had significant weaknesses in their management of intellectual property. The current decentralized approach to intellectual property in the federal government is not working well. The Committee believes that the Treasury Board of Canada Secretariat should provide stronger leadership, coordination, and direction on this issue. Also, the Secretariat should use the best practices and expertise of the National Research Council Canada to assist departments and agencies in developing effective policies and practices to manage internally generated intellectual property.

APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
<u>40th Parliament, 2nd Session</u>		
Department of Fisheries and Oceans Claire Dansereau, Deputy Minister	2009/11/16	39
Department of Health Morris Rosenberg, Deputy Minister		
Department of Industry Paul Boothe, Senior Associate Deputy Minister		
National Research Council Canada Pierre Coulombe, President		
Office of the Auditor General of Canada John Affleck, Principal Sheila Fraser, Auditor General of Canada		
Treasury Board Secretariat Daphne Meredith, Chief Human Resources Officer		

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant Minutes of Proceedings (40th Parliament, 3rd Session: [Meetings Nos. 3 and 5](#); 40th Parliament, 2nd Session: [Meeting No. 39](#)) is tabled.

Respectfully submitted,

Hon. Shawn Murphy, MP

Chair