

Opinion

INTELLECTUAL PROPERTY IN CONSTRUCTION CONTRACTS.

Not all construction contracts require provisions dealing with Intellectual Property, as the contractor often provides very limited or no Intellectual Property to the owner. However, in other cases, the contractor may be supplying designs, drawings, software, or technology that embodies Intellectual Property, in which case, the contract needs Intellectual Property provisions.

With respect to any documentation or drawings being prepared by the contractor or other Intellectual Property being supplied by a contractor, there is a distinction between the physical media containing the Intellectual Property (e.g. the printouts or the USB keys) and the underlying Intellectual Property rights (i.e. copyright). Since the owner is paying for the work, it would typically be expected to own the media containing the work, once it is paid for. With respect to copyright, either it can be held by the owner, or the contractor can retain copyright and grant the owner a licence to use the Intellectual Property.

There are two main drawbacks to the owner in agreeing to accept a licence to use the works instead of taking copyright to the works. The first is that if the licensor goes bankrupt, since the licence is a contractual right, it could get compromised in an insolvency. This is a relatively small risk to the owner since, in this type of circumstance, there is unlikely to be any value to the bankrupt entity in compromising the licence, and even where the licence is compromised, the owner may still retain the right under insolvency law to continue to use the works anyway. The second downside is that the licence may not be broad enough for all the potential future uses of the Intellectual Property. For example, if the licence is only granted for the purpose of using the documentation for the construction, operation and maintenance of a facility, that could cause an issue if the owner seeks to have a third party amend the documentation to facilitate an expansion of the facility.

Where the contractor is responsible for designing the work (as in a design-build contract), as part of the Intellectual Property provisions of the contract, it would typically require the contractor to indemnify the owner for any breaches or alleged breaches of third-party Intellectual Property rights caused by owner's use of the work, since this is a potentially significant exposure to the owner for something that is within the contractor's control. This indemnity is also frequently listed as an exception to any overall limit of liability under the contract, since again, this is a risk that is typically within the contractor's control and could represent a disproportionate liability to the owner if it is found that the work is infringing and parts of it can no longer be used or need to be redesigned.