

Memorandum of Law – ownership of patent rights

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Introduction

The issue of the ownership of rights to copyrightable works or patentable inventions has come up frequently in matters referred to us by our clients. This memorandum is intended bring to light some of the issues in the law in this area. It should not be treated as constituting legal advice and should not be relied upon exclusively as a guide to future conduct. Should any reader believe any issue described herein directly affects them, they should seek professional legal advice on the appropriate course of action.

The Copyright Act regime

Under s35(2) of the *Copyright Act 1968* (Cth) the author of a literary, dramatic or musical work is the owner of copyright. However, where the work is produced by the author pursuant to the terms of his or her employment, s35(6) of the Copyright Act provides that the employer is the owner of the copyright. This rule is however subject to some exceptions under the Act with regard to journalists and artists (further advice should be sought on this if appropriate).

Clearly therefore, under the Copyright regime, where there is no employer-employee relationship, the ownership of copyright in any work originally subsists in the author. However, as per *Ray v Classic FM plc* (1998) 41 IPR 235; [1998] FSR 622, where there is an independent contractor relationship, and the ownership of works produced is not provided for in contract, there will be an implied licence to use the relevant work for the purposes for which the work was initially produced.

With regard collaboration on the production of works, pursuant to s9 of the Act a work is of joint ownership where it is the product of collaboration of two or more authors and the contribution of each author is not separable. Under s35(2) and s78 of the Act, copyright in a jointly authored work vests jointly in all the authors.

Finally, issues arising from the law of equity with regard fiduciary obligations arising from the various business relationships will be relevant to whether or not ownership of a work is held on constructive trust for another. This issue is discussed in detail below.

Additionally, it should be noted that included under copyright is the protection of computer programs and designs as literary and artistic works. The protection of computer programs under copyright however is not the protection of the functionality of the computer program, but of the computer code which gives effect to that functionality.

The Patents Act regime

Under s15 of the *Patents Act* 1990 (Cth) (the Act) a patent may be granted for an invention only to a person who is:

- (a) the inventor;
- (b) would be entitled upon the grant of the patent to the inventor to an assignment of such a patent;
- (c) derives title from the inventor or a person covered by (b); or
- (d) is the legal representative of someone who is deceased.

As such, the Patents Act leaves the question of the ownership of Patent rights arising out of the various legal relationships entirely in the domain of the common law. This question with regard to the employee-employer, independent contractor and fiduciary relationships is discussed below.

Fiduciary Relationships – existence and scope

In the case of *Birtchnell v Equity Trustees, Executors and Agency Co. Ltd* (1929) 42 CLR 384 Dixon J held that a fiduciary relationship arises from a mutual confidence that the parties will engage in an activity of transaction for joint advantage only.

In *News Ltd v Australian Rugby Football League Ltd* (1996) 64 FCR 410, the Federal Court noted in relation to determining the existence of a fiduciary relationship that:

In the end, an important, if not the question, is whether, in the words of Professor Finn:

the actual circumstances of a relationship are such that one party is entitled to expect that the other will act in his interests in and for the purposes of the relationship. Ascendancy, influence, vulnerability, trust, confidence or dependence doubtless will be of importance in making this out, but they will be important only to the extent that they evidence a relationship suggesting that entitlement.

More specifically, the question of whether or not a joint venture will give rise to fiduciary obligations was discussed in *United Dominions Corporations Ltd v Brian Pty Ltd* (1985) 157 CLR 1. Mason, Brennan and Deane JJ noted that whether or not a joint venture would constitute a fiduciary relationship depends on the particular form of the joint venture and the obligations which the parties to it have undertaken.

It was further noted that such a joint venture will in many cases also constitute a partnership at law and hence also be subject to statutory obligations such as those under the *Partnership Act* 1891 (SA). This was further addressed in *Gibson Motor Sport Merchandise Pty Ltd v Forbes* [2005] FCA 749 where the overlap between partnerships at law, relationships with some elements of a partnership and joint ventures was emphasised. The court then enumerated various recognisable characteristics of Joint

Ventures including joint control of and contribution to undertakings, joint interest in the performance of the purpose and association for mutual commercial gain.

Fiduciary Relationships – particular issues of scope

In *Birtchnell v Equity Trustees, Executors and Agency Co. Ltd* (1929) 42 CLR 384, further to the above, Dixon J held that the character of a joint venture or undertaking will determine the extent of the fiduciary obligations arising in equity.

In *Chan v Zacharia* (1984) 154 CLR 178 Deane J provided an oft used statement of the nature of such fiduciary obligations as follows:

State comprehensively in terms of the liability to account, the principle of equity is that a person who is under a fiduciary obligation must account to the person to whom the obligation is owed for any benefit or gain (i) which has been obtained or received in circumstances where a conflict or significant possibility of conflict existed between his fiduciary duty and his personal interest in the pursuit or possible receipt of such a benefit or gain; or (ii) which was obtained or received by use or by reason of his fiduciary position or of opportunity or knowledge resulting from it.

Further, the case of *Warman International v Dwyer* (1995) 182 CLR 544 concerned the taking over of a lease which had previously been jointly held by a fiduciary. The court in that case noted that even where an asset within the scope and ambit of the fiduciary relationship is acquired by means of the skill and expertise of the acquiring party and where such asset would not have been available other than for such skill and expertise such an asset is nonetheless held on constructive trust for the person to whom the fiduciary obligation is owed.

Partnership Act – scope of the obligations of partners

The scope of the obligations under the Partnership Act reflect those in equity. In particular, s29 requires a partner to account for any personal benefit derived from the partnership without consent and s30 requires a partner to account for any profits made from a business in competition with the relevant partnership where such business has not been consented to by the partnership.

Hence, where the relevant relationship may also be characterised as a partnership at law (per s1 of the Act: the carrying on of a business in common with a view of profit), the above statutory provisions further reinforce the position in equity as described above.

Fiduciary Relationships – application to patent rights and copyright

With regard the issue of patent rights, where the relationship between the parties does not implicitly or explicitly involve the development of new technologies, under the rule in *Birtchnell* it is arguable that as the relationship does not extend to the development of technology, the accompanying fiduciary obligations similarly do not so extend.

However, where there has been a patentable improvement made by one fiduciary on technology contributed to the relationship by the other fiduciary, arguably the first mentioned party benefits by reason of his or her fiduciary position and hence, under the doctrine in *Chan*, such benefit is held on constructive trust for the other fiduciary.

As such, I would argue that where technology is developed or improved independently by one party to the relationship, and where the scope of the activities under that relationship does not include the development of such technology, there is no breach of any fiduciary obligation. However, where technology is developed or improved through the use of equipment or know-how contributed by another party to the relationship, there is likely a breach of a fiduciary obligation and there will arise a liability to account for such a benefit. This liability will likely take the form of a right to joint ownership of any rights relating to such technology.

Similar considerations to the above will apply to the determination of ownership in any work subject to copyright produced in the context of a fiduciary relationship.

The employer/employee relationship

The important question with regard both patent rights and copyright ownership arising from works and inventions produced by employees is whether or not the work or invention in question was made within the scope of the employment of the employee.

On the issue of patent rights, in *Spencer Industries Pty Ltd v Collins* [2003] FCA 542 the federal court held that where invention was not part of the ongoing or incidental duties of an employee, rights to any invention lie solely with the employee and do not transfer under the employee-employer relationship.

Further, in the case of *Victoria University of Technology v Wilson* [2004] VSC 33 Nettle J noted that:

... the mere existence of the employer/employee relationship will not give the employer ownership of inventions made by the employee during the term of the relationship. And that is so even if the invention is germane to and useful for the employer's business, and even though the employee may have made use of the employer's time and resources in bringing the invention to completion.

As such, unless otherwise agreed under contract, an employer has no rights to the inventions of an employee not employed to invent even where such inventions relate to the business of the employer.

With regard the ownership of copyright in works produced, the situation is more complex. The question of whether or not the work was produced in pursuance of the terms of employment for the purposes of s35(6) of the Copyright Act involves considerations of, among others, the following matters:

- (1) the obligations of the employee under his or her contract of employment;
- (2) When the work was produced;

- (3) Whether or not additional remuneration was provided for the production of the work; and
- (4) The essentiality of the work to the employer's business.

As such, any decision on such an issue will turn on both the nature of the employer/employee relationship and the nature of the work produced.

The independent contractor relationship

Similar to the rights under the copyright regime, the rights to any invention developed by an independent contractor under contract will, unless otherwise provided for, vest exclusively in the independent contractor. The hirer, under such circumstances, is held to have been granted an implied licence to use any such invention for the purposes for which the work was performed.

Conclusions / Recommendations

As is demonstrated by the above, where the vesting of intellectual property rights in any legal relationship remains unspecified between the parties, there is significant uncertainty at law as to where such rights will lie in the advent of a dispute. As such, it is highly advisable that any legal relationship be constituted by contract and that the issue of intellectual property rights be comprehensively addressed.

With regard joint venture, collaborative and partnership relationships, some issues which should be canvassed in such an agreement are as follows:

- In what manner will each party to the relationship grant or licence its existing intellectual property rights and know-how to the other party for the purposes of the relationship?
- What limitations (if any) should be placed on such a licence? Are confidentiality obligations appropriate?
- Will each party to the relationship retain full rights to its existing know-how or inventions?
- In what manner will rights to inventions or other intellectual property generated as a result of the relationship in question be dealt with?
- What obligations will the parties have to maintain, defend and protect the intellectual property of the other parties?

With regard independent contractors, from the perspective of the hirer, it is similarly vital to canvass the matter of where intellectual property rights arising out of work performed will vest. To neglect to properly address such issues prior to the performance of the work is to possibly significantly reduce the value to a hirer of the work performed.

Finally, with regard employee/employer relationships, the scope of employment and the ownership of any rights to any works or inventions by the employee during the term of employment should be detailed in the employment contract. However, a provision requiring rights to any and all works or inventions whether or not relating to the field of endeavour of the employer whensoever invented will likely constitute an unfair restraint

of trade on the employee and be invalid on that basis. It is thus necessary to strike the right balance between the interests of the employer and the rights of an employee to do as he/she pleases in his/her own time.

Concluding, it is suffice to say that to properly protect ones interests in any legal relationship it is highly recommended to comprehensively address all issues relating to intellectual property and further to seek professional advice in attempting the same. This will serve to avoid unnecessary future conflict and significant cost.