

# counsel

## Innovate and allocate – intellectual property in R&D

A good idea can be a very valuable idea, and intellectual property rights protect that value... but for whom? What happens with a good idea in the course of employment – does the employer or the employee own it? And what is meant by “in the course of employment”?

A clear understanding of these issues is critical for employers and employees in all areas: private sector or public sector; commercial organisation or educational institution.

### In this issue:

- Innovate and allocate – intellectual property in R&D
  - Copyright
  - Patents
- Legal News: Comparative advertising unleashed

### Introduction

Intellectual property rights (IPRs) generate the wealth of post-industrial societies. But it is an unusual form of “property”: both intangible and indestructible. There is an obvious logic in harnessing IPR benefits and tertiary education’s research and developments, yet difficult questions remain – with economic, employment and moral dimensions. All of this has relevance for most modern firms. This issue of *Counsel* looks at a range of IPR issues with particular reference to tertiary education institutions (TEIs) here and overseas.

### The tertiary institution – culture carrier or cash cow?

There is an image of the TEI as a publicly funded “culture carrier”, committed to the advancement and transmission of knowledge, objective inquiry and dispassionate criticism. Some argue that this role should preclude or restrict the commercialisation of intellectual property created at TEIs. In August 2003, Professor

In the US, and more recently the UK, commercialisation of IPR has generated concerns that the importation of a “commercial ethos” will corrupt the university... other commentators point out that academics and institutions have always jostled for funding and for recognition, and that wider distribution of academic research may be usefully effected by commercialisation.

Rory Hume, Vice-Chancellor of the University of New South Wales, suggested that Australian universities could forgo rights to intellectual property in order to stimulate the economy and spread the benefits of research more widely. (Australian Financial Review, August 23-24.)

But is it that simple? Professor Hume would like the Australian government to increase its competitive research funding, but TEIs are not assured of large wads of government cash, and must source funds from other relationships and activities – “culture carrying” is an expensive enterprise. One route to income is capitalising on intellectual property. At a TEI this might see teaching materials transformed into distance learning packages, marketable to an increasingly wider market, or scientific discoveries sold or licensed to commercial partners.

In the US, and more recently the UK, commercialisation of IPR has generated concerns that the importation of a “commercial ethos” will corrupt the university as a locus of independent thought and disinterested inquiry, jeopardising “a precious and irreplaceable public resource”. Other commentators point out that academics and

institutions have always jostled for funding and for recognition, and that wider distribution of academic research may be usefully effected by commercialisation.

There is an undoubtedly a balance to be struck here, and IPRs are important tools in striking that balance.

## Copyright

### Writing and rights - Who owns academic writing?

*It's a lunch hour on a hot day. The class after lunch are first-years, and inclined, at this time of day, either to sleep or quibble. Last year's lecture, updated over the Christmas break, won't quite meet the challenge. Sandwich in one hand, the lecturer, Lana, scribbles notes on a recycled piece of A4, restructuring and adding a reminder to discuss the institution's controversial new policy as a topical illustration of the main point. Who "owns" these notes, and the work and ingenuity they represent?*

### Statutory allocation

Under the Copyright Act 1994, the author of a written work is generally the first owner of copyright in that

work. The author therefore has an exclusive right to copy, broadcast, publish and adapt the work. For the purposes of “intellectual” (as opposed to “tangible”) property, these rights serve as “ownership”.

However, work produced in “the course of employment” is owned by the employer, so if Lana’s notes, for example, have been created as part of her employment, her employer might expect to own copyright in them, subject to any agreement to the contrary.

### What is “in the course of employment”?

This is a slippery concept. While much depends on the particular situation, an activity is more likely to be “in the course of employment” where:

- The activity is closely supervised or controlled by the employer;
- The activity is carried out in response to a specific direction by the employer;
- The activity is closely related to the duties the employee was engaged to perform.

It is the nature of the work that is important, rather than whether it is undertaken within

For academic and research staff, there is perhaps greater uncertainty as to what work might have been carried out in the course of employment – teaching and research activities have fairly fuzzy boundaries.

the workplace or during work hours.

For academic and research staff, there is perhaps greater uncertainty as to what work might have been carried out in the course of employment – teaching and research activities have fairly fuzzy boundaries.

#### An “academic” exception?

There is British case law to support the proposition that a person employed to compose and deliver lectures owns copyright in those lectures, and US cases support a more general “academic exception”. Indeed, in the early 1990s, Chapman Tripp acted for the successful party in a confidential arbitration about ownership of TEI course materials, arguing that there was an “academic exception” to the usual course of employment allocation of copyright. However, the scope of such an exception in New Zealand remains unclear.

#### Allocation by agreement

*As it happens, Lana is fairly certain of the ownership of the lecture notes she scribbled. According to the framed extract on her wall from the university’s “Policy on Intellectual Property”, explicitly incorporated into her employment contract, the notes belong to her.*

Many TEIs, both here and overseas have formulated policies on intellectual property such as that on Lana’s wall. This reflects both statutory provision for “agreements to the contrary” and the nature of intellectual property, which lends itself to division and allocation by agreement.

Generally, TEI policies on intellectual property allocate copyright in teaching and research material to the lecturer.

The University of Otago, for example, claims ownership of intellectual property produced in the course of employment, but makes an exception for work produced in furtherance of “general obligations to teach and to undertake scholarly research”, copyright in which rests with the staff member.

Oxford University claims ownership of all intellectual property created in the course of employment, but “will not assert” any claim to ownership of copyright in “artistic works, books, articles, plays, lyrics, scores, or lectures, apart from those specifically commissioned by the University” (which could leave third parties unclear as to who actually owns copyright at any particular time).

Two important aspects of a policy governing intellectual property rights are that it is suitably and explicitly incorporated into an employment contract, and that it is clear. A clear position on ownership of IPR will assist a TEI’s relationship with staff and will also be essential when dealing with third parties.

In its IP policy on IPR, the Australian National University specifies (rather more explicitly than Otago or Oxford) that:

- “the University owns all IP created by a staff member involved in any activity carried out in whole or in part pursuant to the terms of their employment with the University, but grants rights to staff members over some of that IP”.
- “the University grants ownership of copyright to a staff member in any work that was created and developed by them with the primary intention of it being used for teaching a course or to demonstrate their research and study activities, including, without limitation, copyright in a journal article, conference paper, proceeding or text”.

Where the author owns copyright in lecture notes, any copying of them by an employer TEI, for example, to transfer them to a website, will infringe that copyright, depending, of course, on the approach taken in the TEI's policy.

### e-Learning and IPR

*Lana's lunch hour revisions were a huge success, and her employer wants to include the lecture as part of a general introductory first-year course, to be delivered over the internet to distance learners. Who owns what?*

As noted recently by the Higher Education Funding Council for England (HEFCE), on-line delivery of courses raises a raft of IPR considerations. There are two sides to the issue: anyone producing e-Learning material is creating materials in which they may have IPR, and may also be infringing IPR by making or using materials that are already subject to IPR owned by a third party. (HEFCE *Intellectual property rights in e-Learning programmes*, 2003.)

This issue has received critical attention in the US, where perceived commercialisation of academic activity has attracted heated criticism:

Traditionally, universities have acknowledged that faculty [members], as the authors of courses, have owned their course materials and hence copyright to them ... But the universities are

now undertaking to usurp such traditional faculty rights in order to capitalize on the online instruction marketplace, and it is for this reason that the rather arcane matter of copyright and intellectual property has become the most explosive campus issue of the day. Here the battle line over the future of higher education will be drawn. For faculty and their organizations it is a struggle not only over proprietary control of course materials per se but also over their academic role, their autonomy and integrity, their future employment, and the future of quality education. (Noble, 1998.)

### Proprietary control – assignment or licensing?

On the legal side of things, what is the "struggle over proprietary control"?

Where the author owns copyright in lecture notes, any copying of them by an employer TEI, for example, to transfer them to a website, will infringe that copyright, depending, of course, on the approach taken in the TEI's policy. Under a policy such as Oxford's, if the TEI commissioned a version of Lana's lecture for a website, the

TEI would own copyright in that material.

However, the ownership issue might not be so straightforward, especially if the new version substantially replicates Lana's existing notes. A work which is a copy (to the extent that it is a copy) does not qualify for copyright protection and any use of the new work will infringe copyright in the original lecture notes.

So how can the new work be legitimately used by a TEI? One answer is for the lecturer to assign copyright in both the old and new works to the institution. However, as Noble indicates above, this might not be a popular choice.

The HEFCE, considering the ownership of e-Learning resources, recommended that ownership of "exploitable materials" belong to the institution "where such materials have been created at the prompting of, or in agreement with," an institution. Where the materials are "personal", that is "material produced for personal use and reference, including as an aid to teaching", intellectual property would remain with the author. This fairly standard

allocation is subject to a stipulation that the individual abide by the institution's requirements with respect to placing "personal" materials on the intranet or internet. Formally, this requirement might be effected by licensing the institution's use of material.

A focus on licensing of material rather than assignment is useful in that an IPR policy can then be kept relatively straightforward, with details to be worked out on a case-by-case basis.

Licensing may, however, have some drawbacks. The AURIL/UUK *Guide to Managing Intellectual Property* (2002) notes that licensing arrangements can be costly to define and to police. This is because it is not always easy to define accurately the use to which material might subsequently be put, especially in a dynamic learning environment. It may also be difficult to know when a licence is being infringed, and awkward to enforce the licence terms. If the institution only has a licence, that is all it can pass on to a third party, and this may affect negotiations with third parties for the use of the material. Again, all of this has relevance

for the commercial community generally, not just for TEIs.

### Ongoing responsibilities

Whatever arrangement is chosen, given that e-Learning material can be expected to be a developing resource, it may be sensible to specify in some detail the continuing rights and responsibilities of all parties, including:

- updating of resources;
- moral rights, especially as to attribution of authorship;
- reversion of rights to the author if the TEI or third party chooses not to develop the resource;
- a procedure for determination of rights if the author terminates their employment with the institution;
- the author's use of material in their teaching.

Another issue which might usefully be addressed in both the terms of a licence or a contract of assignment is academic freedom – see the discussion on page 9.

"IPR owners may enforce their rights themselves as part of engaging in their own production. Alternatively, they may assign IPR ownership to another. Equally, they may license others to make use of the subject matter in ways which would otherwise infringe the IPR....The law is remarkably flexible. It provides a range of transactional forms by which two parties can contract about IPRs in ways that they decide are of mutual benefit to them. A balance can therefore be set which may accommodate beliefs about the magic of ownership with the commercial realities of exploitation."  
(Cambridge University Report of the RPC Working Group on Ownership of Intellectual Property Rights, August 2003.)

Unlike written works, which attract copyright as soon as they are created, an invention or discovery is not formally protected until it is patented... Who, then, is entitled to patent an invention and secure these rights?

## Patents

### Innovation and allocation - Who owns an invention or discovery?

*Musing over a knotty research problem one afternoon, Lana got side-tracked by a brilliant concept for a device which would hold open a hefty book and allow for its pages to be turned at the same time. She envisages manufacturing and selling this device for large sums of money and a modicum of fame. What are her chances?*

#### A patent – the right to “make and vend”

Unlike written works, which attract copyright as soon as they are created, an invention or discovery is not formally protected until it is patented. Until then, while illegitimate use of confidential information may, for example, ground an action for breach of confidence, there is no formal delineation of rights in the invention. Patenting, on the other hand, explicitly confers on the patentee a statutory right to make, use, exercise and vend an invention for the term of the patent.

Who, then, is entitled to patent an invention and secure these rights? Under the Act, applications can be made by the

inventor, or the assignee of the inventor. Provided she hasn't assigned her rights, Lana can apply for a patent.

#### What are the employer's rights to a patent?

In contrast to the UK legislation, the New Zealand Patents Act does not deal with the rights of employers. Lana's employer can assert a right to her invention at common law if it was made in the course of employment. However, as with copyright works, the position will be much clearer if addressed in an employment contract, either explicitly or by the incorporation of the relevant institutional policy.

A survey of institutional policies on patenting indicates a range of approaches:

- Otago University claims ownership of all patented or patentable inventions produced by staff in the course of their employment unless otherwise agreed in writing. In contrast to other policies discussed below, Otago's IP policy does not require disclosure of an invention.
- Auckland University requires disclosure of discoveries which “may have possibilities for commercial exploitation”.

This formulation, similar to that in Oxford's policy, requires a judgement by staff as to capacity for commercialisation. Auckland's policy then envisages a decision as to assignment and an agreement covering the obligations of the parties, and the division of income and expenditure.

- The Australian National University claims ownership of all IP created by staff in any activity carried out in whole or in part pursuant to their terms of employment. Disclosure of all such IP is an additional requirement. However, intellectual property is defined as including any discovery or innovation “capable of identification for the purposes of commercialisation, publication or other similar activity”. Here, therefore, the ability to commercialise an innovation defines the boundaries of the university's ownership. ANU's policy also deals with what happens to IP brought to the university by a new employee and when a staff member leaves the university.
- The University of California does not claim ownership

Many TEIs claim ownership of an innovation, either outright, or on disclosure. This differs from the approach generally taken to written material. Why the difference?

outright, but requires disclosure of all inventions "including inventions made on weekends, on leave, at home 'in the garage', or during paid or unpaid consulting work". On disclosure, the University may assert rights to an invention on the basis of three criteria – the use of University funds or facilities in conceiving and/or developing the invention; potential obligations to third parties; and intellectual property rights and obligations that arise from the scope of employment. As a condition of employment, employees must sign an acknowledgment of their obligation to assign inventions and patents.

- The University of British Columbia, on the other hand, requires disclosure only of inventions and discoveries in which university facilities or funds were used and which the inventor proposes to license or protect. On disclosure, the university may decide to protect or license the discovery, in return for a share in the proceeds. This policy combines clarity and flexibility, but leaves the decision as to protection up to the individual.

### Why treat inventions differently from written work?

Many TEIs claim ownership of an innovation, either outright, or on disclosure. This differs from the approach generally taken to written material. Why the difference? A 1999 Canadian report gives reasons for TEI ownership of patent rights:

- The development of patentable inventions often requires the input of substantial resources on the part of the university; these resources may be in the form of funding, laboratory space, equipment, staff, and other forms of support;
- There can be significant revenues generated from patentable inventions which the institution could apply towards offsetting expenditures and supporting future research;
- Institutions are usually better equipped than individual researchers to successfully commercialise inventions and to manage and protect intellectual property;
- Public institutions are morally obligated to maximise

returns on investments made by taxpayers in publicly funded research. (The Node Learning Technologies Network, 1999.)

On the other hand, Professor Hume's preferred model (see page 2), influenced by his experience as Executive Vice-Chancellor at the University of California, Los Angeles, is to allow the employee to patent and copyright their work, and for the TEI employer to take a small percentage of any profits to cover transaction costs.

This approach is also of interest in light of recent research on US universities by Lach, of the Hebrew University, and Schankerman, of the London School of Economics (May 2003). Their findings were that academic research and inventive activity respond to monetary incentives, with the result that the design of intellectual property rights can have real effects on growth and productivity.

### Selling on – selling out?

Whichever approach is preferred, commercialisation of TEI research might help to recoup costs and generate revenue (although the

experience in both the US and Australia is that returns might not be as handsome as could be wished). However, it also imports the “culture carrier” vs “cash cow” debate. The UUK/AURIL guide to IP management noted the potential for exploitation of IPR to result in:

- pressures to increase the emphasis on applied research at the expense of basic research, in the hope of faster financial returns;
- protection of and restriction of access to IP in situations where open access might be more in the public interest; and
- the necessity to balance an institution’s independence and the benefits of strategic partnerships with business.

### How to protect academic freedom and independence?

In the US, there have been instances of corporate partners enforcing non-disclosure of “adverse” results by TEI researchers. In consequence, some academics would like to see TEIs preventing staff from signing non-disclosure agreements:

*“If you’re a university scientist, you serve the public. You have to disseminate; it’s your duty to publish. The immediate lesson for scientists is never to sign. For universities, it is to have the backbone to back up their scientists.”* (Drummond Rennie, University of California *The Scientist* 1999.)

However, this blanket response might not address legitimate concerns held by a corporate partner as to publication of commercially sensitive information. More realistic might be a selective non-disclosure agreement allowing publication of results, but not disclosure of legitimately confidential information.

Another approach is that taken by the University of California, which states, in its *Guidelines on University-Industry Relations*, that “freedom to publish is fundamental to the University and is a major criterion of the appropriateness of a research project.” This envisages addressing publication issues at the instigation of a project.

Concerns are also noted in Cambridge University’s very recent report (August 2003) as to *institutional* control of

publication. The Working Group considered it “essential” that the University declare in its terms of employment that all those covered by the IP policy are “free to place research results in the public domain or to release them by open-source arrangements.” The caveat on this is a warning that a patent grant might be compromised by publication.

“The ability to place research results in the public domain embodies a basic academic value. ... However, if the University were to be designated as the owner of IPR overall, it could at any time seek to introduce a contrary policy and, presumably, make it a breach of contract for the academic to ‘go public’. This fear is undoubtedly felt and is epitomised in Sir John Sulston’s pithy intervention in the Discussion (which might be Orwellised as “Revenue-share, yes; ownership, no!”).” (Cambridge University’s Report of the RPC Working Group on Ownership of Intellectual Property Rights, August 2003.)

Again, the Working Group recognised that a necessary exception would be specific agreement requiring information about particular research to be kept confidential.

A similar term to that suggested by the Working Group might be usefully incorporated in agreements assigning or licensing copyright. Such a term might specifically address academic freedom, perhaps with reference to section 161 of the Education Act.

### Should IP be free?

An additional point picked up by the University of Manchester in its response to the UUK/AURIL review is that it may better serve a TEI's purposes to put some IP into the public domain rather than to commercialise it. Free access to an important innovation may benefit a TEI's public profile, and, especially where the costs of commercialising the invention would outweigh any revenue generated, may be the most advantageous way forward. ●

For further information about the references in this edition of *Counsel*, contact Sarah Fairbrother.

### The Bayh-Dole regime

In the US, university treatment of inventions and discoveries is regulated by the Patent and Trademark Law Amendment Act of 1980, more commonly known as the Bayh-Dole Act (after the senators who introduced the Bill to the Senate). Under the Act, where research is federally funded, the university has an obligation to disclose a new invention to the federal funding agency. The university can elect to retain title to the invention, can license a company to commercialise the invention, and may elect payment of royalties in return. A company holding such an exclusive licence must substantially manufacture the product in the US. If the university retains title, it must provide the Government with a non-exclusive licence to the invention.

The regime was designed to assist technology transfer, specifically of discoveries made with federal funding. Aims were to encourage the development of publicly funded research for the public benefit, to stimulate the US economy, and to encourage US development of US discoveries. The result? According to some, a presumption in favour of patenting that, absent exceptional circumstances, prevails over a view that the discovery should be placed in the public domain.

# legal news

## Comparative Advertising Unleashed

The beauty of comparative advertising varies greatly according to the eyes of the beholder. The traditional view of a trader with an established reputation is that it is a device used by upstarts to leverage off a hard won reputation. On the other hand, the comparative marketer will respond that it is promoting competition in one of the most effective ways possible: direct comparison of price and product.

Last month saw New Zealand law move markedly in favour of the comparative marketer. Section 94 of the Trade Marks Act 2002 came into force on 20 August 2003, creating an “honest comparative marketing” exception to trade mark infringement. And, on 29 August 2003, the Court of Appeal applied section 94 in reversing a High Court interim injunction which restrained one trader from placing comparative pricing stickers on another’s own brochures.

The case was brought by Mitre 10 (New Zealand) Limited against Benchmark Building Supplies Limited to prevent Benchmark from putting its own price stickers on Mitre 10’s brochures. These brightly coloured stickers illustrated Benchmark’s lower prices for some of the goods shown on Mitre 10’s brochure. The stickered brochures were displayed at Benchmark’s own retail outlets.

A High Court judge granted Mitre 10 an interim injunction in March 2003. An interim injunction does not provide a definitive statement of the legal position, but represents the Court’s attempts to balance the difficulties involved for the period pending commencement of proceeding to a judgment following a full trial.

The Court of Appeal reversed the injunction on the basis that, in relation to Mitre 10’s trade mark and copyright claims, Mitre 10 could not succeed as a matter of law.

On the trade mark issues, the unanimous Court of Appeal judgment, delivered by the President, Justice Gault, decided that:

- Benchmark’s use of Mitre 10 trade marks was comparative advertising within section 94;

- the exceptions to the (section 94) exception did not apply because the distinctiveness of Mitre 10’s marks was not in any way damaged — they continued to perform precisely the same function as in the original distribution of the brochures, indicating Mitre 10’s retail services;
- Benchmark’s form of comparative advertising did not take any more unfair advantage of the reputation of Mitre 10’s marks than other more conventional forms of comparative advertising;
- here, there was no issue of people being deceived or misled by the use of the Mitre 10 trade marks;
- as these were open and obvious comparisons, it was difficult to see that Benchmark’s usage in any way lacked commercial honesty.

On copyright issues, the Court of Appeal held that:

- there was no “reproduction”, as this required the making of something that did not previously exist;
- nor was there any “adaptation”, which requires more than merely taking or using the original work without change;
- moral rights under the Copyright Act (including the right not to have work subject to derogatory treatment) are available only to individuals, not to companies;
- in any event, use for comparative advertising purposes did not amount to derogatory treatment of the brochures (which have been used for the very purpose for which they were created — that is, to convey information about products Mitre 10 had for sale).

All of this shows that our law has moved some distance since the 1984 Court of Appeal decision, under the previous trade marks legislation, that Villa Maria could not advertise itself by comparison with Montana Wines. In that case, the Court ruled that the existing infringement provisions of the trade mark legislation did not permit a competitor to promote

its product by equating their quality with those of a better-known competitor, and thereby enlarge their share of the market.

That position no longer holds, and we can expect to see greater use of comparative marketing, as Parliament must have intended in enacting section 94.

### **Trade Marks Act 2002, section 94**

#### **No infringement for comparative advertising of registered trade mark**

A registered trade mark is not infringed by the use of the registered trade mark for the purposes of comparative advertising, but any such use otherwise than in accordance with honest practices in industrial or commercial matters must be treated as infringing the registered trade mark if the use, without due cause, takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.

Thanks to Jack Hodder of our Wellington office for contributing to this Legal News section.

*The information contained in this column is accurate at the time of publication.*

Our thanks to Sarah Fairbrother for writing this edition of Counsel.



Sarah Fairbrother  
SOLICITOR, Wellington  
64-4-498 6392  
Email: sarah.fairbrother@chapmantripp.com

AUCKLAND  
23-29 Albert Street  
PO Box 2206, Auckland  
New Zealand  
Telephone: 64-9-357 9000  
Facsimile: 64-9-357 9099  
Email: ctsyak@chapmantripp.com

WELLINGTON  
1-13 Grey Street  
PO Box 993, Wellington  
New Zealand  
Telephone: 64-4-499 5999  
Facsimile: 64-4-472 7111  
Email: ctsywn@chapmantripp.com

CHRISTCHURCH  
119 Armagh Street  
PO Box 2510, Christchurch  
New Zealand  
Telephone: 64-3-353 4130  
Facsimile: 64-3-365 4587  
Email: ctsych@chapmantripp.com

[www.chapmantripp.com](http://www.chapmantripp.com)

This Counsel highlights issues in a number of legal fields. For further information on any issues raised in this Counsel, please contact the partner or principal with whom you usually deal, or any of the following:



AUCKLAND  
Andrew Poole  
Robert Bycroft  
Christopher Young  
Paul Sumpter  
Bram van Melle



WELLINGTON  
Jack Hodder  
Paul Barnett  
Sarah Fairbrother



CHRISTCHURCH  
Jo Appleyard

Every effort has been made to ensure accuracy in this newsletter. However, the items are necessarily generalised and readers are urged to seek specific advice on particular matters and not rely solely on this text.