

WHO OWNS THE INTELLECTUAL PROPERTY? *University of Western Australia v Gray (No 20)*

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In April 2008, the Federal Court of Australia delivered a very interesting judgment involving a fight between a university and a member of its staff over ownership of intellectual property. The judgment was delivered by Justice French, who has since been appointed as Chief Justice of the High Court of Australia, which is Australia's highest court.

The decision is lengthy, with a large amount of factual information, but contains a number of important findings regarding ownership of intellectual property created by employees.

Background

In 1985 Dr Bruce Gray commenced employment as a Professor of Surgery at the University of Western Australia. His employment contract required Dr Gray to teach and to undertake research and to generally stimulate research by staff and students.

Dr Gray had developed, with a number of others, over a 20 year period several microsphere technologies designed to treat liver cancer. Dr Gray had been involved in this type of research before commencing employment with the University.

During the period of Dr Gray's employment by the University, he continued his research and development of microsphere technologies and filed applications for patents in his own name and in the name of the Cancer Research Institute (CRI) in which he had an interest.

In 1997 a company formed by Dr Gray, Sirtex Medical Ltd (Sirtex), acquired from Dr Gray and CRI intellectual property rights relating to the microsphere technologies. In 1999 the University indicated in a letter to Dr Gray that it may have a claim over the intellectual property rights he had assigned to Sirtex. Dr Gray did not disclose this to Sirtex and in 2000 Sirtex was listed on the Australian Stock Exchange.

Dr Gray ceased being a director of Sirtex in January 2007.

The court proceedings

In December 2004 the University commenced proceedings against Dr Gray and Sirtex, claiming:

- Dr Gray had breached his employment contract – notably disclosure and other requirements contained within the University's Patents and Intellectual Property Regulations.
- Dr Gray had breached the fiduciary obligations he owed to the University.
- The University had rights over intellectual property assigned to and exploited by Sirtex.

The University sought declarations from the Court that Dr Gray and Sirtex held the intellectual property rights on trust for the University and orders for the return of those rights to the University.

There were numerous other claims and cross claims brought by the parties, which are not addressed in this note. One such cross claim was brought by Sirtex against Dr Gray, alleging that he had breached his duty as a director

and that he had engaged in misleading and deceptive conduct by his failure to disclose to Sirtex the University's potential claim in relation to the intellectual property.

Decision of Justice French

Implied terms in the employment contract

Justice French considered whether a term can be implied into a contract of employment with a university to the effect that any intellectual property developed during the term of employment would become the property of the university.

Justice French held that there is 'no presumption at law that the university will be entitled to the rights to inventions developed by such staff in the course of their research.' The nature and circumstances of Dr Gray's employment influenced Justice French to find against implying such a term. These circumstances included:

- the purpose of his employment was to conduct and stimulate research and not to invent;
- Dr Gray had the ability to and in fact did seek external research funding from outside the University;
- employment within the University serves a public purpose;
- there was no obligation on Dr Gray to further the commercial purposes of the University.

Fiduciary duties

Though Justice French found that Dr Gray was subject to a fiduciary duty to the University, this duty was premised on Dr Gray dealing in property that actually belonged to the University. Since Justice French found that the University had no claim to the intellectual property, Dr Gray could not have breached any fiduciary duty to the University in dealing with that intellectual property.

Impact of University regulations

Dr Gray's employment contract provided that the University's Intellectual Property Regulations were to apply to assign intellectual property rights to the University. Justice French found that as the *University of Western Australia Act 1911* (WA) did not authorise the University to acquire the property of its employees, the Regulations were invalid and of no effect.

Sirtex's cross claim

Justice French dismissed all applications and cross claims that had been made except for Sirtex's cross claim against Dr Gray. On that cross claim, the court ordered Dr Gray to pay damages and Sirtex's costs. Due to Justice French's appointment as Chief Justice of the High Court in July 2008, he declined to make declarations or rulings as to the assessment of damages and costs payable to Sirtex. To date, no such orders have been made.

The University's appeal

The University appealed Justice French's decision in relation to its claims against Dr Gray. Included in the appeal were challenges to the findings regarding implied terms in Dr Gray's employment contract and Dr Gray's fiduciary obligations to the University.

The appeal was heard by the Full Court of the Federal Court in November 2008 and the Court reserved its decision. To date, the Full Court has not handed down its decision.

Implications

There is no doubt that Justice French's decision was particularly based upon the lengthy and complex facts of the case. However, there are some important reminders not only for universities but for all organisations whose staff members are engaged in activities which may result in the creation of intellectual property rights.

- An organisation may think that just because a person is an employee, that *any* IP created by that person during or somehow connected with his or her employment will belong to the organisation. However, this may not be the case, especially where the employee's terms of employment or position statement do not require or recognise the creation of IP rights or where the employee has been engaged in the creation of relevant IP prior to employment or outside the course of employment.

The pursuit by the employee of funding or commercialisation independently of the employer, especially where undertaken with the employer's knowledge, could work against the employer's claim of ownership.

- Reliance by an employer upon regulations or policies dealing with IP ownership may not assist the employer, unless it can show that those regulations or policies are part of the employee's terms of employment or are otherwise lawfully binding upon the employee. In this case, the University's regulations were clear in their terms but were not enforceable since the Court found that the University did not have the lawful power to make the regulations.

The unilateral declaration by an employer of a policy regarding IP ownership may not automatically bind employees. It will be important that the introduction of policies regarding IP or any other matter intended to confer a benefit on the employer, occurs in such a way that the policy becomes binding on the employees.

- Where it is important for an employer to own intellectual property created by employees, clear and specific provisions should be contained in the employee's contract of employment. Reliance by an employer on general employee fiduciary duties or on statute or common law may leave gaps or be ineffective.
- Employers need to be cautious of using or building upon pre-existing IP brought to them by an employee. Third parties, such as previous employers, may have an interest in that IP.
- The case highlights how important it is for third party investors who invest in companies such as Sirtex or who provide funds to commercialise IP, to undertake thorough due diligence regarding ownership of or rights to use IP apparently held by the investee. Warranties regarding IP ownership given by directors, shareholders or promoters of investees should be obtained. However, a warranty is only as useful as the ability of the warrantor to answer a claim. A warranty should not be relied upon as a substitute for careful due diligence.
- If a number of parties have been involved in the creation of IP held by an investee, a third party investor should ensure that the investee has full and formal documentation to support its ownership or rights of use of the relevant IP. One risk is that an investor, having invested in company "A", finds that another joint owner of the IP is also commercialising the IP.