

## Ownership of Patentable Inventions: Recent Developments

**Katarina Klaric, Stephens Lawyers & Consultants, Melbourne, Australia.**

Email: [katarina.klaric@stephens.com.au](mailto:katarina.klaric@stephens.com.au)

Centre for International Studies, Intellectual Property Conference: 20-24 October 2004, Sunshine Coast, Australia

Presented by Julian Stephens, Stephens Lawyers & Consultants, Melbourne, Australia

Email: [stephens@stephens.com.au](mailto:stephens@stephens.com.au)

### 1. INTRODUCTION

In Australia, the law relating to ownership of patentable inventions developed by employees has been based on common law principles developed by United Kingdom Courts prior to 1977. The Australian *Patents Act 1990*, unlike the UK *Patents Act 1977* does not contain any express provisions dealing with the ownership of employee inventions [1] or compensation for employee inventors [2]. The Australian Courts have also taken judicial notice of United States decisions on employee inventions.

This paper examines two recent Australian Court decisions which deal with the issue of ownership of employee inventions:

- Spencer Industries Pty Ltd v. Collins [2003]
- Victoria University of Technology v. Kenneth Wilson and Ors [2004]

### 2. AUSTRALIAN PATENTS ACT and OWNERSHIP OF INVENTIONS

#### *Section 15(1) Patents Act 1990:*

In Australia, the *Patents Act 1990* does not deal with the circumstances in which the employer is entitled to ownership of a patent for an invention made by an employee. [3]

Section 15(1) of the *Patents Act* sets out the persons who may be granted a patent. Section 15(1) states:

*"15(1) Subject to this Act, a patent for an invention may only be granted to a person who:*

*(a) is the inventor; or*

- (b) would, on the grant of a patent for the invention, be entitled to have the patent assigned to the person; or
- (c) derives title to the invention from the inventor or a person mentioned in paragraph (b); or
- (d) is the legal representative of a deceased person mentioned in paragraph (a), (b) or (c)."

An employer may be entitled to a grant of a patent for employee invention under Section 15(1)(b) of the *Patents Act* if the employer can establish that he would be entitled to an assignment of the patent.

### ***Employer's Entitlement to Inventions***

An employer's entitlement to assignment of a patent for an employee invention will arise in the case of:

- express or implied contractual provisions that the employer owns the invention made by the employee in the course of his employment;
- the employer has an enforceable common law or equitable right against the employee to take the benefit of the invention.

The general principle applied by Australian Courts is articulated by Lord Reid in *Patchett v Sterling Engineering Coy Ltd* [4] :

*"... No doubt the respondent was the inventor and in the ordinary case the benefit of an invention belongs to the inventor. But at the time when he made these inventions he was employed by the Appellant as their Chief Designer and it is, in my judgment, inherent in the legal relationship of master and servant that any product of the work which the servant is paid to do belongs to the master. I can find neither principle nor authority for holding that this rule ceases to apply if a product of that work happens to be a patentable invention. Of course, as the relationship of master and servant is constituted by contract, the parties can, if they choose, alter or vary the normal incidents of the relationship, but they can only do that by express agreement or by an agreement which can be implied from the facts of the case."*

### **3. SPENCER INDUSTRIES PTY LTD v COLLINS [2003]**

In *Spencer Industries v Collins* [5] the Federal Court of Australia [6] , applied the principle enunciated by Lord Reid in the *Patchett* case to determine whether Spencer Industries had a right enforceable against its employee, Mr Collins, to take benefit of an invention made by Collins. The invention was in the "**field of tyre re-treading**" and related to "**improvements in both the process and apparatus used for re-treading of tyres**". The invention specifically related to "**rasp blades and an improved assembly of such blades on rasp hubs for buffing away the tread on worn tyres**". [7]

Spencer Industries' business involved the manufacture, distribution and sale of equipment used in the tyre re-treading business, particularly rasp blades, hubs, spacers and pins for hubs.

Spencer Industries employed Collins as a Sales Manager in 1990. The letter of employment only referred to the job title, remuneration, business expenses, holiday entitlement and requirement to travel overseas. The letter made no reference to:

- Collins' duties and responsibilities as a Sales Manager;
- Ownership of inventions made by employees and the intellectual property rights therein.

Collins submitted that Spencer Industries was not entitled to the benefit of the invention because the invention was not made by him within the scope of his employment.

Collins conceived the invention between May and November 1996 and made paper cut-outs and transparencies of the prototype invention in his own time. Collins sought to interest Spencer Industries in the invention and provided the Managing Director, Mr Pincott, with enlarged drawings of the invention in early 1998, which Collins had prepared in his own time and using his own equipment.

Collins, at the direction of Pincott, prepared further drawings of the invention partly during working hours and partly outside working hours, using a drawing board of Spencer Industries.

Spencer Industries applied for a Petty Patent for the invention. Collins was named as the inventor. Collins declined to sign a Deed of Assignment assigning the invention to Spencer Industries as Spencer Industries refused to pay him a royalty.

Pincott told Collins to sign the assignment or resign. Collins resigned and subsequently filed a notice pursuant to Section 28 of the *Patents Act 1990* with the Commissioner of Patents, challenging the validity of the Patent for the invention on the grounds that Spencer Industries, as the patentee, was not entitled to be granted the Petty Patent.

Spencer Industries applied to the Commissioner of Patents under Section 69(1) of the *Patents Act* for an extension of the term of the Petty Patent. The application was refused by the Delegate of the Commissioner of Patents who concluded that the invention was not made by Collins in carrying out his normal duties. Spencer Industries appealed to the Federal Court of Australia, which was a hearing de novo.

The Delegate's decision included the following statement of principles:

*"Employers' rights in the inventions of employees are not governed by statute but by common law and equitable principles which clearly show that in the absence of any express contractual obligation there is no rule that an invention made by an employee is inevitably the property of the employer. It is instead necessary to determine whether the employment relationship suggests that the invention concerned was made in the course of employment or, in other words, whether it is something it was the employee's job to invent. The law applying in these situations has been summarised in Fine Industrial Commodities Ltd v Powling 71 RPC 253 as follows:*

"The law relating to the position of officers or employees who make an invention affecting the business of the company which they serve is well settled. The principles applicable are stated in *Worthington Pumping Engine Co v Moore* (1902) 20 RPC 41; *British Reinforced Concrete C v Lind* (1917) 34 RPC 101; and *Triplex Safety Glass Co v Scolah* [1938] Ch 211; 55 RPC 21. The mere existence of a contract of service does not in itself disqualify the officer or employee from taking out a patent for an invention made by him during his term of service, even though the invention may relate to subject matter germane to, and useful for, his employers in their business, and even though the employee may have made use of his employer's time and servants and materials in bringing his intention to completion, and may have allowed his employer to use the invention while he was in their employment. But all of the circumstances must be considered in each case. It is very material to see what is the nature of the inventor's position in regard to the business, and it may be a term of his employment, apart altogether from any express covenant, that any invention or discovery made in the course of the employment of the employee in doing that which he was engaged and instructed to do during the time of his employment, and during working hours, and using the materials of his employers, should be the property of the employers and not of the employee, and that, having made a discovery or invention in the course of such work, the employee becomes a trustee for the

employer of that invention or discovery, so that as a trustee he is bound to give the benefit of any such discovery or invention to his employer."

Spencer Industries submitted to the Court that Collins made the invention within the course and scope of his employment by Spencer Industries and as a consequence the benefit of the invention vested in Spencer Industries.

As the parties had accepted that there was no enforceable written or oral assignment of the benefit of the invention to Spencer Industries, the Court considered that Spencer Industries would only be entitled against Collins to the benefit of the invention if Collins held the benefit of the invention on constructive trust in favour of Spencer Industries. The constructive trust would arise if Collins made the invention within the course and scope of his employment as a Sales Manager of Spencer Industries. [\[8\]](#)

The Court concluded that Collins did not make the invention within the course and scope of his employment as a Sales Manager of Spencer Industries. In reaching this conclusion, the Court had regard to the employment contract between Spencer Industries and Collins which did not precisely define the scope of Collins' employment. In determining the scope of Collins' employment, the Court considered:

- the nature and seniority of Collins' position with Spencer Industries;
- the nature of Collins' duties as a Sales Manager, and
- whether Collins received specific directives relating to the invention.

The Court accepted that Collins' position within Spencer Industries was principally as a sales position, however, given that Spencer Industries was a small family owned business, Collins might be expected to undertake tasks outside his principal area of responsibility. The Court found that it was in the nature of Collins' employment that he could be given reasonable directions to perform duties outside the area of sales that were within the area of his technical expertise and that were not incompatible with his principal responsibility for sales.

The Court found that it was not a part of Collins' ongoing duties to invent products for Spencer Industries. Further, the invention was not the outcome of directions given to Collins within what the Court regarded as residual area in which Collins could be directed to perform tasks other than sales tasks. In fact Collins was not directed by Pincott or any other officer of Spencer Industries to invent a new rasp blade or undertake any inventive activities which resulted in the invention. Collins only advised Pincott of the invention when he had conceived and developed it in his own time. The Court was of the view that the invention was not the product of work which Collins was paid to do.

The fact that Collins had previously contributed to the invention of an air-cooled hub and the design of a tyre rasp spacer, before making the invention, was not sufficient for the Court to find that the making of inventions was within the course and scope of his employment with Spencer Industries. The Court considered that these activities fell outside Collins' ordinary duties as a Sales Manager but within the residual area in which it was open for Spencer Industries to direct him whether explicitly or implicitly to use his technical skills to undertake additional duties.

#### **4. VICTORIA UNIVERSITY OF TECHNOLOGY v KENNETH WILSON & ORS [2004] [\[9\]](#)**

In this case, the Court [\[10\]](#) had to determine whether the involvement of Professor Wilson ("Wilson") and Dr Feaver ("Feaver"), Academics of Victoria University of Technology ("the University") in the development of a patentable electronic trade exchange invention and two related computer programs entitled the University to the

benefit of the invention and computer programs by reason of a constructive trust or whether the Academics should otherwise account to the University in respect of the invention or programs.

At the time of Wilson and Feaver's involvement in the development of the invention and computer programs, both held senior management positions with the University. Wilson was the Head of the School of Applied Economics. Feaver was a senior lecturer in the School of Applied Economics and reported to Wilson. Feaver also held the position of Head of the Centre for International Business Research and Education ("CIBRE") which was established as a research and education unit within the School of Applied Economics.

Neither Wilson nor Feaver's written terms and conditions of employment with the University expressly dealt with the issue of ownership of inventions made by them and the intellectual property therein. Feaver's terms and conditions of employment included a provision which incorporated the University's policies. No such provision was contained in Wilson's express terms and conditions of employment, however, the Court considered that Wilson would be bound by University policies approved by the University Council and published in the University Staff Manual.

Wilson and Feaver's involvement in the development of the invention and software arose out of a project to design an online trading system which was presented to them in their capacities as Head of School of Applied Economics and Head of CIBRE by WTO. Wilson and Feaver began work on the WTO online system design in their capacities as employees of the University and for the benefit of the University. They subsequently resolved on 23 September 1999 with Craig Astill, a former student of the University and consultant to CIBRE, to work upon the WTO online system in their private capacity and to own the intellectual property rights in the invention. Wilson and Feaver used University resources, staff and equipment in the development of the invention and software. Wilson, Feaver and Astill then set up a company IP3 Systems Pty Ltd and assigned the invention and programs to the company. The provisional Patent application for the invention and related software was filed in March 2000. They subsequently converted IP3 Systems Pty Ltd into an unlisted public company and sought investors for the development and commercialisation of the invention and programs.

At the time that the proceedings were commenced, the shareholding in IP3 Systems was as follows:

- Jahupa (Wilson) 23.81%
- Coap (Feaver) 23.81%
- Caason (Astill) 23.81%
- Investors 28.57%

The Court summarised the University's claim as follows:

1. At relevant times the University had in place a policy on intellectual property, constituting an express or implied term of Wilson's and Feaver's terms of employment by the University, that all inventions, resulting patents, associated copyright material and confidential information created in the course of employment, studies, scholarship or research by or at the University or to the creation of which the University has contributed substantially through funding, salary payments, resources, facilities, apparatus or supervision, will be owned by the University.

The electronic trade exchange invention and the associated software were created by Wilson and Feaver in the course of their employment, studies, scholarship or research, and further or alternatively that the University substantially contributed to the invention and software by salary payments, resources, facilities, apparatus and supervision, and thus that the invention and software are in equity owned by the University or that Wilson and Feaver are in equity liable to account to the University or compensate the University for the loss of the invention and software.

2. Apart from the intellectual property policy, there were implied terms of Wilson's and Feaver's terms of employment by the University that they would not enrich themselves or obtain other benefit or advantage at the expense of the University or assist others to do so, and would not take advantage of the positions which they occupied to obtain private benefit or advantage for themselves or for others.

They breached those terms by diverting away from CIBRE and the University to themselves and IP3 Systems the opportunity to develop and produce the electronic trading exchange invention and associated computer software. Accordingly they hold their interests in the invention and software on trust for the University or alternatively that they are liable to account to the University or to compensate the University for the loss of the opportunity. IP3 Systems is liable as a knowing participant in Wilson's and Feaver's breaches of duty.

3. As employees of the University in the positions which they held, Wilson and Feaver owed to the University fiduciary and other equitable duties of loyalty and good faith including, in particular, duties not to use projects undertaken or developed by the University for their own benefit or to take advantage for themselves of any opportunity of which they learned by virtue of their respective positions with the University.

They breached those duties by diverting away from CIBRE and the University to themselves and IP3 Systems the opportunity to develop and produce the electronic trading exchange invention and associated computer software. Accordingly, Wilson and Feaver hold their interests in the invention and software on trust for the University or alternatively are liable to account to the University or to compensate the University for the loss of the opportunity, and that IP3 Systems is equally liable as a knowing participant in Wilson's and Feaver's breaches of Duty. Astill is said to be liable for knowing involvement in the breach of fiduciary duties or for knowing receipt of trust property.

Wilson, Feaver and the other defendants contended that:

1. There was no approved and published University intellectual property policy. If there was such a policy, it was not part of the terms of employment of Wilson or Feaver or otherwise binding upon them.

2. The electronic trading exchange invention and the associated software were not created in the course of Wilson's and Feaver's employment, studies, scholarship or research, but rather in Wilson's and Feaver's own time, in an area of inquiry beyond the ambit of the skill and expertise attaching to the positions which they held, and that the University did not contribute substantially to the invention or software by salary payments, resources, facilities, apparatus, supervision or otherwise.

3. Although Wilson and Feaver did owe to the University duties of good faith and loyalty, there was nothing in what they did which breached the duties. To the contrary, WTO insisted that Wilson and Feaver undertake the development of the WTO system schema privately and not on behalf of the University.

4. Alternatively, and even if the WTO proposal were available to the University to pursue, there was a "paradigm shift" in the course of design development so that the system as finally designed is something completely different, and so too is the software.

## ***Intellectual Property Policy***

The Court accepted the contention of the defendants that there was no University Policy on Intellectual Property which was binding on Wilson, Feaver and other employees of the University. There was no evidence that the 1995 Intellectual Property Policy was ever approved by the University Council. Although the Policy had been published on the Vice-Chancellor's database, it had never been published in the University's Human Resources Manual or any other staff Manuals. Other University Policies had been approved by Council and published in the Human Resources Manual.

The University Policy on Intellectual Property vested ownership of inventions and intellectual property therein in the University and also provided for a compensation scheme for employee inventors based on a percentage of income (less development costs and expenses) derived from commercial exploitation of the invention.

## ***Use of University Time and Resources***

The Court rejected the University's submission that even if the Intellectual Property Policy was not in force or binding as a term of employment, the fact that Wilson and Feaver made extensive use of the University's time and resources in the development of the invention, entitled the University to ownership of the invention. The Court accepted that Wilson and Feaver had made use of the University's resources in developing the invention and that they may have breached the University's mobile telephone policy and computer policy and also contractual obligations of good faith and fair dealing not to misuse the resources of the University for private endeavours. However, this conduct amounted to a breach of contract for which the remedy was damages and not a constructive trust entitling the University to the invention or account.

The Court referred to the *Triplex Safety Glass Co v Scorah* [1937] 1 Ch 211 at 127, *Worthington Pumping Engine Co v Moore* [1902] PC 41; *British Reinforced Concrete Co v Lind* (1917) 34 RPC 101; *Patchett v Sterling Engineering Coy Ltd* [1955] RPC 72 50 at 58; *Spencer Industries Pty Ltd v Collins* [2003] FCA 542 at [64-67] and stated:

*"The law is well settled upon the position of an officer or employee who makes an invention affecting the business of his or her employer. It is an implied term of employment that any invention or discovery made in the course of the employment of the employee in doing that which he is engaged and instructed to do during the time of his employment, and during working hours, and using the materials of his employers, is the property of the employer and not of the employee. Having made a discovery or invention in course of such work, the employee becomes a trustee for the employer of that invention or discovery, and he is therefore as a trustee bound to give the benefit of any such discovery or invention to his employer. But 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. Certainly, all the circumstances must be considered in each case, but unless the contract of employment expressly so provides, or an invention is the product of work which the employee was paid to perform, it is unlikely that any invention made by the employee will be held to belong to the employer."*

## ***Within the Scope of Employment***

The Court rejected the University's submission that it was entitled to the benefit of the invention because Wilson and Feaver were paid to be researchers and the invention was the product of the research. Wilson and Feaver

contended that they were not employed to invent and further, neither had been engaged in the sort of research involved in the invention.

The Court applied the reasoning in the *Charles Selz* case [\[11\]](#) and stated that nature of the research that the employee was retained to perform was relevant in determining whether the invention came within the scope of employment of the employee entitling the employer to ownership of the invention. The content of the duty to research is determined by having regard to the business of the employer and in the case of the University the activities of the School of Applied Economics in which Wilson and Feaver were retained to conduct research.

The Court was of the view that with the exception of the Tradedata computer program and database, it was never part of the activities of the School of Applied Economics to invent internet based e-commerce systems. The research until late 1999 was confined to academic research directed to the preparation and presentation of papers. The Court did not consider as relevant the fact that other areas of the University were involved in the type of practical or applied research that is relevant to the development and implementation of a computer based e-commerce system the subject of the invention.

The Court considered persuasive the University's submission that the making of the invention came within the scope of employment of Wilson and Feaver because it was research closely related to the fields of economics and international trade in which it was expected that both academics would conduct research. The Court considered that Wilson and Feaver's duties were expansively defined and extended to a range of management, administration, teaching, research and consulting activities and services including the establishment and operation of CIBRE. The fundamental objective of CIBRE was to investigate transactional aspects of international exchange of goods, services and capital flows as well as emerging issues relating to electronic commercial exchange and how to "*best and most efficiently utilise the new technologies in the work place*". [\[12\]](#). CIBRE's research objective was to emphasise an applied approach to developments in international business practice and regulation with a focus on developing links between the University, government and the business community.

However, the Court did not accept that the sort of research which Wilson and Feaver undertook in development of the on-line exchange system invention was sufficiently related to the fields of economics and international trade in which they were expected to or retained to conduct research. The Court accepted evidence of Wilson and Feaver that they were not retained to conduct the type of research which could result in a patentable invention. The Court was of the view that up to the time of the WTO proposal for the University's involvement in the design and development of an on-line exchange system, the sort of research which was expected of Wilson and Feaver was limited to the '*the kind of analysis which typifies social sciences academic inquiry, even in applied disciplines*'. [\[13\]](#)

Although the Court held that the sort of research undertaken by Wilson and Feaver in development of the invention and programs is not the sort of research envisaged in their terms of employment, the Court went on to find that on the facts, Wilson and Feaver did start the work on the project on the basis that the work was undertaken on behalf of the University. On 23 September 1999 they resolved with Astill to take the intellectual property for themselves and that the design of the system would no longer be a University project. By reason of their conduct, the Court concluded that Wilson and Feaver were retained to perform the work which they undertook on the invention [\[14\]](#) but ceased to be retained to perform that type of work on 23 September 1999 when they diverted the project to themselves from the University.

The Court considered that although the diversion of the project from a University project to a private project may have been a breach of a contractual duty of good faith to the University, the breach would not entitle the University to an interest in the invention.

The Court stated, the law in Australia is that the *'nature of the work which the employee is retained to perform at any point of time must be assessed by reference to the work performed at that point of time'* [\[15\]](#)

In relation to this issue, the Court made the following observations:

*"Self evidently the work which an employee is retained to perform can and often does change over the period of employment, and sometimes so as to be distinctly different in nature to what was envisaged at the outset; for example where an employee is promoted or reassigned. Other times, an employee may be retained at the outset of the employment relationship on a general basis providing no more specific guidance as to the work which he is to perform than that he is to do the work assigned him by his foreman or supervisor. In such a case the nature of the work which the employee is retained to perform is capable of changing daily if not more frequently."*

### ***Breach of Fiduciary Duty***

The Court having held that the invention was not created in the course of the work that Wilson and Feaver were retained to perform by the University and therefore the University would not be entitled to the invention, the Court then considered whether the University was entitled to an interest in the invention and software because Wilson and Feaver had breached their equitable fiduciary duties to the University.

The Court held that both Wilson and Feaver owed the University fiduciary duties not to profit from their position at the expense of their employer and to avoid conflicts of interest and duty. Further, in the absence of full and frank disclosure and consent of the employer, Wilson and Feaver, as professional employees, were bound to account to the University for gains derived as a result of the employee's fiduciary position and for opportunities which they as employees may learn of in the course of employment.

The Court held that Wilson and Feaver had breached fiduciary duties to the University, in that:

(a) the opportunity to design the WTO on-line system was presented to Wilson and Feaver in their capacities of Head of the School of Applied Economics and Head of CIBRE;

(b) the opportunity to design the system was available to the University, in the sense that WTO would have been pleased to have had the system designed in the name of the University;

(c) Wilson and Feaver began work upon the system design in their capacities as employees of the University and for the benefit of the University and that they continued in that vein until 23 September 1999 when they resolved with Astill thenceforth to work upon the system in their private capacities and to own the intellectual property rights in the invention in the proportions which they agreed;

(d) the effect of the decision of 23 September 1999 was to take away from the University and transfer to the three individuals the opportunity of continuing with the design of the system, in order thereby to exploit the opportunity for their own benefit to the exclusion of the University;

(e) the University did have the capacity to do the work of designing the system and more likely than not that the University would have wished Wilson and Feaver to continue with the work on behalf of the University if the facts had been disclosed.

(f) there was no "paradigm shift" that resulted in the project coming to an end. Wilson and Feaver alleged that the invention the subject of the patent application was a completely new invention because of the "paradigm shift" and was unrelated to the project and therefore there was no breach of duty.

(g) there was no full and true disclosure such as might have relieved Wilson and Feaver from the consequences of acting as they did.

The Court declined to impose a constructive trust over the invention and software for the benefit of the University having regard to the fact that such a remedy would have adverse effects on innocent third parties who had invested a substantial amount of capital in IP3 Systems for the development of the invention and software. The Court considered that a more appropriate remedy was an imposition of a constructive trust over shares held by Wilson and Feaver's companies in IP3 Systems and the proceeds of sale of those shares, subject to appropriate adjustments.

## 5. LEGAL AND COMMERCIAL IMPLICATIONS OF DECISIONS

The *Spencer Industries* and *Victoria University* decisions highlight the importance of employment contracts that include provisions expressly dealing with the ownership of inventions made by employees and resulting intellectual property. In both decisions, the employment contracts were silent on this issue and the employers, at considerable expense had to rely on common law and equitable principles to claim an ownership interest in the inventions.

The employers were also unsuccessful in establishing that the invention was made in the course and scope of the employee's employment entitling the employer to the benefit of the invention within the general principles of *Patchett v Sterling Engineering Coy Ltd*. However in the *Victoria University Case*, the University was successful in establishing that the academics had breached their equitable fiduciary duties to the University, entitling the University to ownership of shares in the company that owned the invention and related software.

Contractual provisions dealing with employee ownership of inventions and intellectual property should:

- Expansively define employee inventions and intellectual property to cover inventions made by the employee whilst employed by the employer, irrespective of whether the invention is made in the course and scope of employment, within or outside normal work hours or using employer or own resources;
- Contain express assignment of the employee inventions and intellectual property therein to the employer;
- Deal with the issue of compensation, where appropriate.

The *Victoria University decision* also reinforces the fact that employees cannot escape liability, where they have breached their fiduciary duties owed to their employer. However, the nature of these duties will vary having regard to all the circumstances of the case including the position held by the employee within the organisation.

---

[1] Section 39 of the *Patents Act 1977* (UK) codifies the United Kingdom law as to ownership of inventions. Section 39(1) states:

"39(1) Notwithstanding anything in any rule of law, an invention made by an employee shall, as between him and his employer, be taken to belong to his employer for the purposes of this Act and all other purposes if:

(a) it was made in the course of the normal duties of the employee or in the course of duties falling outside his normal duties, but specifically assigned to him, and the circumstances in either case were such that an invention might reasonably be expected to result from the carrying out of his duties; or

(b) the invention was made in the course of the duties of the employee and, at the time of making the invention, because of the nature of his duties and the particular responsibilities arising from the nature of his duties he had a special obligation to further the interests of the employer's undertaking."

[2] Sections 40-41 of the *Patents Act 1977* (UK) set out statutory scheme for compensation of employee inventors whose patented invention has benefited their employer. Section 40(1) - (21) states:

"**40 (1)** Where it appears to the Court or the Comptroller on an application made by an employee within the prescribed period that the employee has made an invention belonging to the employer for which a patent has been granted, that the patent is (having regard among other things to the size and nature of the employer's undertaking) of outstanding benefit to the employer and that by reason of those facts it is just that the employee should be awarded compensation to be paid by the employer, the Court or the Comptroller may award him such compensation of an amount determined under section 41 below.[3] Compare with the Australian *Copyright Act 1968*. Section 35(2), (3) and (6) states:

(2) Where it appears to the Court or the Comptroller on an application made by an employee within the prescribed period that -

(a) a patent has been granted for an invention made by and belonging to the employee;

(b) his rights in the invention, or in any patent or application for a patent for the invention, have since the appointed day been assigned to the employer or an exclusive licence under the patent or application has since the appointed day been granted to the employer;

(c) the benefit derived by the employee from the contract of assignment, assignation or grant or any ancillary contract ("the relevant contract") is inadequate in relation to the benefit derived by the employer from the patent; and

(d) by reason of those facts it is just that the employee should be awarded compensation to be paid by the employer in addition to the benefit derived from the relevant contract; the Court or the Comptroller may award him such compensation

Sections 41(1), (2), (4), (5) and (6) state:

" **41. (1)** An award of compensation to an employee under section 40(1) and (2) above in relation to a patent for an invention shall be such as will secure for the employee a fair share (having regard to all the circumstances) of the benefit which the employer has derived, or may reasonably be expected to derive, from the patent or from the assignment, assignation or grant to a person connected with the employer of the property or any right in the invention or the property in, or any right in or under, an application for that patent.

**(2)** For the purposes of subsection (1) above the amount of any benefit derived or expected to be derived by an employer from the assignment, assignation or grant of -

- (a) the property in, or any right in or under, a patent for the invention or an application for such a patent; or
- (b) the property or any right in the invention; to a person connected with him shall be taken to be the amount which could reasonably be expected to be so derived by the employer if that person had not been connected with him.

**(4)** In determining the fair share of the benefit to be secured for an employee in respect of a patent for an invention which has always belonged to an employer, the Court or the Comptroller shall, among other things, take the following matters into account, that is to say -

- (a) the nature of the employee's duties, his remuneration and the other advantages he derives or has derived from his employment or has derived in relation to the invention under this Act;
- (b) the effort and skill which the employee has devoted to making the invention;
- (c) the effort and skill which any other person has devoted to making the invention jointly with the employee concerned, and the advice and other assistance contributed by any other employee who is not a joint inventor of the invention; and
- (d) the contribution made by the employer to the making, developing and working of the invention by the provision of advice, facilities and other assistance, by the provision of opportunities and by his managerial and commercial skill and activities.

**(5)** In determining the fair share of the benefit to be secured for an employee in respect of a patent for an invention which originally belonged to him, the Court or the Comptroller shall, among other things, take the following matters into account, that is to say -

- (a) any conditions in a licence or licences granted under this Act or otherwise in respect of the invention or the patent;
- (b) the extent to which the invention was made jointly by the employee with any other person; and
- (c) the contribution made by the employer to the making, developing and working of the invention as mentioned in subsection (4)(d) above.

**(6)** Any order for the payment of compensation under section 40 above may be an order for the payment of a lump sum or for periodical payment, or both. "

"35(2) Subject to this section, the author of a literary, dramatic, musical or artistic work is the owner of any copyright subsisting in the work by virtue of this Part.

(3) The operation of any of the next three succeeding subsections in relation to copyright in a particular work may be excluded or modified by agreement.

(6) Where a literary, dramatic or artistic work to which neither of the last two preceding subsections applies, or a musical work, is made by the author in pursuance of the terms of his or her employment by another person under a contract of service or apprenticeship, that other person is the owner of any copyright subsisting in the work by virtue of this Part."

[4] (1955) 72 RPC 50, (HC) p58:

[5] [2003] FCA 542 (4 June 2003)

[6] Branson J.

[7] (Petty Patent No. 719,185 Complete Specifications)

[8] *Spencer Industries Pty Ltd v Collins* [2003] FCA 542 at page 18. Branson J referred to the following authorities:

*Electolux Ltd v Hudson* [1977] FSR 312 per Whitford J at 325-326;

*Sterling Engineering Co Ltd v Patchett* [1955] AC 534 per Viscount Simmonds at 543-544 and Lord Reid at 547;

*Worthington Engine Co v Moore* (1902) 20 RPC 41 per Byrne J at 49.

[9] [2003] VSC 33 (18 February 2004)

[10] Justice Nettle

[11] In the matter of *Charles Selz Limited's Application to the Comptroller under Section 46 of the Patents Act 1949* (1953) 71 RPC 158

[12] p.51 Judgement

[13] p 53 Judgement.

[14] [p54 and 56 Judgement]

[15] [p54 Judgement]. The Court applied UK Cases of *British Reinforced Concrete Engineering Co Ltd v Lind* (1917) 34 RPC 101; *Edisonia v Forse* (1908) 25 RPC 546; *Christopher Simon French v Paul Julian Mason & Anor* [1999] FSR 597 at 602. The Court also referred to the decisions of the United States Supreme Court in *United States v. Dubilier Condenser Corporation* 289 US 178, amended 289 US 706 (1933) and *State v. Neal* 12 SR, 2d (1943) 590 (Supreme Court of Florida) .