

# Licensing Literary Rights In Australia

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*Licensing marketing culture and ideas overseas and at home often overlooked*

With keen interest being paid in Australia to the development of export potential through the licensing of patents and designs, it is as well to bear in mind the potential for marketing culture and ideas through the transfer of interests in copyright.

It is widely considered that the small market for literary works in Australia is a regrettable but inevitable factor of having a small population. It is the view here that a more creative and aggressive approach to marketing literary works may greatly assist in expanding market opportunities in Australia as well as overseas. A review of approaches to the licensing and assignment of literary works is an essential prerequisite to considering improving marketing practices. Here, key legal issues will be identified that emerge from common approaches to publishing agreements. We will consider challenges being posed by the problems and needs of writers to conventional copyright and contract wisdom.

While specifically focusing on Australian law, many of the concepts discussed will be familiar to practitioners elsewhere.

## *Agreement in Writing*

It is not only good commercial sense, but a prerequisite of copyright protection, that assignments and exclusive licenses of copyright be in writing. Section 10 of the Copyright Act 1968 defines an "exclusive license" as being in writing, while Section 196 requires assignments to be in writing to be enforceable.

## *Rights of Licensees and Assignees*

Sections 119 and 120 grant an exclusive licensee a right of action for infringement of copyright, although Section 120 requires that either the licensor or exclusive licensee obtain the leave of court in order to pursue proceedings, unless the licensor or exclusive licensee is joined by the other party, except for the granting of interlocutory injunction. The latter may be obtained by an exclusive licensee in his own right, without obtaining leave. If the exclusive licensee wishes to pursue the action beyond the interlocutory stage, and does not join the licensor, then the leave of the court will need to be obtained.

A nonexclusive license, whether or not in writing, does not create an interest in copyright. There is some doubt as to whether a bare licensee has any interest in copyright. Copinger (Skone James, E.P. Mummary, J.F. Rayner James, J.E. Copinger and Skone James on Copyright, 12th ed. para 612) states, "A simple licensee is not the owner of copyright or any interest in it, and cannot bring an action." However, Bowen CJ in *Eq in Young v. Odeon Music House* (1978) RPC 621 stated, "I do not see why a nonexclusive licensee is not a proper plaintiff in proceedings for breach of copyright, provided he joins the owner of copyright."

Certainly, a publisher will require an exclusive right to publish as a minimum requirement, although subsidiary rights may be accepted on a nonexclusive basis, with the right of action with respect to such subsidiary rights remaining, it would seem, exclusively with the author as licensor.

Assignees obtain ownership of property. The distinction may be made between the transfer of property, in the case of an assignment,

and the grant of a right to use property, in the case of a license. A parallel may be drawn between selling a house and leasing it.

An assignment may be for a specified territory, including a part of Australia, or time (Section 196 (2)(b) and (c)), as well for part of the rights such as novel rights or film rights. The property in copyright is divisible like any real property. Other rights, not expressly assigned in writing, may be expressly reserved.

There is some concern that, if there is no express reservation of rights not assigned or licensed, then rights not reserved may be subject to an implied term of agreement that the author will not use or grant competing rights for the term of the original license or assignment. This limitation is to be measured against the protection of rights of trade to be discussed below.

There are a number of important distinctions between an assignment and license, with two of the more practical distinctions noted as follows:

1. An assignee may assign his interest in copyright to a third party in the absence of agreement to the contrary. An assignee and subassignee have independent rights with respect to copyright not requiring the assistance or approval of the original owner. An assignor has no rights against a subassignee, even where copyright has been subassigned by an assignee in contravention of the express terms of the contract between the assignor and assignee.

In *Barker v. Stickney* ((1919) 1 KB 121), the court held that an assignor

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has no cause of action against a subassignee, even where the subassignee knew that the assignee was prohibited in contract from subassigning. *Scrutton L.J.* held, "I think that it is clear that a person acquiring a chose in action is not bound by a mere notice of a personal covenant made by his predecessor in title."

In that instance the personal covenant was the agreement to pay royalties, which could not be enforced by the assignor against subassignee. By contract, licenses create only personal obligations, which cannot be assigned except by agreement, *Stevens v. Benning* (1855) 69 E.R. 414). Thus, a publisher may be prevented from transferring a right to publish to a publisher not of the author's choosing.

2. In *Frisby v. BBC* ((1967) Ch. 932), the court identified another important distinction between licenses and assignments. It held that it was proper to imply a term in a license agreement limiting the licensee from making unauthorized alterations to a work. In the instance of the case, the writer successfully restrained a television producer, which had only received a license of rights, from screening a work where a significant alteration had been made, without approval, to the text. The significant alteration happened to involve the tampering with only one line of dialogue. By contrast, an assignment agreement will not impose the same limitation, with an assignee having an unlimited right to alter the text in the absence of express agreement to the contrary.

Nevertheless, there may be protection against making unauthorized alterations by assignees under the law of defamation and also pursuant to the prohibition under Part IX of the Copyright Act dealing with false attribution of authorship.

#### *Payment*

Most writers of books are paid in the form of advances and royalties. The advance is generally expressed to be nonreturnable. A key consideration in the determination of the royalty calculation is whether the royalty is to be based on actual or net receipts. Royalties referable

to the recommended retail price are obviously to be preferred. Royalties based on net returns are subject to hefty discounts on books obtained by retailers. There are other forms of payment which should be considered.

The Society of Authors in both the United Kingdom and Australia has advocated the adoption of "up-front" payments. It wants royalties calculated by reference to the print run and payable at the time of publication, and not after sales and then with some further delay as is usually the case. The argument is that it is unfair for writers to be the last in queue to be paid, which is the common position. The "one-off" writer, who assigns property rights in a work, should consider a lump-sum payment in order that the return on the "one-off" sale may appropriately be characterized as capital, noting that capital receipts, while taxable, are subject to more favorable taxation conditions than income receipts.

#### *Tax Implications*

While capital receipts are taxable in Australia, there is an incentive to seek returns in the form of capital because of an allowance made for increases in inflation. A writer in the business of selling interests in copyright will receive income, even if the receipts are in the form of lump-sum payments. By contrast, the "one-off" writer, selling an interest in copyright, may claim a receipt, preferably in the form of a lump-sum, as capital. *Earl Haig case* ((1939) 22 TC 725).

The capital gains tax makes an adjustment for inflation under Section 160Q of the Income Tax Assessment Act 1936, with only the increase in the cost base of the capital asset in excess of the increase due to inflation being taxed. The "cost base" is defined in Section 160ZH (1)(b) as including the sum of incidental costs to the taxpayer of the acquisition of the asset. These incidental costs may only be capital in nature, although the costs of stationery, rent and equipment leasing may be characterized as capital outgoings in the "one-off" transaction.

There are averaging benefits avail-

able for income and capital under the act, which go to assisting with the overall rate of tax to be paid.

#### *Print Run, Date for Publication and Delivery of Manuscript*

Most publishing agreements prescribe a date for delivery of the manuscript, although it is not uncommon for agreements to be silent on the date for publication. This imbalance is considered unfair, and raises the issue of whether the publishing agreement actually imposes an obligation to publish.

Some agreements, leave an option to review publication upon receipt and review of the completed manuscript, notwithstanding that the manuscript may have been written in the belief that it will be published. Publishers understandably wish to reserve an option to review a commissioned work for satisfactory style and content. But there should be an opportunity for rectification without a right of complete abandonment of publication at the behest of the publisher. And there should be a compulsion to publish following a reasonable attempt to meet the criticisms of the publisher. This is a highly sensitive issue and can cause enormous practical difficulties.

#### *Subsidiary Rights*

A good part of the real monetary returns on a work are to be made on the subsidiary and not principal rights. These rights catch all rights which flow from the exploitation of the principal rights. The publisher will seek to share in some of these by virtue of the initial investment in the work. The writer may wish to have the publisher involved in subsidiary rights since the publisher may have a real prospect of realizing some return on the exploitation of such rights. The publisher's role in dealing with subsidiary rights is not unlike that of an agent.

Writing projects sometimes create a number of overlapping interests in copyright, such as the use of a literary work for the purpose of writing a script that is to be made into a film. These overlapping interests create complex questions as to the scope of ownership of subsidiary rights between the parties. While the parties between them-

selves may endeavor to define who may exploit which of the rights, problems emerge as to the enforceability of such rights against third parties where principal rights have been licensed and not assigned. Assumptions made about the ownership of subsidiary rights are not necessarily valid.

For example, the ownership of novel rights in a script would normally remain with the scriptwriter when the script is devised from something other than a novel, who may be granting an assignment or license of rights in his script for the making of a film only, and not a wholesale assignment or license of all rights. The producer may assert that a resulting novel substantially reproduces a characterization in a film, and is not a substantial reproduction of the script. The lines of actual demarcation present a problem of considerable complexity.

A similar problem arises over the right to claim ownership of the reproduction of the film hero in a poster. The question is whether a producer can claim originality in the likeness of the hero, as derived from a performance in a film, when such likeness, as depicted in a film still, substantially reproduces a sketch reproduced in an original literary work, the copyright in which may be owned by the publisher or another party. Assumptions are often made about the right to claim ownership of subsidiary rights which are not necessarily valid.

It is recommended that some of the difficulties would be overcome by the particularization of the general terms defining the rights of copyright in the Copyright Act, being "reproduction" in Section 31 and "adaptation" in Section 86. These general terms are relied upon to sanction a significant range of methods of exploitation. It is argued that these methods of exploitation should be more completely enumerated in the Copyright Act so that guidance is provided by the act as to which rights may be exploited. Thus, it is hoped it will be clear as to which rights are owned by owner of literary rights under Section 31 and which rights

are owned by the owner of film rights under Section 86. While the ownership of these rights may be modified by agreement between the parties, title as against third parties will be more clearly apparent, and it will not be possible for a third party to assert that a particular right does not fall within the scope of ownership of rights available under the Copyright Act.

This recommended process of particularization follows the introduction of specific broadcast and diffusion rights under Section 31, following the 1968 revision of the act, and more recently the extension of the term "literary works" to include computer software.

It follows that the parties should expressly agree to assist each other in the defense of rights challenged by third parties, although the particularization proposed will make the total pool of rights available to the parties more apparent.

#### *Unfair Terms*

There has been a growing current of authority in support of overturning unfair terms of contracts by courts, led principally by United Kingdom courts overturning unfair publishing and management agreements for musicians. There is no reason why similar principles will not apply to writers, with the musicians case law being of specific relevance to unfair terms dealing with rights and restraints in respect of future works.

The leading case is *Schroeder v. Macauley* ((1974) 3 All ER 616). The House of Lords held that an agreement between a songwriter and a music publisher was invalid for restraint of trade, particularly arising from what the House of Lords perceived were excessive assignments of future rights that also involved no obligation to publish. The House of Lords was influenced by the unequal nature of the bargaining position between the parties, and the absence of genuine negotiations. A similar principle was applied in a number of cases, involving some well-known musicians, including the band Fleetwood Mac and the performer Elton John.

There is a balance to be struck

between a publisher seeking reasonable preference over future works arising from the investment in an unprofitable first work, and a writer not being unfairly restrained from enjoying the benefits of his labors by a publisher refusing to exploit exclusive rights. The above cases are of particular importance in signalling the potential for judicial intervention to maintain an appropriate balance, notwithstanding express terms of agreements.

The State of New South Wales has a comparative wealth of legislation that also may be relied upon by writers seeking to avoid unfair terms of agreement. The legislation is obviously relevant if an agreement can be construed as being subject to the law of that state. Reference should be made to Section 88F of the Industrial Arbitration Act 1940, the Contracts Review Act 1980, and the Restraint of Trade Act 1976. Writers are encouraged to have their agreements expressly governed by the law of New South Wales.

#### *Moral Rights*

Moral rights are an invention of continental European law, creating personal rights in works that remain with the author, notwithstanding the transfer of property rights in works. The concept in its entirety is foreign to the common law, although aspects of moral rights exist by default (see the comment above concerning the availability of protection under the law of defamation and Part IX of the Copyright Act in connection with the unauthorized alteration of works). Nevertheless, there have been moves to integrate moral rights into the English-based legal systems. Some states in the United States have adopted moral rights, and a recent draft of a revised Copyright Act for the United Kingdom expressly adopts the concept.

The categories of moral rights are:

1. Right of publication (permitting an artist to determine when, if at all, a work should be disclosed to the public).
2. Right of withdrawal or modification (a right to correct or retract a work).
3. Right of integrity (permitting an author to protect a work from

distortion, mutilation or any other derogatory activity).

4. Right of attribution (the right to be acknowledged as author, and prevent a work from attribution to someone else, as well as prevent the use of the author's name from being affixed to a work created by

someone else. At present, authors only have the protection of Section 190 of the Copyright Act, which does not confer positive right on an author to insist upon attribution).

The adoption of these rights in Australia has received much attention among copyright interest

groups, although the conceptual challenge posed, but the introduction of moral rights, to the ownership of rights in works as property rights may lead to an expanded focus of inquiry as to the appropriateness of the conceptual basis for copyright generally.