

Allocation Of Ownership Of Inventions In Joint Development Agreements—The Australian Perspective

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Editor's Note: For the treatment of JDAs in other jurisdictions, see "les Nouvelles" Vol. XXXV No.4, December 2000. U.S. - P. O'Reilly, p.168. U.K. - J. Brown, p.173. Malaysia - T. Siaw, p.176. Czech Republic - J. Kühmlová & V. Husáková, p.177. Japan - K. Nakano, p.181. Canada - J. Woodley, p. 183.

Collaborations and joint developments offer many benefits to their participants, in particular, the ability to access technology and IP developed by the other participants. However, it is important to consider how any resulting inventions or improvements to technology will be owned. Too often, parties wishing to achieve a fair and equal outcome simply provide for joint ownership without considering how this will affect future dealings with that property. In this article, we look at some crucial issues with which collaborations and joint ventures should expressly deal when agreeing to joint ownership in relation to inventions.

1.0 If a Joint Development Agreement does not Allocate Ownership of Jointly Developed Inventions Made by Employees of the Participants in Connection with the Joint Development, Who Would Own Them?

The Australian Patents Act, 1990 (the "Act") provides that the person who is the inventor of an invention is entitled to seek the grant of the patent in respect of such invention, subject to any express or implied obligations to a third party.

The first issue is to confirm that the inventor in question is in fact an employee. Where a person is engaged under a contract for services

to carry out specific services and the employer does not have the right to control the manner of doing the work, or the work is not done as an integral part of the employer's business, that person may in fact be an independent contractor. If this is the case, that person may retain the invention and the right to apply for patent protection. The issue of employment status is outside the scope of this article.

Assuming that the inventor is an employee, it will generally be implied that the employee has an obligation to assign the invention to the employer on request or that the employee holds the invention on trust for the employer in the situation where:

- part of the employee's normal duties include the making of inventions; or
- the employee has such a high position of responsibility in the company that the employee has as part of his general duties to his or her employer an obligation to hold inventions made during the course of employment on trust for the employer.

On this basis, inventions made solely by an employee of the first joint venture party A would be effectively owned by party A and inventions made solely by employees of party B would be effectively owned by party B.

The Act also provides that two or more co-inventors are entitled to apply for a patent in respect of the invention, recognising that co-inventors each have proprietary rights in an invention that is the subject of a patent application. Therefore, inventions made by employees of both parties would be effectively co-

owned by party A and party B.

Under the Australian Patents Act, subject to any agreement to the contrary, co-owners are entitled to an equal undivided share in the patent, each is entitled to exercise exclusive rights without accounting to the other co-owners and a co-owner is not entitled to grant a licence or assign an interest in the patent without the consent of the other co-owner.

This may lead to the parties competing in the same industry, and using the same invention or resulting patent in the same field. It is usually to the co-owners' benefit to agree how each co-owner may exercise the patent right, in which field they are used, and in which areas, if relevant.

2.0 Dealing with Employees in Relation to Jointly Developed Inventions

As discussed above, in some circumstances Australian employees have an implied obligation to assign on demand rights in the inventions they create to their employers.

The employer's title will not be complete until relevant employees have executed an assignment of the title of such invention to the employer. Obviously, it is preferable to have the relevant employees execute assignments whilst they are still in employ of the company - rather than having to track ex-employees down through subsequent jobs and then having to negotiate with them.

Where the inventor employee has not been hired to create inventions or is not in such a position of trust or responsibility that it is fair to as-

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sume that the employee holds all inventions made during the course of employment on trust for the employer, the situation is less clear. Some of the factors to be considered are whether the invention was made during working hours or using the employer's materials.

A prudent employer will seek to avoid the difficulty of negotiations with employees (or independent contractors) after or at the time at which the invention is created but to deal with these issues at the time of hiring the employee or contractor in the relevant employment contract or agreement with independent contractor.

Where employers wish all inventions created by an employee to become the employer's property, a term should be included in the employment agreement or contract for services that automatically assigns such person's inventions and patent rights to the employer, including a present assignment of all future inventions during the term of the employment or the term of the contract for services, including any patents which are granted in respect of such inventions.

3.0 Dividing Rights in Relation to Jointly Owned Inventions

Rather than seeking to deal with the consequences of joint ownership, the parties may agree that party A will solely own all inventions created, developed or resulting from the research and development program and all patents relating thereto, on the basis that party A then grants to party B an exclusive royalty free irrevocable licence (or any such other terms as are agreed) in respect of party B's field of interest.

However, in this scenario, only one party absolutely owns the inventions and resulting patents. The other party may feel that an exclusive licence, no matter how good the terms are, is not as worthwhile an asset to present to its investors as the invention or patent itself.

A further question is whether party A, who then owns the inventions and resulting patents, is to be solely responsible for the cost and control of the prosecution, mainte-

nance, opposition and enforcement of any resulting patent right.

There are a number of intermediate ways in which ownership of jointly developed inventions can be allocated to seek to achieve a result where each party obtains ownership of the rights in which they are interested in exercising. We discuss these below.

3.1 Allocation of Ownership by Employment

One approach is to allocate ownership of respective inventions with regard to the particular employees who have created or developed them. Therefore, the joint development agreement will specify that inventions made solely by employees of party A belong to party A, inventions made solely by employees of party B belong to party B and only those inventions made by employees of each of party A and party B would be jointly owned by party A and party B.

There are at least two issues with this allocation regime, quite apart from the issue of keeping proper records in order to establish who contributes to particular inventions.

In relation to those inventions that are jointly owned, it still remains to be agreed as to which party is to bear the costs and which party has control over filing prosecution maintenance, opposition and enforcement of resulting patents. It is also still necessary to consider how each party is entitled to use the jointly owned inventions and resulting patents – it is usually best to expressly agree how co-owners may exercise the rights.

It is also not always the case that an invention of use to party A is created by an employee of party A. It could be the case that an employee of party B creates an invention which party A would need to use in order to exploit inventions created by party A's employees. One way in which this can be dealt with is by providing for a cross-licence: that is, party A is entitled to a non-exclusive licence of inventions created solely by party B's employees and vice versa. The terms of such licence is

a matter for negotiation between the parties.

3.2 Allocation of Ownership by Subject Matter

An alternative approach is to allocate ownership on the basis of each company's field of interest. For instance, if party A is only interested in the food industry and party B is only interested in treatment of sewage, the agreement could provide that all inventions and patents solely related to the food industry are to be solely owned by party A and all inventions and patents solely related to treatment of sewage are to be solely owned by party B. The agreement would then require each party to assign to the other invention as falling within the other party's field of interest.

However, this leads to different problems. Although an invention may be created in particular fields of interest, the patent claims may be broader and extend into the other party's field of interest. For instance, it is conceivable that an invention in relation to treatment of food might have application in the respect to treatment of sewage and consequently the patent may contain a claim relating to treatment of sewage.

Therefore, in order to avoid co-ownership arising, the patent claim would require to be drafted more narrowly to relate only to one particular field of interest. However, this may have negative consequences for the other party, as then there will be prior art which may be applicable in the second field of interest, for instance, as a method of treating sewage.

As a secondary issue, in order to avoid an application of an invention or patent developed in one industry, which has been assigned to party A, being used by party A in the field of interest to party B, the parties would need to agree that each party is only permitted to use the invention in the field of the interest to it.

However, this then leads to the unavoidable problem that party A's field of interest may only go so far, as may party B's, and there is a wide

range of intermediate fields which are not covered by either party. This would need to be dealt with, if the competitive advantage provided by the invention is not to be lost in these intermediate areas.

3.3 Allocation of Ownership by Reference to Background Technology

A further approach is to allocate ownership based on which party's intellectual property was used to develop the project results, and which led to the invention. That is, where:

(a) party A brings to the joint development program particular expertise, know how, patents, etc. in respect of the particular technology; and

(b) party B brings to the joint development program different types of intellectual property,

the agreement could provide that all inventions and patents solely related to or derived from party A's intellectual property would be owned by party A, and all inventions and patents derived from party B's intellectual property should be solely owned by party B and each party would be required to assign such inventions to the other as appropriate.

This avoids the issue of whether particular employees have created inventions, but requires the categorisation of inventions and patents with respect to the background intellectual property use. Careful records would be required to be kept during the joint development program and opinions obtained from patent attorneys in order to be able to enforce such allocation.

Again, when an invention draws upon both party A and party B's background intellectual property, a co-ownership situation would have to arise, with restrictions as to which party is entitled to use or further develop the intellectual property in which fields.

3.4 Licence of Background Technology

Because each party is contributing background intellectual property and technology to the joint development program, it is likely that in order to use inventions arising from

the collaboration which are owned by party B, party B may need to be able to use intellectual property and technology of party A which existed before the collaboration and vice versa.

The parties should consider incorporating a grant by each to the other of a licence of background intellectual property to the extent needed to exercise the results of the joint R&D program. Such licence may be limited to a particular field, it could be royalty free or a royalty or other consideration may be charged, and may be sole or not exclusive.

Expressly dealing with such licensing issues is preferable to avoid situations which have arisen in the USA where a court has found an implied licence exists, to exploit background technology, on more favourable terms than may have otherwise been negotiated.

3.5 If the Joint Development Agreement Provides for Joint Ownership by Party A and Party B of some Inventions and Patents, what Contract Terms are Needed to Protect each Party's Markets?

As discussed above, in Australia, co-owners are each entitled to exercise patent rights without accounting to the other co-owners, subject to any agreement to the contrary. However, no co-owner, subject to any agreement to the contrary, can grant a licence under the patent or assign an interest in it without the consent of the other.

Therefore, if each party wants to maintain the exclusivity of its field of use, the agreement between the joint development parties needs to provide that each joint development party is limited to exploitation and exercise of patent rights to its particular field of use.

An alternative is to require each party to obtain the other party's consent prior to granting any licence to a third party of a patent or invention that is co-owned. This is usually not received favourably as it imposes restrictions on the party's

ability to negotiate with third parties.

Another alternative could be that the requirement to obtain a party's approval to the grant of licence be restricted to grant of licences only in particular fields of use or to only particular categories of third parties, e.g. competitors. Under the Australian Trade Practices Act, there are certain limitations on the terms and conditions on which patents may be licensed. These arise, amongst other situations, where a corporation with a substantial degree of power in the market is held to be taking advantage of that power for the purpose of:

- eliminating or substantially damaging a competitor;
- preventing entry of a person into that or any market; or
- deterring or preventing a person from engaging in competitive conduct in that or any other market.

Advice should be sought where joint development parties are in fact competitors or where the above factors may arise.

A further alternative is not to impose any such restriction on a party's ability to exploit co-owned patents and inventions but to require some sort of sharing of the revenue obtained from exploiting the co-owned patents. The basis of such sharing is obviously a commercial matter for the parties to agree.

4.0 What Provisions should be Included in a Collaboration Agreement Regarding Obtaining Patent Protection on Inventions Made During the Course of the R&D Program?

As discussed above, where one party is the sole owner of an invention, it will usually have control over all decisions regarding the filing, prosecution, opposition, maintenance and enforcement of patents.

However, when inventions (or resulting patents) are licensed to the other party, the other party may also require some input into decisions regarding or which can affect the patent, in particular, in which countries the patent rights are obtained

and the scope of the patent claims.

Provision also needs to be made in the agreement between the parties in relation to:

- keeping the invention confidential prior to a patent application being filed and a patent being granted;
- how publications may be made;
- who decides when patent applications are to be filed;
- who decides which fees are to be paid;
- who decides when the specification is to be amended (under the Act, an exclusive licensee's consent is required in relation to a complete specification);
- the scope of the patent claims;
- in which countries the patent rights are to be obtained.

5.0 Conclusion

For a joint development or collaboration agreement to be successful, each party's commercial and other needs need to be considered during the bargaining approach. An unconsidered approach to the intellectual property rights arising from the collaboration – providing simply for joint ownership can prevent the parties from being in a position to realise any commercial result from the collaboration. Care needs to be taken in order to ensure that the collaboration delivers a result that can be owned and used to the satisfaction of both parties.