To What Extent Are University IP Policies Legally Binding?

Part 1: Staff

By Philip Mendes

Introduction

All universities and other research organisations (for brevity, the term "university" is employed, and refers not just to a university, but to all forms of a non-for-profit research organisation) have intellectual property (IP) policies. Like other policies, they serve an important function, stating the university's position upon diverse matters ranging from conflicts of interests, to paid outside employment by academic staff, and from campus security to the use of the university's libraries.

But university IP policies go further than just stating a policy. They seek, by force of the policy alone, to change where the ownership of IP lies.

The Ownership of IP May Rest with:

1. A university employee, who in some countries is the first owner of an invention (United States: *United States v. Dubilier Condenser Corp* 18 289 U.S. 178 (1933); *Canada: Comstock Canada v. Electec Ltd.* (1991), 38 C.P.R. (3d) 20 (F.C.T.D.)) or
2. A student, who in all countries is the first owner of any invention made by the student.

In each case the university, by the force of its IP policy alone, seeks to expropriate the ownership of the IP, divesting the IP's owner of that ownership, and have that IP ownership vest in the university, either by:

1. The policy itself vesting the IP in the university, or
2. The policy creating an obligation upon an employee or student to execute an assignment at a future date.

The university IP policy seeks therefore to have a legal effect, just as a contract has legal effect, by creating legal rights and obligations. But unlike a contract which is consensual in nature, an IP policy, by itself, is a unilateral non-consensual document.

A policy document, being a unilateral document, it cannot of itself be legally binding upon other persons, such as employees and students. Something more is needed for such a unilateral policy document to have a legal status, and a binding legal effect.

This paper considers what that "something more" is, in the United States, Canada, the United Kingdom, and Australia. It also considers how successful this "something more" is to make an IP policy legally effective in those countries.

Part 1 of this paper considers these questions in relation to university staff. Part 2 of this paper, to be published in the next edition, will consider these questions in relation to students.

A Legal Basis for IP Policies

There are two ways that an IP policy can be legally binding, and that is if:

1. It has legislative force, or
2. It forms part of a legally binding contract.

As easy as that sounds, in many countries attempts to do one or the other have failed, and an IP policy that was thought to be legally binding, has been held not to be binding at all.

IP Policies with a Legislative Basis: United States

The IP policies of many state universities in the United States are not merely policy documents, but are enshrined as laws of the State where the university is located.

For example, the University of South Florida's IP policy, which is enshrined in the *Florida Administrative Code* R. 6C4-10.012(3)(c) provides:

"An invention which is made in the field or discipline in which the employee is employed by the University or by using University support is the property of the University."

This provision was considered in *Alzheimer's Inst of America, Inc. v. Avid Radiopharmaceuticals and the University of Pennsylvania* No. 10-6908, 2011 WL 3875341 (ED. Pa. 2011) (affirmed 952 F.Supp.2d 740 (2013)). Mullan was an employee at University of South Florida ("USF") working on a genetic cause for Alzheimer's Disease. He was given DNA samples by a hospital affiliated with Imperial College London. Mullan sequenced a gene from the samples and discovered a double mutation for what is now known at the "Swedish gene."

Mullan sought a waiver from USF of any rights that it would have in the Swedish gene. USF, believing that the work on the Swedish mutation had been substantially done at Imperial College, provided the waiver. The day after USF provided the waiver, the plaintiff AIA was incorporated as a not for profit institute to own and commercialize the Swedish mutation. Mullan

was one of the founders. The patent application on the Swedish gene was filed one month later, naming Mullan as the sole inventor, and the month after that Mullan assigned the invention and the patent application to AIA.

The University of Pennsylvania (Penn) conducted experiments with a genetically modified mouse with the Swedish mutation, in researching an amyloid imaging agent. Avid Radiopharmaceuticals was formed by two of Penn's researchers to commercialize the amyloid imaging agent developed.

AIA commenced proceedings against Avid and Penn for infringement of its Swedish gene patent. If the patent was rightly owned by AIA, the infringement action would succeed. If, however, it was owned by USF, AIA would lack standing to bring the infringement action, and it would fail. The Court found the latter:

> "Because Mullan was employed by USF when the inventions were conceived, ownership of the inventions vested in USF by operation of Florida law. 'An invention which is made in the field or discipline in which the employee is employed by the University or by using University support is the property of the University…..' R. 6C4-10.012(3)(c). Florida regulations promulgated pursuant to statutory authority have the force of law."

USF's IP policy being enshrined in *The Florida Administrative Code* R. 6C4-10.012(3)(c), and it being a law, in the Court's judgement ownership of the invention vested in USF immediately upon the invention arising, by operation of law, without the need for a written assignment by Mullan to USF. The Court said:

"AIA argues that there was no transfer of rights to USF because there was no written assignment as required by 35 U.S.C. § 261. This argument fails… the premise that there was a transfer is wrong. Mullan had no property to transfer. The ownership of the inventions vested immediately in USF."

USF's IP policy, being a statutory instrument, is a law. As a law, it is legally binding and effective, so that when it provides that USF will own the IP created by its employees, that IP policy, of itself, as a law, is effective to vest the IP in USF, upon the creation of the IP.

Alzheimer's demonstrates that university IP policies that are enshrined as state legislation effectively override the rule in *United States v. Dubilier Condenser Corp* 18 289 U.S. 178 (1933) that an inventor, and not the inventor's employer, is the first owner of an invention made in the course of employment. As the Court said in Alzheimer's, the inventor "had no property to transfer. The ownership of the inventions vested immediately in USF."

At the Federal level, 37 CFR 501.6 of the Code of Federal Regulations legislates that the U.S. Federal Government will own inventions made by federal employees. It also overrides *Dubilier*.

A precursor provision to 37 CFR 501.6 was considered in *Kaplan v. Johnson* 409 F. Supp. 190 (N.D. Ill. 1976). Kaplan was employed as the chief of a hospital nuclear medicine service He conceived an invention that entailed using a gamma camera for nuclear medicine imaging. 37 C.F.R. 100.6(b)(1) (the precursor to 37 CFR 501.6) stated:

> "(1) The Government shall obtain … the entire domestic right, title and interest in and to any invention made by any Government employee (i) during working hours, or (ii) with a contribution by the Government of facilities, equipment, materials, funds or information, or of time or services of other Government employees on official duty, or (iii) which bears a direct relation to or is made in consequence of the official duties of the inventor."

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The Government argued that Kaplan, having accepted employment on the basis of 37 C.F.R. 100.6(b)(1), was bound by it.

Kaplan argued that he was not made aware of 37 C.F.R. 100.6(b)(1). The Court referred to an old decision in *Solomons v. United States*, 137 U.S. 342, 11 S. Ct. 88, 34 L. Ed. 667 (1890) where the Court stated:

> "The government has no more power to appropriate a man's property invested in a patent than it has to take his property invested in real estate."

The Court went on to hold that:

> "mere notice is an insufficient basis for the expropriation of a valuable property right…. [this is] particularly true where there is a well-established principle relating to ownership rights that is directly contradictory to the general import of the notice provisions."

Kaplan also argued that 37 C.F.R. 100.6(b)(1), which encapsulated a Presidential Executive Order, was unconstitutional, and therefore *ultra vires*, and invalid. The Court agreed, being unable to find a constitutional basis for the Executive Order. The Court held 37 C.F.R. 100.6(b)(1) to be invalid, and concluded that in accordance with the *Dubilier* principle, Kaplan owned the invention.

On appeal however, the decision was reversed. In *Kaplan v Corcoran* 545 F.2d 1073 (1976) the appeal court held 37 C.F.R. 100.6(b)(1) to be valid, constitu-

tional, and effective to vest the ownership of the invention in the Government, notwithstanding the *Dubilier* principle. That Kaplan did not have notice of the provision did not affect its binding effect.

37 CFR 501.6 of the *Code of Federal Regulations* operating to make the Government the first owner of inventions made by its employees, in the circumstances set out in the provision, was reinforced in *Heinemann v. United States* 796 F.2d 451 (Fed. Cir. 1986). Heinemann was a chemist in the United States Army. He conceived of an idea dealing with the timing of detonation of a warhead. He disclosed and then assigned the invention to the Government. Heinemann later commenced proceedings arguing that his earlier assignment was voidable, and that he was the owner of the patent. He argued that the Presidential Executive Order codified in 37 CFR 501.6 was unconstitutional as contrary to the Fifth Amendment, as it amounted to a taking of his property without due process. The Fifth Amendment provides in part that:

> "No person shall be…deprived of… property, without due process of law"
>
> Referring to *Kaplan v. Corcoran* the Court held that:
>
> "There has been no "taking" because the invention was not the property of Heinemann."

In each of Alz*heimer's, Kaplan* and *Heinemann*, the inventor was not the first owner of the invention. The IP policies in all three cases enshrined in statutory provisions resulted in the first owner being each inventor's respective employer. As the Court said in *Alzheimer's* "Mullan had no property to transfer," echoing the Court's ruling in *Heinemann* that "there has been no "taking" because the invention was not the property of Heinemann."

In the United States, an IP policy enshrined in a statutory provision therefore operates as an exception to the *Dubilier* principle that an employee is the first owner of an invention made by the employee, even when made in the course of employment. This means that an invention to which a legislative-based IP policy applies is owned by the employer from the time of its creation, without the need for a formal assignment by the employee to the employer.

Kaplan v. Corcoran also demonstrates that whether an employee has an awareness or notice of the statutory IP policy is irrelevant to the question, rejecting the decision of the lower court in this respect in *Kaplan v. Johnson.*

In the United States therefore, when an IP policy has a legislative basis, it is a law, and binding upon the persons expressed to be bound by it, whether they had notice of the IP policy or not.

IP Policies with a Legislative Basis: Other Countries

In other countries, IP policies are sometimes delegated or subordinate legislation. This is legislation that is made with the authority of an Act of a Parliament. The Act authorises the making of regulations, rules, by-laws, or statutes, all of which are called subordinate legislation. A university can be delegated the power to make subordinate legislation, which on promulgation, will be a law. By way of example, section 6(1) of the *Universities of Oxford and Cambridge Act* 1923 provides

> "Subject to the provisions of this Act, the Commissioners shall, from and after the first day of January, nineteen hundred and twenty-five, make statutes and regulations for the University, its colleges and halls."

The IP policy of the University of Oxford, called Statute XVI, being subordinate legislation, is therefore a law. The University of Cambridge's IP policy is contained in Section 2 of Chapter XIII of the *Ordinances of the University of Cambridge*. Section 28 of the *University of Melbourne Act* 2009 provides:

> "Subject to this Act, the Council may make any university statutes and university regulations with respect to any matter relating to—
>
> (a) The University; and
>
> (b) Any person—
>
> (i) Entering or on land or other property of the University; or
>
> (ii) Using University facilities."

The University of Melbourne's IP policy, called *Statute* 14.1.1, is similarly a law.

But unlike the United States courts in *Alzheimer's, Kaplan* and *Heinemann*, the courts in other countries have at times been reluctant to give effect to subordinate legislation that seeks to expropriate property.

> In the Canadian case *O'Brien v. University of Guelph* (1996) 18 OTC 230, O'Brien contended that he owned the intellectual property that he created. The university applied for summary judgement relying upon its IP policy, but the Court ruled that there were a number of triable issues, one of which was the university's legislative authority to expropriate personal property like intellectual property.

In the Australian case *University of Western Australia v. Gray* [2008] FCA 498, Gray was employed by the university (UWA) as a professor of surgery. He undertook research on the treatment of liver cancer, and developed microspheres as a delivery mechanism for cancer drugs, which enabled the drugs to be selectively delivered to the sites of tumours in the liver. Gray applied for and prosecuted patents in relation to those

inventions. Subsequently he assigned those patents to Sirtex Medical Limited. UWA commenced proceedings against both Gray and Sirtex. It argued that Gray made the inventions in the course of employment at UWA, and that the inventions were owned by UWA. UWA's IP policy was subordinate legislation called The *Intellectual Property Regulations.* Regulation 4(4) provided:

> "In respect of intellectual property created by an originator in the course of the originator's employment with the University, the University shall own copyright in computer programs, but no other copyright, and own all other intellectual property."

The Court considered the scope of UWA's power to make subordinate legislation, such as its IP policy, and concluded:

> "the securing and protection of property belonging to UWA under the general law, would lie within the scope of the regulation making power as well as within the power to make Statutes…. It is a very different matter to propose that the law-making power of the university authorises regulations which alienate or interfere with property rights not vested in UWA…UWA cannot, by regulation, acquire property from its staff members."

The Court's conclusion was that a university's legislative authority to make subordinate legislation was dependent upon the scope of the legislative authority that it was conferred. A general power in the legislation establishing a university which gives it power to promulgate subordinate legislation in relation to its "real and personal property" would not be specific enough. It gives to the university power to promulgate subordinate legislation dealing with its own "real and personal property," but not the divestment of *someone else's* property.

Similarly, a general power in the legislation establishing a university which gives it power to promulgate subordinate legislation in relation to the "use of the university's facilities and equipment" is not specific enough. That is power in relation to the "use of the university's facilities and equipment," not power to divest staff and students of the ownership of intellectual property owned by them if they were to use a university's facilities and equipment when that intellectual property was created.

Gray illustrates that courts are reluctant to permit subordinate legislation to compulsorily divest a person of property that they own, without very specific statutory authority to do so. As a rule, the legislation founding a university would not normally contain a specific statutory provision that permitted a university to divest a person of the person's property.

A presumption in relation to the interpretation of subordinate legislation, or indeed, any legislation that seeks to expropriate the property of a person, is the presumption that the legislation will be construed as not effecting any divestment, unless there is full compensation to the divested property owner. This is so in Canada (*Dell Holdings Ltd v. Toronto Area Transit Operating Authority*, [1997] 1 SCR 32), the United Kingdom (*Central London Board (Liquor Traffic) v. Cannon Brewery Co Ltd* [1919] AC 744), and A*ustralia (Wurridjal v. Commonwealth* (2009) 237 CLR 309 at 355).

An IP Policy framed as subordinate legislation, or legislation, which seeks to divest a person from the ownership of the intellectual property without "full compensation" could therefore be at risk of being struck down as void.

What then is "full compensation" to prevent such a striking down? IP Policies commonly provide for a share of commercialization revenue to be paid to the inventors. At some universities it can be as high as 50 percent, but something less, such as 30 percent is more common. In any case, it is never 100 percent of commercialization revenue, other than perhaps on very modest amounts of commercialization revenue. Would 30 percent to 50 percent amount to "full compensation" for that presumption to be negated?

IP Policies with a Contractual Basis: United States

An IP policy is not itself a contract. Instead, it is a document that comes into existence unilaterally. As the Court said in the *United States case of University Patents, Inc. v. Kligman* 762 F.Supp. 1212 (1991):

> "the employer's unilateral act of publishing its policies [cannot] amount to the 'meeting of the minds' required for a contract."

However, a contract such as an employment contract may seek to "incorporate by reference" an IP policy, so that the IP Policy forms part of the employment contract. The question is how reliable "incorporation by reference" is to make an IP policy binding in this way.

It is a general legal principle that if a term of an agreement requires the parties to comply with and be bound by an external document which is accurately identified, then that term will be effective to make the parties bound by that external document. That external document is said to be "incorporated by reference" into the contract, and as a result, forms part of the contract. In *Kucharczyk and Mosely v. Regents of University of California* 946 F.Supp. 1419 (1996) the Court quoted the following passage with approval:

> "For the terms of another document to be incorporated into the document executed by the parties the reference must be clear and unequivocal, the reference must be called to the attention of the other party and he must consent thereto, and the terms of the incorporated document must be

known or easily available to the contracting parties. *Williams Const. Co. v. Standard-Pacific Corp.,* 254 Cal.App.2d 442, 61 Cal.Rptr. 912 (1967)."

But what if one party has not reviewed and considered the external document? Will that party in that case be bound by it? Will it in that case be successfully "incorporated by reference?" Does it make a difference whether a party had access to the document, and therefore had the opportunity to review and consider it, but chose not to do so? What if the party did not have access to the document at all?

In *Kucharczyk*, the plaintiffs were researchers employed by the University of California. They developed an invention called "Methods for Detecting Blood Perfusion Variations by Magnetic Resonance Imaging." They filed an invention disclosure with the university, and assigned the invention to the university. The university later licensed the invention for a lump sum license fee of $25,000. In accordance with its patent policy at that time, 50 percent of that license fee was paid to the two researchers.

Dissatisfied with the modest financial terms, the inventors commenced proceedings against the university, in the course of which the ownership of the patent was considered.

When they respectively commenced employment at the university they signed a document called "University of California State Oath of Allegiance and Patent Agreement." The document contained the sentence "Please read Patent Policy on reverse side and above." The document then contained on the reverse page a heading called "University of California Patent Policy" and proceeded to set out what the policy was. Amongst its provisions was that the inventions made by the university's researchers would be owned by the university. The Court quoted the passage referred to above, and held:

> "While the Patent Agreement does not expressly state that it is incorporating the Patent Policy by reference, it clearly and unequivocally refers to it… and making several other references to the Policy. The reference is called to the attention of both parties. Finally, the Patent Policy is easily available to the contracting parties given that it is printed on the reverse side of the Patent Agreement. The Court finds that the Patent Policy is thus incorporated by reference into the Patent Agreement."

Although there was no term in that document that specifically referred to the Patent Policy, the fact that the Patent Policy was duplicated on the document itself, which had sufficient references to it, was sufficient for the Court to conclude that it was successfully incorporated by reference. The Court concluded that the researchers were contractually bound by the IP Policy and that the inventions were owned by the university.

Shaw v. The Regents of the University of California, 58 Cal. App. 4th, 67 Cal. Reptr. 2d 850 (3d Dist., 1997) came before the Court the year following the decision in *Kucharczyk*. It also concerned the document called "University of California State Oath of Allegiance and Patent Agreement" and the Court came to the same conclusion as it had the previous year in Kucharczyk. In 1997 the issue came up again, and for the third time involved the University of California. *Singer v. The Regents of the University of California* 1997 WL 34594173 concerned a dispute between the University and inventors about what constituted commercialization revenue to be shared. The University argued that its Patent Policy was not incorporated by reference into the patent agreement. Given the recent results in *Kucharczyk* and *Shaw* that argument did not succeed, and the Court held that the Patent Policy was incorporated by reference.

Kucharczyk is a good example of the most prudent course to take if it is sought to incorporate an IP policy by reference into an employment contract and that is to duplicate the policy into the contract itself. But doing so is not the most practical approach, particularly given that IP policies have evolved, for some universities, into quite lengthy documents.

The Court's approval of the principle stated in *Williams Const. Co. v. Standard-Pacific Corp* indicates that the courts will expect every effort to be made to bring the researcher's attention to the intention to incorporate by reference the existence and contents of an IP policy, which seeks to divest the researcher of the ownership of intellectual property that the researcher would otherwise own.

In *University of Pittsburgh v. Townsend* 542 F.3d 513 (2008), Townsend joined the University as an Associate Professor of Radiology and was provided with the Faculty Handbook, which contained the University's Patent Policy, by which it claimed:

> "ownership and control of the worldwide patent rights that result from activities of its faculty, staff, and students"
>
> The Faculty Handbook included this provision:
>
> "The policies and practices described are subject to change by the University. They are not to be considered or otherwise relied upon as terms and conditions of employment and the language used in this handbook is not intended to create a contract between the University of Pittsburgh and its employees."

In 1999 Townsend filed an invention disclosure with the university for "A Combined PET and X-Ray CT Tomograph for Clinical Use." The inventors dis-

closed were Townsend and a consultant, Ronald Nutts, a co-founder of CTI PET Systems Inc. In 1999 CTI, to which Townsend had consulted since before joining the University, filed a patent application for the invention, and forwarded a copy to the University. The University commenced proceedings in 2005 claiming ownership of the invention. The Court noted that the Faculty Handbook expressly disclaimed that it was intended to have any contractual effect, and the University's claim failed.

In a number of cases in the United States, the courts have held IP policies to be legally binding, not because they formed part of the employment contract by being incorporated by reference, but because there had been past acquiescence with the contents of the IP policy.

In *University of New Mexico v. Knight* 321 F.3d 1111 (Fed. Cir., 2003) the inventor had in prior years assigned unrelated inventions to the university. He also signed assignments for the inventions with which the court was concerned, but declined to sign assignments required for continuation-in-part applications to proceed. The court did not consider the terms of the employment contract. Nor did it enquire into whether the requirements for an incorporation by reference to be successful were present. Influenced by the inventor's prior signing of assignment documents for unrelated inventions, as well as the inventions with which the case was concerned, the Court concluded that the university owned the relevant inventions, and that the inventor was obliged to sign the documents required for the continuation-in-part applications to proceed.

In *Chou v. University of Chicago*, 254 F.3d 1347 (Fed. Cir. 2001), Chou and her mentor Dr Roizman worked on a herpes vaccine. Chou indicated to Roizman that she thought that the vaccine they developed was patentable. Roizman disagreed and Chou did not pursue the matter. Unbeknown to her, Roizman made an invention disclosure, with himself as the sole inventor and assigned the invention to the university. It was commercialized and Roizman received the inventor's share of royalties. Chou discovered this, and sought to have inventorship on the patent corrected. In a judgement that is predominantly about standing to bring an application for the correction of inventorship, the Court made only passing reference to the ownership of the invention. It remarked in passing that Chou's letter of appointment with the university referred to the appointment being subject to "the administrative policies of the University." The Court did not consider whether there was sufficient incorporation by reference of those policies. It seemed more influenced by Chou having in earlier years voluntarily assigned other inventions to the university, in remarking, almost in passing, that the invention was owned by the university.

What these two "acquiescence cases" have in common is that the ownership by a researcher of an invention was not a main issue in the matters before the courts. This explains why the courts on these occasions did not undertake a consideration of the basis for remarking that a researcher was bound by the IP policy.

What is uncomfortable about these "acquiescence cases" is that acquiescence on a past occasion is not relevant to the question whether, at the time that an employment contract is entered into, an IP policy was successfully incorporated by reference into the employment contract, so as to be made part of the employment contract.

Incorporation by reference to make an IP policy part of an employment contract will certainly be successful, in the United States, to divest ownership of intellectual property from a university staff member, to the university. But that will only be so if the incorporation by reference is adequate. According to *Williams Const. Co. v. Standard-Pacific Corp.*, 254 Cal.App.2d 442, 61 Cal.Rptr. 912 (1967), this requires that:

1. The reference to the IP Policy is clear and unequivocal;
2. The reference is called to the attention of the employee;
3. The employee has consented to the IP policy, which suggests that the employee must have the opportunity to read it, and to consider its contents; and
4. The terms of the IP policy must either:
   (a) Already be known to the employee, or
   (b) Easily available to the employee.

In relation to a university seeking to divest an employee of the ownership of intellectual property created by the employee, in the United States, relying upon "incorporation by reference," there is certainly room for something to go wrong, and for the attempt to incorporate an IP policy by reference not to succeed.

IP Policies with a Contractual Basis: Other Countries

In Canada, as in the United States, the first owner of an invention is the employee, not the employer (*Comstock Canada v. Electec Ltd.* (1991), 38 C.P.R. (3d) 20 (F.C.T.D.)). The law in Canada is fundamentally the same as in the United States. In *Starcevich v. Woodward's Ltd* (1991), 58 B.C.L.R. (2d) 254 the Court said:

> "Nor am I persuaded that a 'policy' per se automatically forms part of an employee's contract of employment. There must be evidence that the policy was accepted by both the employer and the employee as a term of the employment contract, and the onus in that respect rests on the party seeking

to rely on the policy as a term of the contract."

To meet this requirement that the "evidence that the policy was accepted by both the employer and the employee," at the least, the IP Policy must be brought to the employee's attention, and the employee must have agreed to it terms.

In Australia, given the decision in University of Western Australia v Gray [2008] FCA 498 that an academic employee is the first owner of an invention made in the course of employment, the question has the same importance as in the United States and Canada. If an Australian university seeks to divest the ownership of intellectual property created by an academic scientist, and have it vest in the university, by force of its IP policy alone, it will be necessary for the IP policy to be successfully incorporated by reference into the employment contract.

In Australia, as a general principle, a party is bound by the terms of a document that is incorporated by reference into a signed contract, but:

> "where there is an 'onerous or unusual' clause,… even if the other party knew that the document contained or referred to conditions generally, he will not be bound unless it has fairly and reasonably been brought to his attention" (*Allen Fabrications Ltd v. ASD Ltd* [2012] EWHC 2213 at para 57)."

This echoes the observation of Lord Denning LJ many years earlier in *Spurling Ltd v. Bradshaw* [1956] 2 All ER 121 at 125, [1956] 1 WLR 461 at 466:

> "Some clauses which I have seen would need to be printed in red ink on the face of the document with a red hand pointing to it before the notice could be held to be sufficient."

If an IP policy seeks to divest ownership of intellectual property from the researcher, and confer in its place an expectation of sharing an indeterminate amount of commercialization revenue, the earning of which is wholly outside the control of the first owner of that IP, many would say that it may well contain terms which are onerous or unusual. That being so, if an Australian university seeks to divest the ownership of intellectual property created by an academic scientist, and pursuant to its IP policy have it vest in the university, it must ensure that it has adequately brought its IP policy to the employee's attention.

In the United Kingdom the question may not have the same importance as in the United States, Canada, and Australia. This is because under section 39 of the Patents Act 1977, a university will always own the intellectual property created by its employees in the course of their employment. No issue of any IP policy, of itself, seeking to divest ownership from an employee, and to vest it in the employer therefore arises in the United Kingdom.

IP policies with a Contractual Basis—Can They be Varied?

A university may update an IP policy by varying it. It might even replace an IP policy with a new one. Will a university employee be bound by the varied policy, or by the new policy?

A contract is a consensual relationship. It is legally binding because the parties to it have agreed to be bound by the agreed terms. According to the same principal, a variation to a contract can only be binding upon a party if the variation is similarly consensual, that is, agreed to by all the parties to the contract. A party cannot unilaterally vary a contract with that variation binding on the other party. In the same way, a party cannot unilaterally vary the document that is incorporated by reference or substitute a new one, and have the changed or new document binding.

In *Shaw v. The Regents of the University of California*, 58 Cal. App. 4th, 67 Cal. Reptr. 2d 850 (3d Dist., 1997) Shaw signed a document called "University of California State Oath of Allegiance and Patent Agreement" when his employment commenced. It contained the university's Patent Policy. It provided that inventors would receive 50 percent of the commercialization revenue realised from the commercialization of their inventions. Some years later the university changed the Patent Policy so that a sliding scale operated, with inventors receiving 50 percent on the first $100,000 of revenue, 35 percent on the next $400,000 and 20 percent on the remaining commercialization revenue. It was after this change to the Patent Policy that Shaw made his invention. According to Shaw, the Patent Policy was incorporated by reference into the contract, and just as the contract could not be unilaterally varied, neither could the document that was incorporated by reference, in this case the Patent Policy. The Court agreed:

> "the patent agreement between Shaw and the University is a contract which incorporates the terms of the patent policy in effect at the time Shaw was hired. Although the University is entitled to revise its patent policy, it cannot do so with respect to Shaw because of its written agreement with him."

The Court held that just as any change to a contract had to be consensual to be binding, so also a change to the document incorporated by reference had to be consensual as well to be binding. Similarly, in *Riverwood International Australia Pty Ltd v. McCormick* (2000) 177 ALR 193 the Court said (at para 111):

"Any alteration or addition to…policies could only achieve binding contractual effect if there was separate agreement to such alterations or additions, either by way of variation of the existing agreement or by way of entering into a new agreement."

If the contract allows one party to unilaterally vary it, then a unilateral variation to an IP policy will be permissible, and binding. This occurred in *Fenn v Yale University* 283 F.Supp.2d 615 (2003). But without such a unilateral power to vary an IP policy, a unilateral variation will not be binding upon employees.

Conclusion

As a general proposition, IP policies are binding in the United States in relation to university employees, as:

1. They have a legislative basis, or
2. They tend to be successfully incorporated by reference into the employment contract, or some other document signed at the time that the employment relationship commences.

Also as a general proposition, IP policies in other countries have a high risk of not being binding, given that:

1. They do not necessarily have a legislative basis, or a legislative basis can be challenged with some ease, or
2. They are not adequately incorporated by reference into the employment contract.

There are a few explanations for this.

Firstly, an assumption is made that because the IP policy is a policy of a university, that this elevates it to some special status, or confers upon it some special authority, by which it is legally effective. But, of course, a policy, on its own, is just a policy, or a position. On its own, it cannot be legally effective.

Secondly, universities in other countries, quite rightly, look to the United States and its technology transfer best practices. They seek to emulate the United States' technology transfer success, and to emulate that success, it is not unreasonable to seek to import or duplicate the components that have contributed to that success. United States universities' IP policies is one of those components that are imported or duplicated. But mostly, the universities of other countries that have looked to United States' IP policies, have focused on the content of those policies, and have paid little attention to the *means by which they can be legally binding* in their own country. Universities in other countries have therefore largely imported the content of IP policies from United States universities and left it at that, making the assumption that adopting a policy is sufficient, and without considering whether it is legally binding, or indeed, whether there is a need that it be legally binding.

This illustrates that importing or duplicating best practice from one country to another cannot be done indiscriminately. It is necessary to consider the legal and cultural landscape in which what is sought to import or duplicate works, and it is also necessary to assess whether what is intended to import can be done with or without any adjustment or customisation.

Exploring Alternatives

There are many issues with seeking to make an IP policy legally binding.

An IP policy may be incorporated by reference, but that may fail. An IP policy may have a legislative basis, but in some countries such a legislative IP policy can be challenged with ease.

The problems of seeking to make an IP policy legally binding do not always manifest themselves in disputes that are litigated, and therefore reported. But that does not mean that disputes do not occur. They do occur, and needing resolution, they are resolved, sometimes by reference to the principles examined in this paper. But that happens only after much anxiety, and often, only after a commercialization transaction has been delayed, or put at risk, and rarely but occasionally, only after a commercialization transaction has been abandoned. It also needlessly takes up the time and resources of the technology transfer office, which usually has more to do than it has staff and resources to do it with, so that handling disputes of this nature is a wasteful distraction.

Fuelling these disputes is the unfortunate language in which IP policies are sometimes framed. They state that the university "asserts" or "claims" ownership of IP created by its employees. This language is sometimes perceived as provocative, and is a major contributor to disputes arising in the first place.

Given the limitations upon an IP policy being legally binding, the question should be asked whether its objectives can be achieved in a more reliable way.

There are two provisions that need to be binding upon university staff:

1. The obligation to complete invention disclosures and file them with the appropriate office; and
2. The vesting of ownership of IP created by staff, in their employer university.

It is these two provisions that can sometimes be contentious between a university and its staff members. To leave these sometimes contentious provisions to the uncertainties of whether or not they are binding under an IP policy promulgated as subordinate legislation, or whether or not they are contractually binding, depending upon whether or not an IP policy has been successfully incorporated by reference, is to leave the question of whether a university employee is bound in these respects without a reliable answer. This is what disputes are made of.

A university, like any other employer, needs to own the intellectual property created by its staff. That should be clear and unequivocal, and not subject to the sometimes questionable effectiveness of IP poli-

cies as subordinate legislation, and the questionable effectiveness of IP policies sought to be incorporated by reference.

Instead of a staff employment contract seeking to create obligations upon university staff by seeking to incorporate an IP policy by reference into the employment contract, consideration can be given to the broader adoption of what many universities do: they include in the staff employment contract two critical things that are needed:

1. The obligation to complete invention disclosures, and
2. The vesting of ownership of IP created by researchers, in their employer university.

When a staff employment contract does this, reliance on the legal effectiveness of these provisions is placed on the signed employment contract, instead of on the IP policy. This avoids the question whether an IP policy is incorporated by reference or not, and whether an IP policy with a legislative basis is enforceable.

The suggestion is not made to abandon having IP policies altogether. IP policies deal with many other important topics, including commercialization revenue, moral rights, etc. An IP policy dealing with all the remaining matters with which IP policies typically deal is still needed.

But the suggestion is made that rather than relying on an IP Policy, with its sometimes questionable legal effect, to instead confidently rely on the staff employment contract to have a binding effect in relation to the two critical matters of invention disclosure and vesting of ownership in the university.

In the next issue, the extent to which an IP policy is binding upon students will be considered. ■

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