Who Is Entitled To Inventions In Australia? The Implications Of Victoria University Of Technology V. Wilson & Others

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1. INTRODUCTION

Whilst at one level the case of *Victoria University of Technology v. Wilson & others* (2004) 60 IPR 392, could be dismissed merely as another one of those undesirable by-products of the dot.com era—a case which could not possibly be repeated in more sober economic times—the implications of the case clearly do not just apply to that economic environment. The case should provoke a review of practices of all stakeholders involved in university sourced research—i.e. universities, academic staff, and investors alike—particularly where commercialisation of university sourced research is more likely to be the norm than the exception.

For those with a deeper insight, the case is also a reminder that universities are not the only organisations that have employees who can produce valuable intellectual property and that therefore a much wider range of organisations need to have proper measures in place to avoid the sort of conflict that occurred in this case.

2. FACTS

2.1 Background

The first defendant, Wilson, was at all material times a professor at the Victoria University of Technology (VUT), Faculty of Business and Law and was Head of the School of Applied Economics (the School). The School conducts courses in international trade at both undergraduate and post graduate levels.

The second defendant, Feaver, was at all material times a senior lecturer in the School. He was also Head of the Centre for International Business Research and Education (CIBRE), which was established in 1998 as a research unit within the School to investigate international trade issues.

The sixth defendant was Astill, one of Wilson's former students. Other defendants were companies associated with Wilson, Feaver and Astill, and IP3 Systems Ltd, the corporate vehicle used for the development of the relevant invention (IP3 Systems).

At the time of CIBRE's establishment, it was envisaged that its main source of funding would be the development and sale of short on-line courses in international trade. The objectives for subsequent years included developing a comprehensive consultancy business incorporating a trade advisory service, business data analysis and forecasting, and country risk analysis and assessment.

The research objectives of CIBRE emphasised an applied approach to developments in international business practice and developing links between the university, government and the business community.

During the first year of its operation CIBRE was involved in a number of consulting related activities within VUT and with partners in government and private industry. Those activities included the following:

(a) assisting the Faculty of Business to develop and implement an Internet based learning environment;

(b) developing new methods by which to deliver education and educational and administrative services to the Faculty's off-shore students;

(c) developing and producing for the Australian Customs Service economic models for the assessment of anti-dumping and countervailing legislation; and

(d) working on a consulting project for a major Australian manufacturer.

Significantly, the proposal which led to the establishment of CIBRE included the following statement as to its intended scope of activities:

> *"In addition to embracing traditional issues such as the mechanics of international transactions and the added complexities of cross-cultural interaction, emerging issues relating to electronic commercial exchange is now an area of vital importance to international producers of goods and services. Areas of focus will also include how to best and most efficiently utilise the new transactional technologies in the work place as well as to determine which processes are appropriate and relevant at a particular stage of a firm's development"* (Emphasis added)[1]

1. 60 IPR 392 at 428—para 114.

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The case refers to the fact that Freehills provided certain oral advice to Professor Wilson. The authors are a partner and solicitor in Freehills. Neither of the authors provided any advice to any of the parties in the proceedings and the views expressed by the authors are their own views and not of the firm Freehills.

Additionally, in 1995 the School in collaboration with the Centre for Strategic Economic Studies established the TradeData online information service business. That business continues to operate, and on a fee for service basis provides users with detailed up to date information on thousands of traded products, including market information on the size and price structure of markets, assessment of market share and identification of market opportunities internationally. The School has a 20% stake in the TradeData business, and the TradeData business was identified by Wilson as part of the School's credentials to World Trade On-Line Holdings Limited (WTO), as mentioned below.

2.2 Approach by WTO to VUT

In about July 1999, representatives of WTO approached Wilson about the possibility of VUT developing a range of on-line international trade subjects for WTO and shortly after, to assist in developing a concept described by WTO representatives as a 'product and commodity internet and extranet based electronic trading exchange.' Whilst not acknowledged as such by the Court, the concept described by WTO representatives, on its face, appeared to fall readily within CIBRE's intended scope of activities involving *"issues relating to electronic commercial exchange"* and *"how to best and most efficiently utilise the new transactional technologies…"*. Because WTO intended to control the electronic trading environment by regulating the traders, it proposed that VUT assist in designing an approved course from which traders could gain accreditation which would allow them to participate in the trading environment. WTO thought such a course would be particularly attractive if upon completion it resulted in a university diploma. Wilson considered that the possibility of developing the on-line education component of the WTO proposal represented an opportunity for CIBRE and wrote a letter to that effect to WTO.

In subsequent discussions between representatives of WTO and Wilson, it became clear that the electronic trading exchange component of WTO's proposal was merely a concept and that in order to attract further investment, potential investors needed to be convinced that such an exchange could in fact be built. In this respect, Wilson offered to assist WTO in the system's design, development and implementation, which would also represent an opportunity for the School (and more particularly for CIBRE), and again wrote a letter to that effect to WTO in August 1999.

2.3 Preparation of schema and decision to exclude VUT from project

WTO accordingly asked both Wilson and Feaver to prepare a 'high level schematic design for the system architecture' for the concept. Despite the fact that neither had any experience with software architecture and because both believed that unless they were able to provide WTO with a system design there would no need for the on-line education courses, Feaver began designing the schema using the computing skills he acquired in the evening and on the weekends.

At around this time in September 1999, Astill became involved with WTO after having invested his own money in the business. From the start, Astill was concerned that the directors of WTO did not have the know-how to produce the relevant schema and, in order to protect his investment, suggested that he, Wilson and Feaver should be the owners of the intellectual property in the schema. Thus, on 23 September 1999, the three signed a memorandum of understanding in which they agreed to incorporate a new corporate entity holding all the technologies and intellectual property developed for WTO. It was at this point that the decision to exclude VUT from the project was made.

At the end of September 1999, the three individuals had produced a schema (primarily developed by Feaver, with constructive comments from both Wilson and Astill) and completed the on-line course content for WTO. The schema was then presented to IBM, bearing the names of the three individuals, as well as the CIBRE and university logos.

This schema envisaged an Internet based trading exchange owned and operated by WTO, with complementary use of the WTO Web site service which contained the necessary trade data to complete the trade transaction (the initial schema). However, from October 1999 Feaver began to change the schema, by integrating into the concept the structuring of data relationships based on an economic theory suggested by Wilson. By the end of October 1999, the concept evolved into a trading room which simulated a real world international trade negotiation (trading hub model). During November 1999, this trading hub model was translated into a working computer based trade module by Sunny Joura, an employee programmer working for VUT (prototype solution). Finally, in about mid November 1999 the model was changed again, away from an intermediary to direct business to business connection (the disintermediated model).

2.4 Seeking third party interest

By December 1999, WTO ceased to be involved. Wilson, Feaver and Astill then began to elicit interest from other third parties, writing letters and making presentations by reference to their positions at the university, and using the logos of CIBRE and VUT (though they paid the costs of travel and accommodation from their own resources).

They also elicited and received technical advice from PwC Consulting, and a manager of Information Systems at the Faculty of Business and Law at VUT, and subsequently engaged their own software designer. Throughout February 2000, Feaver and Astill continued to work to improve the model.

On 16 March 2000, Wilson, Feaver and Astill lodged an Australian provisional patent application based on their disintermediated model for an electronic trade exchange invention.

At this time, the three also entered into a collaboration with PwC, allowing PwC to have shares in IP3 Systems in return for its technical assistance and resources.

As a result of this collaboration, a complete patent specification was filed in respect of the invention on 16 March 2001. This patent application was assigned to IP3 Systems. Additionally, two computer programs known as "Electron" and "Ether" were developed, the rights in which were also owned by IP3 Systems. The development of the computer programs was described by the Court as a *"very substantial undertaking involving many people, great expense and the investment of more than $5million risk capital."*[2]

3. THE DECISION

The Court decided that VUT was not entitled to either the electronic trade exchange invention, the patent application for that invention or the "Electron" and "Ether" computer programs, as they were not made 'in the course of employment.' However, subject to due allowance for the skill and expenses provided and incurred by Wilson, Feaver and other contributing parties, it held that VUT was entitled to either :

(a) a constructive trust over Wilson's, Feaver's and their respective companies' shareholdings in IP3 Systems; or

(b) payment to VUT of an amount of money equal to the value of those shares and any proceeds of the sale of such shares which the parties may have already sold.

The basis for this determination was that Wilson and Feaver were in breach of their fiduciary duty to VUT.

This decision highlights the difficulties of applying the general common law test to the university context, and the resultant tensions that arise between applying principles of law and those of equity where the relevant subject matter has evolved from its embryonic state when only the inventors are involved, to a more mature invention in which other parties have obtained interests over time. As will be discussed, the decision in this regard has its shortcomings.

3.1 Issues considered

In coming to its decision the Court considered the following three issues:

(a) whether a certain 1995 IP Policy of VUT formed part of the terms of each of Wilson's and Feaver's by contracts of employment;

(b) whether the electronic trade exchange invention was made in the 'course of employment' by Wilson and Feaver. This included considering whether the work to develop such invention was included in their 'scope of employment,' and if so, what was the significance of any use of VUT's time and resources; and

(c) whether the conduct of Wilson and Feaver constituted a breach of fiduciary duty.

3.1.1 VUT IP Policy

The first issue was whether a certain 1995 'intellectual property policy' formed part of the terms of each of Wilson's and Feaver's contracts of employment, such that the electronic trade exchange invention would be subject to those express terms.

Under Feaver's express terms of engagement, he was bound to any 'conditions of service' included in a 'university policy.' Under Wilson's signed acceptance of appointment, he was bound to all terms and conditions 'approved by the Institute Council' and 'published in the Institute Staff Manual.' The successor to this 'Institute Council' was the 'VUT Council,' which is now the governing authority of VUT under the relevant legislation.

The 'policy' in question allegedly became a formal 'university policy' in June 1995, when it was recorded on the Vice Chancellor's Registry database. This recordal occurred following a meeting between the Vice Chancellor's Advisory Committee and heads of departments to discuss a confidential discussion draft of the policy.

Here, the Court analysed the constituent documents of VUT, and held that only the VUT Council had the power to make a 'university policy' on intellectual property. However, there was no evidence that this policy was ever approved by the VUT Council, nor published in the staff manual. In light of this, it could not be said to be a 'university policy' under Feaver's terms of employment, nor the sort of 'policy' referred to in Wilson's terms of engagement. Therefore, the Court rejected the argument that the policy was a term of each of Wilson's and Feaver's contract of employment.

3.1.2 'Course of employment' test

The Court then considered the application of the common law test for 'course of employment.'

The current position in Australia to determine rights to patents as between employer and employee is that it is an implied term of the contract of employment (subject to any express terms to the contrary), that the employer is 'entitled' to an invention made by an employee, where the invention is made 'in the course of employment' (course of employment test).[3] The satisfaction of the 'course of employment' test in turn, may be said to be influenced by three factors: (1) whether the invention is inside the 'scope of employment'; (2) whether there was any use of the employer's time and resources, and (3) the nature of the employee's position (such as a position of high authority, or relationship of trust and confidence) which gives rise to a special obligation to act in the interests of the employer.[4] This last factor was not discussed in this context, but was later consid-

2. 60 IPR 392 at 458 and 459—para 219.

3. However, note that the Patents Act 1990 (Cth) does not expressly provide when an employer is entitled to the grant of a patent for an invention developed by an employee. Instead section 15(1)(b) of the Patents Act 1990 (Cth) has been construed to provide that such entitlement arises where the invention is made 'in the course of employment' : see e.g. the recent case of *Spencer Industries Pty Limited (Spencer Industries) v. Collins* [2003] FCA 542 at para [10] where this construction was 'accepted by the parties' in that case.

ered in the context of determining whether a breach of fiduciary duty had occurred.

(a) 'Scope of employment'

The first and most important factor that the Court considered to be relevant was whether the invention was included in the employees' 'scope of employment,' that is, whether the employee's duty included the duty to invent the kind of invention in question, so that it was work that the employee was 'retained to do.' In other words, was the invention made in the course of discharging a duty that the employee was under and that the employer has paid for?

The 'scope of employment' encompasses both the 'normal duty' of an employee (to which no specific instruction is necessary), and a 'residual area' where it is open to the employer to instruct (and where a specific instruction is necessary).[5] In *VUT*, though the Court did not explicitly use such terms, the analysis proceeded on whether the invention fell either inside Wilson and Feaver's 'normal duty' of employment where no instruction was necessary, or was otherwise brought in due to their employer's specific instruction. Under the first limb, it was also accepted that the requisite connection to the 'normal duty'[6] of an employee includes both whether the invention is 'within' or is *'sufficiently related'* to that duty.

(i) 'Normal' scope of employment

In this case, the relevant invention was first held to be not 'within' Wilson's and Feaver's 'normal' scope of employment as researchers. Notably, this was not determined by reference to the specific duties they were employed to perform, but rather only by reference to the research activities of the School.[7] Thus, because the research activities of the School had never involved inventing an Internet based e-commerce system, the Court held that it was not within the scope of Wilson and Feaver's employment to create the electronic trade exchange invention.

The individual duties of Wilson and Feaver were only subsequently considered in the context of whether the work undertaken by them was 'sufficiently related' to the activities of the School.[8] In order to determine whether Wilson's and Feaver's activities were 'within' their 'normal' scope of employment, the Court should have first identified in clear and unambiguous terms what each of Wilson's and Feaver's duties were and then explicitly considered whether their activities in developing the relevant invention fell within or outside those duties. Judging whether the activities were within their 'normal' scope of employment merely by reference to the historical activities of the School was not, as a matter of law, the appropriate test to apply.[9]

Secondly, in making its determination on whether the invention was sufficiently 'closely related' to the research Wilson and Feaver were retained to perform, the Court also appeared to place great significance on the fact that:

"(b)efore the advent of the WTO proposal it had never been conceived that they (Wilson and Feaver) were retained to conduct the sort of research that could result in a patentable invention."[10]

Such an analysis is, with respect, also misconceived because it focuses on the *protection* that is potentially affordable to the results of relevant research rather than the results of that research. Thus, if Wilson and Feaver had written a learned paper for a peer review journal describing the workings of their Internet-based e-commerce system in the context of international trade, then presumably the Court would have found that those activities were 'within' or 'closely related' to the 'normal' scope of their employment.[11] However, the fact that they chose to apply for a patent for the results of the same research meant that their activities were no longer included in the 'normal' scope of their employment. This seems to be a highly inappropriate form of distinction.

Thus, instead of focusing on the *substance* of the results of the relevant research vis a vis the scope of the School's (including CIBRE's) historical and *intended* activities, the Court focused narrowly on the fact that:

(a) this specific invention '*was* (historically) never part of the activities of the School';[12]

(b) the kind of research undertaken by the School 'had instead *been* confined to peer reviewed learned papers';[13]

(c) the results of the relevant research were embodied in the form of

4. See for example, the 'close and confidential nature' of the relationship with an employer was a relevant factor in holding that the employee could not hold his invention against his employer: *Worthington Pumping Engine Company v. Moore* (1902) 20 RPC 41 at 46, applied e.g. in *Spencer Industries Pty Limited (Spencer Industries) v. Collins* [2003] FCA 542 at para [84].
5. See *Spencer Industries Pty Limited (Spencer Industries) v. Collins* [2003] FCA 542 e.g. at para [81].
6. Though the Court did not explicitly use the terms 'normal duty' and 'residual area.'
7. 60 IPR 392 at 424, para 108 where the Court states—"Likewise, with an employee retained to conduct 'research,',the content of the duty to research is informed by the business or the employer or in this case the activities of the School of Applied Economics in which Professor Wilson and Dr. Feaver were retained to conduct that research."
8. 60 IPR 392 at 427—para 113.
9. The Courts have long taken an 'individual' approach in ascertaining the 'normal scope of employment,' i.e. by reference to whether the relevant invention fell within the ambit of the individual employee's specific duties see e.g. *Vokes v. Heather* [1945] RPC 135- where the need to consider the terms of the individual's employment contract was emphasised, and *Spencer Industries Pty Ltd v. Collins* [2003] FCA 542 where the changed scope of the employee's duty to include inventing was taken into account. Further, the Court's approach in VUT makes no allowance for the possibility of academics being engaged 'within' their 'normal scope of employment,' to undertake research in an area that the Faculty or School has never previously carried out.
10. 60 IPR 392 at 429—para 116.
11. 60 IPR 392 at 426—para 110 and at 429—para 116.
12. 60 IPR 392 at 426—para 110.
13. 60 IPR 392 at 426—paras 110 and at 429—para 116.

a patent application, a form viewed as more within the realms of the physical science disciplines than the social sciences.[14]

As a result, it was held that the invention was not *'within'* or even *'sufficiently related'* to the kind of academic research in economics and international trade undertaken by the School.

Interestingly however, the Court expressed the view that the position may have been different had the invention been developed by academics in the physical sciences departments or the information technology departments, which did involve the 'sorts of practical or applied research relevant to the development of a computer based e-commerce system.'[15]

In a context where the Court's detailed examination of the connections between the relevant invention and Wilson's and Feaver's 'normal scope' of employment included that:

(a) the proposal giving rise to the establishment of CIBRE (a unit of the School), had expressly identified "new transactional technologies" as within CIBRE's sphere of interest;

(b) the research objective of CIBRE emphasised an applied approach to developments in international business practice and developing links between the university, government and the business community;

(c) the opportunity to invent arose from such links with the business community, and from an activity clearly within CIBRE's scope i.e. the on-line education course;

(d) consistently with CIBRE's sphere of interest, it was Wilson who offered to assist WTO on VUT's behalf, in the design, development and implementation of the electronic trade exchange;[16]

(e) the School had previously been involved in establishing and taking equity in the TradeData business—a business which offered international trade services via the Internet;[17] and

(f) business processes are just as patentable as physical science subject matter—i.e. patents are no longer and have for some time not been the province of "scientists" as opposed to businessmen or applied economists.

It is surprising that the Court did not find that the development of the relevant invention was an activity that was sufficiently 'closely related' to fields of economics and international trade in which Wilson and Feaver were expected to conduct research, so as to include the invention in their scope of employment. Such a result is additionally surprising as the Court found that because the design of the system was 'hardly unrelated to the School's areas of interest,'[18] Wilson had the authority to make it a project of VUT , and yet in undertaking such design and development of the electronic trade exchange invention, their activities were not sufficiently related to the research which the academics were retained to perform.

(ii) 'Residual area'—employer's specific instructions

Notwithstanding that the relevant invention fell outside the 'normal' scope of employment, it was still possible for it to have been created within the scope of employment if it had been developed as a result of an employer's specific instructions. The Court found that Wilson had authority "to decide that work on the system design should be undertaken as a university project."[19]

However, it also found that 'as a matter of logic,' Wilson had the authority "to decide that it would cease to be a university project"[20] such that the relevant invention thereby ceased to be the property of VUT.

Unfortunately the Court did not clearly identify the exact basis of Wilson's authority. Wilson's authority was considered in the unusual context of whether Wilson's and Feaver's activities concerning the design of the system were sufficiently 'closely related' to the research they were retained to do and then in the following terms:-

"As Head of School, Professor Wilson had authority to approve expenditure of the School of Applied Economics: until 2001 up to the amount of $20,000 and after 2001, up to $5,000…"[21]

Thereafter, Wilson's activities as Head of School were cast more in terms of "duties" than "authority." *"Hence it is possible to suppose a significant range of research and other activities sufficiently within the penumbra of Professor Wilson's and Dr. Feaver's specialities as for some purposes to be included in the scope of the duties (emphasis added) which they were paid to perform."*[22]

Those "duties," however, appear to be the basis of the Court's later determination on Wilson's *"authority"* (emphasis added):

"As I have observed already, Professor Wilson had a considerable degree of authority and autonomy as head of the department of Applied Economics to determine this sort of research and other work which might be undertaken within the School…"[23]

Other unsatisfactory aspects of the Court's treatment of the "authority issue" may be summarised as follows:

(a) notwithstanding the Court's contrary view, it does not follow 'as a matter of logic' that a person who has authority to bring certain activities within a particular regime

14. 60 IPR 392 at 426—para 110, at 427—para 111 and at 429—para 116.
15. 60 IPR 392 at 427—para 111.
16. 60 IPR 392 at 399—paras 15 and 16.
17. See e.g. 60 IPR 392 at 427—para 113.
18. 60 IPR 392 at 430—para 122. Similarly, in Greater Glasgow Health Board's Application [1996] RPC 207 at 224, the doctor's invention was held to be related to his scope of employment, but only to the extent of being a 'useful accessory but not part of his contractual duty.'
19. 60 IPR 392 at 436—para 139. That authority was exercised as early August 1999 when Wilson in a letter to WTO offered the assistance of VUT "in the design of the system as well as the on-line education component"—an offer which was accepted by WTO.
20. 60 IPR 392 at 436—para 139.
21. 60 IPR 392 at 427—para 113.
22. 60 IPR 392 at 427—para 113.
23. 60 IPR 392 at 430—para 122.

necessarily has the authority to take those activities or results of those activities outside that regime, particularly when such action is or may be detrimental to an employer or may otherwise be prohibited or expressly excluded from authority;

(b) whilst the Court placed great significance on the fact that the School had never been involved in inventing an Internet based e-commerce system, there was no similar consideration of whether Wilson had ever exercised his authority to take a project which was a university project outside the university—this being a possible basis for establishing the existence or otherwise of such authority in the first place;

(c) the activities resulting in the relevant invention appeared to fall directly within CIBRE's area of interest; Dr. Feaver was Head of CIBRE and yet the Court did not consider what authority he had to accept the project or take it outside CIBRE at a later time.

In finding that Wilson had authority to decide the relevant project ceased to be a university project, the results of that project did not therefore become the property of VUT.

(b) Use of employer's time and resources

This case also serves to reinforce the established principle that the mere use of the employer's time and resources is not sufficient in itself to make the invention the employer's.[24] Here, the Court held that despite the fact that both Wilson and Feaver used significant university time and resources (including at times a significant portion of working hours, use of university mobile phones and extensive use of two high power university computers), this was unlikely to make the invention the university's unless it fell inside the 'scope of employment.'[25] The fact that such use may be a breach of the employment contract, or contractual obligations of good faith and fair dealing was held not to affect the issue of ownership.

3.1.3 Reliance on equitable principles of fiduciary duty

(a)Breach of fiduciary duty

Having found that the invention was not made 'in the course of employment' at law, the Court then considered the equitable doctrine of breach of fiduciary duty.

Here, Wilson and Feaver, as senior academics, were held to owe fiduciary obligations comparable to those owed by any professional employee to their employer, 'not to profit from their position at the expense of the employer and to avoid conflicts of interests and duties.'

Critical to the Court's reasoning in finding a breach of such duty were the following factors:

(a) that the opportunity to design the system was presented to Wilson and Feaver in their capacities as Head of the School and Head of CIBRE respectively;[27]

(b) that the opportunity to design the system was available to VUT in the sense that, WTO 'would have been pleased' for VUT to undertake the design;[28]

(c) that until 23 September 1999, Wilson and Feaver 'conceived themselves to be engaged in a university project';[29]

(d) that the opportunity of continuing the design of the system was taken away from VUT after 23 September 1999 by the agreement to do so by Wilson, Feaver and Astill;

(e) that the Court rejected the defendants' contention that the nature of the invention had undergone such a 'paradigm shift' that it was no longer attributable to the initial opportunity presented to VUT in (a) to (d) above; and

(f) that Wilson and Feaver had not made full and true disclosure to VUT as might have relieved them from the consequences of so acting, this being the case even though the Court held that Wilson had authority to decide that the project would cease to be a VUT project.

In coming to this decision, the VUT case highlighted and applied the following principles:

(1) that there must be a real and sensible possibility of conflict of interest and duty, rather than just a theoretical and abstract possibility;[30]

(2) that it was irrelevant to the question of the breach whether the decision to exclude VUT from the opportunity was made in knowing disregard of (VUT's) interests or an honest ignorance of Wilson's and Feaver's obligations;[31]

(3) that it was largely irrelevant to the question of the breach whether VUT would have chosen to continue with the opportunity if it had been apprised of all the facts.[32]

(b) Consequences of breach of fiduciary duty

The Court then identified the following circumstances which caused it concern about declaring a constructive trust over the relevant invention and associated subject matter:

(1) the 'significant difference' made by Astill's involvement in the development of the invention;

(2) the work done and money spent on the invention between the date of filing of the provisional patent application and the complete patent application;

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24. 60 IPR 392 at 422—para 104, applying e.g. *Worthington Pumping Engine Co v. Moore* [1902] 20 RPC 41, *Spencer Industries Pty Lt v. Collins* [2003] FCA 542 at [64-67] etc.
25. 60 IPR 392—para 104.
26. 60 IPR 392—para 149, applying e.g. *New Zealand Netherlands Society "Orange" Inc v. Kuys* [1973] 1 WLR 1126 at 1129.
27. 60 IPR 392—para 150.
28. 60 IPR 392—para 150.
29. 60 IPR 392—paras 150 and at 441—para 154.
30. 60 IPR 392 at 440, 441—para 152, applying *Queensland Mines Ltd v. Hudson* (1978) 18 ALR 1 at 3.
31. 60 IPR 392 at 439—para 150.
32. 60 IPR 392 at 439—para 150—Though the Court went on to find as a question of fact that it was more likely than not that the university would have wished Wilson and Feaver to continue with the work on the university's behalf if the facts had been disclosed.

(3) the work done and money spent to develop the 'Electron' and 'Ether' software; and

(4) Wilson and Feaver assigning their rights in the invention to IP3 Systems, itself a public company.

In simple terms, the Court was not prepared to prejudice the interests of innocent third parties by declaring a constructive trust over the invention and associated subject matter. Instead, on the basis that IP3 Systems' only assets were the invention, the patent application relevant to the invention and software, the Court declared that Wilson, Feaver and their respective companies 'should be called to account either by the imposition of a constructive trust over their shares in IP3 Systems, or by the payment to VUT of an amount of money equal to the value of those shares, and the proceeds of sale of any such shares which they may have already sold.'[33] This being subject in each case to the payment of subscription moneys and just provision for other appropriate expenses and allowances incurred by Wilson, Feaver and their respective companies.

Wilson, Feaver and their respective companies were also held to bear the burden of establishing the amount of the allowances which ought to be made in their favour and that in the calculation of those amounts they were required to give credit for so much of the university time and resources as they may have diverted to the invention and the software. Having placed such a burden on those parties, however, the Court did go on to hold that a "generous view" should be taken of their contributions "in terms of both time and money and other contribution to the value of the software, and that expenses incurred should bear interest at an appropriate commercial rate from the date of incurrence to the date of reckoning."[34] The parties were therefore left with a difficult accounting and valuation exercise to resolve the matter.

4. PRACTICAL IMPLICATIONS OF THE DECISION

There are a number of obvious and perhaps not so obvious implications of the decision in regards to universities, academics and investors[35] in university sourced research and these may be summarised as follows:

(a) Where a university wishes to ensure that its intellectual property policy forms part of the employment contracts of its academic staff, it must, at the very least act in accordance with its constituent documents in creating that policy. The content of such policy and the extent to which that policy must be brought to the actual attention of its staff were not matters which required consideration by the Court in this case, but they would certainly be matters for consideration in a general employment context.

(b) The decision should also encourage universities to consider the following practices:

(1) including in their terms of engagement for academics a relevant 'duty to invent' to the extent that this is appropriate;

(2) reviewing their terms of engagement for academics more generally, to ensure that the historical research activities of the schools in which those staff hold their appointments do not become the predominant factor in determining the scope of their employment;

(3) identifying clearly the source and extent of an academic's authority as opposed to duties in contexts similar to the present case;[36]

(4) undertaking regular reviews of research activities conducted by their academic staff to determine the extent to which a university may be entitled to intellectual property created and how that entitlement may have been prejudiced. Such a practice would result in early detection of problems and would be most effective if implemented as part of a broader intellectual property management strategy;

(5) undertaking regular education sessions as to the entitlement of various stakeholders to intellectual property in a university environment. Again, this is likely to be most effectively implemented as part of a broader intellectual property management strategy;

(c) The decision is a clear signal to academics that in situations of potential conflict of interests,[37] they have fiduciary obligations which require them not to profit from their position at the expense of their employer and to avoid such conflicts. These obligations are tempered if full and true disclosure of relevant activities is made and informed consent to those activities is given by a university.

(d) Parties seeking any interest in university sourced creations would be well advised to undertake thorough due diligence investigations into the rights and entitlements of academics and universities to grant those interests.

Finally, in general terms, the case is a resounding reminder that intellectual property and its management needs to be a high priority in all intellectual property rich organisations, including universities.

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33. 60 IPR 392 at 459—para 222.
34. 60 IPR 392 at 459—para 223.
35. Note that this case however does not consider the special position of students and visiting scholars, where different considerations apply.
36. As regards considerations (1) to (3), it should be noted that universities still need to consider the impact of the general doctrine prohibiting 'restraint of trade' and 'unfair contracts' legislation: see e.g. Workplace Relations Act 1996 (Cth), s127A-C and Industrial Relations Act 1996 (NSW), s106.
37. In a recent English case of *University of Nottingham v. Fishel* [2001] RPC 22 (QBD), the High Court found the opposite result to the VUT case. In that case, an internationally acclaimed academic engaged in 'outside work' without first obtaining consent from his employer university. While this was clearly in breach of his contract, the academic was found not to owe a fiduciary duty in relation to this part of his activities. This is because the Court held that there was (1) no potential conflict of interest (in fact, the university encouraged and benefited from such outside work); and (2) no specific duty on the academic to procure the 'outside work.'

5. CONCLUDING REMARKS

As outlined above, the Court had ample opportunity to find that the relevant invention and associated subject matter was made "in the course of employment" firstly because the substance of the invention was 'sufficiently related' to the fields which Wilson and Feaver were expected to conduct research or secondly because Wilson lacked authority to take the project outside VUT. The Court's failure to take such opportunities may reflect the inherent difficulties of applying common law principles developed in commercial contexts, to allocate ownership in a university setting.[38] Such difficulties are further exacerbated by the shifting theoretical model of universities i.e.:

(1) Traditional 'Academe' model of a university—based on the pursuit of knowledge as an end in itself, with a focus on peer review papers and where academic freedom (to choose, exploit and to own the results of one's research[39]) is paramount. (In this model, the general common law test may be less appropriate); and

(2) New 'Technopolis' model of a university—based on the exploiting academic research into commercial results, with a focus on practical applications and collaborations with industry, and where academic freedom sits with competing interests like obtaining an appropriate return on public investment.[40] (In this model, the general common law test may be more appropriate).

The Court's assumptions about Wilson's 'authority' in this case may therefore be explained to some extent when considered in the context of academic freedom. Similarly, the apparent distinction on the *form* of the research—between peer reviewed papers and patentable inventions, may also reflect the Court's attempt to grapple with this changing shift in universities.

However, the main reason for the Court's reluctance to take the opportunities to find that the invention was made 'in the course of employment' probably lies in the common law's inflexibility in regard to any 'sharing' of rights. If it had found the invention inside the academics' duty, it is unlikely that the Court would be able to resist VUT's claim at law that legal ownership of all of the invention and associated subject matter were rightfully the property of VUT. Such a result would clearly have prejudiced innocent third party interests which had accrued in that subject matter over time. This appears to be a result that the Court was not prepared to accept, as evidenced by comments such as the following:

> *"A remedy focussed on the shares held by Professor Wilson and Dr. Feaver and their companies therefore fits the facts of the case and it avoids the imposition of adverse affects on innocent third parties and other interests associated with the development of the software* (Emphasis added)."[41]

Thus, if the only people involved in the invention were Wilson and Feaver and their respective companies, it seems doubtful that the Court would have taken the same approach to determining whether Wilson's and Feaver's activities were 'in the course of employment.'[42]

38. See e.g. Minotti A, "Who Owns My Research and Teaching Materials-My University or Me?" (1997) 19 SydLR 425 at 470 where Minotti states: "The use of statutory and common law principles to identify who owns intellectual property of an academic employee is an imperfect means for defining ownership. The focus that these principles has upon the duties of employment is perhaps an inappropriate means on its own of defining ownership in a university academic setting." Academic freedom is described as: "the liberty to choose the subjects to research and the means of pursuing them, …to decide when to make the fruits of that research public and how (if at all) to exploit them" Cornish W. "Rights in University Innovations: The Hechel Smith Lecture for 1991" [1992] 14(1) EIPR 13 at 14.

39. See e.g. discussion of the 'Academe' and 'Technopolis' models in Cornish, n39, in the English academic context.

40. See evidence of the increasing application of the 'Technopolis' model in the Australian environment: see AVCC's Paper 2002 "Ownership of Intellectual Property in Universities—Policy and Good Practice Guide" at p17 which includes the objective of: "Encouraging and developing institutional growth, progress and success through ventures with industry and commerce in mainstream and peripheral activities for full commercial return."

41. 60 IPR 392 at 459—para 221.

42. See Court's comments at 60 IPR 392 at 448 and 449—para 176.