

MANAGING YOUR INTELLECTUAL PROPERTY IN MAJOR PROJECTS

24 April 2008

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1. **Why manage intellectual property?**

- 1.1 As developed economies become more knowledge and information based, "intellectual capital" increasingly underpins the competitive advantage of many companies. This has resulted in a corresponding increase in the value of intellectual property (**IP**) assets, which are an important component of intellectual capital.
- 1.2 Without careful management, the value of intangible assets (being identifiable non-monetary assets without physical substance) can easily be lost in the normal course of business - confidential information may be inadvertently disclosed, trade mark value may be diluted or lost through inappropriate use or a simple failure to meet a deadline for registration, and the value of an asset which depends upon copyright protection can be significantly degraded through the actions of an infringer.
- 1.3 Recent accounting standards such as Financial Reporting Standard 10 "*Goodwill and Intangible Assets*" in the U.K. and AASB 138 "*Intangible Assets*" in Australia, which provide for the value of intangible assets to appear on-balance sheets, also drive company attitudes to the management of IP assets. FRS 10 and AASB 138 allow for the recording of intangible assets independently of goodwill. The potential advantages of this will be counterbalanced by the possible balance sheet impact of the degradation of a valuable brand through mismanagement or the actions of infringers.

2. **Some basics of IP**

- 2.1 The general business community often uses the term "intellectual property" in a broader sense than it is used in a purely legal context. That is, business people often use the term "IP" interchangeably with "intellectual capital" to encompass any intangible asset that they regard as being of commercial value. For example, many companies would regard the collective skills of their workforce as IP.
- 2.2 While both IP and intellectual capital are intangible, IP may be distinguished on the basis that the law recognises the right of one or more individuals to control, manipulate and dispose of it.

2.3 In the absence of any agreement to the contrary, IP rights are generally owned by their creator, unless created by an employee in the course of their employment in which case they are generally owned by the employer.

2.4 In Australia, IP is protected by both statute and common law. The following outlines the primary forms of IP and the relevant governing sources of law:

- copyright - *Copyright Act 1968* (Cth)
- trade marks - *Trade Marks Act 1995* (Cth)
- registered designs - *Designs Act 2003* (Cth)
- patents - *Patents Act 1990* (Cth)
- confidential information, trade secrets and know how - common law

2.5 Other categories of IP exist, including circuit layouts and plant breeders' rights; however, these will not be considered for the purposes of this paper.

3. **Types of IP that are highly relevant in major projects**

3.1 While all of the abovementioned categories of IP may be relevant in any given major project, copyright and confidential information/know how are likely to arise most frequently. The following section provides some background on these areas.

Copyright

3.2 Copyright essentially exists to prevent the unauthorised copying of works and subject matter other than works protected under the *Copyright Act*.

3.3 In Australia, copyright protection exists automatically if an asset falls into one of the categories of subject matter recognised by the *Copyright Act*. There is no requirement for (or indeed system permitting) registration in order to qualify for copyright protection.

3.4 Under the *Copyright Act*, copyright subsists in original literary, artistic, musical and dramatic "works". Literary works include computer programs, dramatic works include film scripts, while artistic works include paintings, sculptures, drawings, engravings, photographs, buildings and models of buildings. Similarly, copyright also subsists in original sound recordings, films, television and sound broadcasts, and published editions of works, all known as "subject matter other than works".

3.5 Importantly, copyright law does not protect mere ideas, facts, methods or systems, but only the form in which ideas, facts, methods or systems are expressed.

Ownership of copyright

3.6 Ownership of copyright generally rests with the creator of a work, in the absence of agreement to the contrary. There are, however, a number of statutory exceptions to this general rule. The most relevant exceptions relating to copyright materials in major projects are:

- (a) **Crown copyright:** copyright in any original work "made by, or under the direction or control of, the Commonwealth or State, as the case may be" will be owned by the Commonwealth or State. Importantly, the words "by or under the direction or control of" may be broad enough to encompass materials made by independent contractors.
- (b) **Employees:** where an employee creates an original work in the course of their employment, the employer will own the copyright.

- 3.7 Consultants and contractors are distinguished from employees for the purposes of determining who owns copyright. Whilst copyright in the works of consultants and contractors may be owned by the Crown under the Crown copyright provisions, in all other circumstances, copyright in a work produced by a contractor or consultant is owned by that person, rather than by the person or organisation engaging the contractor or consultant. This fundamental rule can be modified by agreement to the contrary.
- 3.8 In view of the above, it is advisable to ensure that any consultants and contractors working on projects that are likely to give rise to valuable IP rights sign a written assignment of copyright agreement prior to commencing work on the project.

Confidential information/trade secrets/know how

- 3.9 In circumstances where an invention or work is not patentable or otherwise registrable or protected by copyright, it is most commonly the know how required to create the invention or work that may be protected at common law through the law of confidential information. Information other than know how may also be protected by the law of confidential information, such as more general business information or "trade secrets", personal information, and governmental information.
- 3.10 The law of confidential information will protect only information which is actually confidential. Accordingly, it is essential to ensure that any such information remains confidential and does not become available in the public domain.
- 3.11 Three conditions must be satisfied before a court action for breach of confidence can succeed:
- (a) the information must be confidential;
 - (b) the information must have been disclosed in circumstances which give rise to an obligation of confidence; and
 - (c) there must be an actual or anticipated unauthorised use or disclosure of the information.
- 3.12 Despite the protection afforded by the common law, the most effective method of protecting confidential information is through written agreements with all parties to whom the information is disclosed. These agreements should set out the terms on which the information can be disclosed or used by the receiving party. Confidentiality Agreements not only set out the parties' obligations, but also serve as warning to the recipient that the information being provided to them is confidential and the disclosing party has a serious intent to protect the confidentiality of the information.

Ownership of confidential information

- 3.13 In Australia there is no proprietary interest in confidential information (see cases such as *Pancontinental Mining Limited v The Commissioner of Stamps* (1988) 15 IPR 612). This is in contrast to certain States in the USA where decisions have held that confidential information is property (see, for example, *Carpenter v United States* 484 US 19 (1987)).
- 3.14 In Australia, as information is treated as non-proprietary, it is important in contractual terms to deal with the information on the basis of a grant of a right to use or disclose, rather than in terms of an assignment. If a contract is dealing with international rights relating to the confidential information, particularly where US confidential information is involved, it will be necessary to deal with the contractual transmission of those rights on both an assignment and right to use basis.
- 3.15 Many of the Australian and English cases deal with the establishment of a right to exercise control over specific information (see, for example, *Fraser v Evans* [1969] 1 QB 349 per Lord Denning MR).

4. **Identifying IP arising at different stages of a major project**

4.1 What follows is a breakdown of some of the critical stages involved in major projects and significant IP issues which may arise under each stage. The extent to which all or some of these stages are undertaken will be dependent upon several factors, including the nature of the project, its scope, scale, complexity and locality and the type of client/proprietor.

Selection and engagement of consultants and brief development

4.2 It is typical in major projects to engage consultants in order to identify and provide for critical issues that will need to be considered in later stages. Consultants may be engaged prior to and during preparation of a brief

(a) **Confidential information**

Details provided to consultants regarding a project may contain significant amounts of confidential information. Consider the following:

- Confidential information should be identified and marked "Commercial in confidence" or similar.
- Consultants should sign Confidentiality Agreements, or alternatively, confidentiality obligations should be incorporated as terms in any Consultancy Agreements.

(b) **Copyright**

Copyright in any works (documents or otherwise) created by a consultant engaged for a major project will generally rest with the consultant. Consider the following:

- Contracts should stipulate that copyright in any work produced by a consultant while working for the project will be assigned to and owned by the party engaging the consultant's services.
- An assignment of copyright agreement is the easiest and most effective method of providing that copyright belongs to the party engaging the consultant.
- Terms assigning any copyright created by consultants may be incorporated as part of any Consultancy Agreements.

Design and documentation

4.3 The design of a major project will require further consultants to be engaged including architects, engineers and planners among others. The exact combination of these will depend upon the given project. Consider the following:

(a) **Copyright**

As above.

(b) **Confidential information**

As above.

(c) **Design**

New designs legislation commenced in Australia on 17 June 2004. Under the new Act, "design" is defined to mean, in relation to a product, "the overall appearance of

the product resulting from one or more visual features of the product". A "visual feature" in relation to a product includes the shape, configuration, pattern and ornamentation of the product, but does not include the feel of the product or the materials used in the product". Registration of a design does not protect the way in which a product works. A competitor can copy the functional aspects of a registered design without infringement, provided that a different visual appearance is given to the rival product. Protection of the way an item functions can be obtained through patent law which co-exists with designs law.

While buildings cannot be designs, a design of a building or a model of a building is capable of protection under the designs legislation. Accordingly, where such a product is valuable, legal protection is important.

(d) **Patents**

Construction of a major project may require the use of products or processes which are inventive and, thus, may in certain circumstances be patentable. Consider the following:

- Patent applications should be made for novel products and processes where they are likely to be of commercial value.
- If a patentable product or process is demonstrated, sold or discussed in public before a patent application is lodged, a patent will not be able to be obtained.

The case of *Advanced Building Systems Pty Ltd v Ramset Fasteners (Aust) Pty Ltd* (1997) 38 IPR 28 is an example of where the court considered whether a process used as part of major projects (i.e. methods for erecting prefabricated concrete walls on building sites) was patentable. The Full Federal Court held that the patent was valid and that the respondent's activities amounted to procurement of infringement.

Tendering

4.4 A party wishing to have a major project constructed must provide sufficient information concerning the dimensions of the project so that tenderers can submit their proposals. Consider the following:

- Confidential information contained in tender documents should be provided for by "Commercial in confidence" markings or the like.
- Confidentiality Agreements should be signed prior to information being distributed.
- Importantly, terms should be provided in Confidentiality Agreements regarding the mode of delivery of tender documents and the manner which confidential documents should be stored (and returned or destroyed if the tenderer is unsuccessful).

4.5 The tendering stage is a worthwhile time to incorporate any terms required regarding IP given that tenderers will be keen to win contracts and, therefore, are likely to be more agreeable than in later phases.

Construction

(a) **Confidentiality**

As discussed above, it is important to ensure that confidentiality obligations attach to sub-contractors.

(b) **Trade marks**

If a general name is to be given to a project which may be valuable or may require its identity to be differentiated (e.g. "Docklands" - although in this case this name is in fact an entity - i.e. "The Docklands Authority"; or Foxtel), then trade mark protection should be sought. Similarly, if a landmark building is to be built (e.g. Nauru), then a trade mark should be lodged in respect of the name or logo.

Post-contract

4.6 An audit of all IP created in a major project should be performed in the post contract phase for the following reasons:

- to identify any IP issues that may have been neglected during the project;
- to ensure that steps to be taken to re-register trade marks and designs when due;
- to create a register of IP which allows infringements to be more easily identified.

5. **Conclusion**

5.1 The foregoing discussion illustrates the importance of IP and how it can arise in major projects. In order to maximise the value of IP it is critical to ensure that certain steps are taken:

- (a) identify all IP arising from or connected to a major project;
- (b) take the steps required to own / control the IP; and
- (c) ensure that the IP under one's ownership or control is protected.

Often it is those who own or control the IP used in a major project that have control of the project and the project's outcomes.