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Commercial

Guide to intellectual property ownership issues

This information sheet is a brief guide to some common intellectual property (IP) ownership problems. It also sets out some potential solutions to these problems.

Facts at a glance

Many businesses engage employees or third party service providers to work on new technologies or designs. These technologies or designs will often become valuable assets of the business.

Businesses often assume they own the IP rights in those assets, because they paid for the work. However, this is not always true.

General rule

Under both New Zealand and Australian law, the author or inventor is usually the first owner of the IP in any new technology or design.

For example, under New Zealand and Australian copyright law, the author of a work will usually be the first owner of the copyright in that work. Similarly, the inventor of a patentable technology will usually be the person entitled to apply for a patent for the technology.

Exceptions

The general rule that the author or inventor is the first owner of the IP is subject to some limited exceptions. Here are some exceptions under New Zealand and Australian law.

- If a person commissions someone else to make a certain type of work and agrees to pay for it, the commissioning person will be the owner of the copyright in that work. This is known as the 'commissioning rule'.
- If the author of a work is an employee acting in the course of their employment, the employer will usually be the owner of the copyright and design rights in that work.
- If an employee invents a patentable invention during the course of their employment, the employer will usually beneficially own the rights in the invention.

Don't rely on default rules

It may be unclear whether the individual who created the work was an employee or independent contractor at the time. And even if the person who created the work was an employee, it may still be unclear whether the work was created during the course of their employment, or whether the person was employed to create works of that type.

These factors make it dangerous to rely on the default IP ownership rules. The best approach is to have a contract that outlines who owns the IP.

Document it

All key contracts for the creation of new IP (i.e. employment contracts and service/commissioning agreements) should contain well-drafted IP clauses.

A well-drafted IP clause will state clearly who owns the IP, and what rights each party has to exploit that IP.

If the person creating the work or invention is not to own the IP, the IP clause should state that the inventor or author agrees to assign the IP to the intended owner.

Get an assignment

If you are meant to own the IP in a work or invention but don't have a well-drafted IP clause in the relevant contract, you may be able to rely on the default ownership rules. If not, you will need the other person to assign ownership to you.

If you can't rely on those default rules, but are on good terms with the inventor or author, they may be prepared to sign an assignment document without fuss or additional payment. If not, you could face a costly battle to enforce your rights.

So a well-drafted IP clause can save you time and money.

In some circumstances, even a well-drafted IP clause will only transfer beneficial rights, and so it will still be necessary for the inventor or author to sign a separate assignment document to transfer their legal rights. However, a well-drafted IP clause is still important, because the inventor will be obliged to sign that assignment document when called upon to do so.

What can go wrong if you fail to secure ownership?

Failing to secure ownership of your IP can be costly.

- You may be unable to protect, exploit or commercialise that IP, because someone else may have better rights to it.
- If a third party investor's or buyer's due diligence exposes your IP ownership problems, that third party may choose not to proceed with the deal. Alternatively, the third party may demand that any deal be conditional upon your fixing the problem, or may discount the value of your IP assets.
- It may be difficult to obtain a release or assignment of IP from the relevant employee or contractor because they may demand an additional payment before signing anything. In some cases, the person may have disappeared or even died.
- You may be unable to give warranties and indemnities (e.g. that you own the IP) to customers, licensees or other third parties about the IP. This may jeopardise a future commercial deal.
- You may not be able to stop a third party from using or exploiting the IP.

Check the chain of title

You can see from the IP ownership issues discussed above that it can be dangerous to make assumptions about the ownership of IP.

So, if you're involved in a transaction to buy IP, or to acquire a business that has valuable IP assets, or you are about to enter into a major licensing deal with an IP owner, it may pay to check just how strong the other party's claim to ownership is. You wouldn't buy a house without getting your solicitor to check the title. So don't buy or license an IP right without making sure the other party actually owns it.

To do this, you will need to understand who created the work or invention (in which the IP rights exist), and what the legal relationship was between the creator and the person now claiming ownership. If there is a contract between them, check the terms of that contract.

If there is a break in the chain of title and you don't get it fixed, you may have problems later on.

But it is not just purchasers or licensees who need to worry about title issues. If your commercial plans involve a business sale or IPO, you should make sure you fix any title problems now. The longer you leave them, the harder they will be to fix.

At AJ Park we have considerable experience in dealing with IP audits, and due diligence and chain of title issues. Talk to us if you think you may need help. Getting problems sorted before a business sale can increase the value of your business. And exposing problems with a potential seller's or licensor's title may save you a lot of money and pain.

Co-ownership

When you're negotiating a deal, it is often difficult to decide who should own any new IP arising from the deal. One common temptation is to agree that both parties will be joint owners, or co-owners, of the IP.

But co-ownership deals are seldom documented properly. Important questions—such as how decisions about the protection, enforcement, defence or exploitation of the IP will be made, or who will pay any costs associated with these things—are often left unanswered.

The trouble with leaving these questions unanswered is that the rights and obligations of IP co-owners differ depending on the type of IP right, and the country where the IP right exists.

For example:

- a co-owner of the copyright in a work under New Zealand and Australian law is generally not entitled to deal with the work in any way without first getting the consent of the other co-owners

- a co-owner of a patent in New Zealand or Australia may make, use, exercise, and sell the patented invention for its own benefit without accounting to the other co-owners. But that co-owner may not assign their share in the patent, or license the patent, without the consent of the other co-owners

- a co-owner of a patent in some other countries, such as the United States, may license the patent, or assign their share in the patent, without the consent of the other co-owners.

In most cases, the parties to a co-ownership agreement may vary the default IP co-ownership rules that apply. If they don't do so they may find themselves unable to protect or exploit the IP they co-own.

If you are thinking about entering into a co-ownership deal, talk to us first. We have considerable experience in dealing with co-ownership issues.

Other things to consider

The complex world of IP law requires different solutions depending on the nature of the IP and the country involved. A 'one size fits all' approach does not always work.

Contact AJ Park's commercial team to get the best advice about IP ownership issues.