

Australia

The commercial impact of a changing legal landscape in Australia

In a business environment in which intangible assets continue to represent an ever-increasing proportion of the value of a corporation, actively managing these assets in the boardroom is becoming a key duty of directors. Several Australian decisions issued during the last year highlight the pitfalls for senior business echelons of relegating matters of intellectual asset management to lower levels of the organisation or misunderstanding their duties and obligations to the business.

Patent ownership: *University of Western Australia v Gray*

In 2008 a major Australian university failed to gain control of valuable intellectual property from a professor on the grounds that he had been employed to research, but not to invent.

The University of Western Australia (UWA) alleged that Professor Bruce Gray had breached his employment contract by failing to comply with its patent regulations, as well as his fiduciary obligations to the UWA. The UWA also claimed that Sirtex Medical Ltd, the company established to commercialise Gray's discoveries, had knowingly been involved in those breaches. The decision by Judge French in *UWA v Gray* ((No 20) [2008] FCA 498) that the UWA had no claim to the intellectual property raises many important issues for commercialisation in the academic sector in Australia.

The technology in question was the use of microspheres to deliver a radioactive or toxic payload to kill liver cancer cells specifically while sparing normal liver tissue. The microspheres which deliver selective internal radiation (SIR) became known as SIR spheres and are now successfully marketed by Sirtex, which floated on the Australian Stock Exchange in 2000. Gray was a director of Sirtex.

Ownership of employee inventions

Since no assignment agreements existed between the UWA and Gray or Sirtex, the UWA claimed that

according to its regulations, it was an implied term of Gray's employment contract that intellectual property developed in the course of his employment belonged to the UWA.

The University of Western Australia Act 1911 defines how statutes and regulations can be made by the UWA, including that a new regulation can come into force only from the date when it is promulgated. Despite much discussion during the case about the date of promulgation of the IP regulations and whether they had come into effect at a particular time, the judge found that the UWA could not acquire ownership of intellectual property purely through its statutes and regulations. The regulations provided a procedure "to enable the orderly identification" of intellectual property; however, the judge found that the regulations by themselves were insufficient to acquire or transfer IP ownership from employees to the university.

The judge reviewed the Patents Act 1990 and relevant jurisprudence from Australia and around the world and concluded that, in the absence of an assignment agreement to the contrary, an employer would generally own inventions made by employees during the course of their employment.

Employed to invent?

Gray and his team were employed under contracts which included obligations to teach, undertake research and stimulate research among staff and students. The judge was of the opinion that even though one might think that inventions could reasonably be expected to arise from research, a general duty to research does not equate to a duty to invent. This notion was raised particularly in reference to the university academic environment where the concept of 'academic freedom' is one of free exchange of results and commercialisation is a by-product. Although Gray was employed by the UWA as the professor of surgery, he spent time at the Royal Perth

Hospital and 30 per cent of his salary was paid by the hospital. His employment conditions also allowed for additional private consultative work. No confidentiality or secrecy obligations were imposed upon Gray and his team. Gray's results were widely published, patients were treated with new techniques and the entire research focus was on getting better outcomes to treat those patients. It was concluded that this environment was inconsistent with the secrecy required for patenting inventions.

The judge stated that he did "not consider as a general proposition that there is a presumption at law that the university will be entitled to the rights of inventions developed by such [academic] staff in the course of their research", and that Gray "had no duty to invent anything". Even if there had been an explicit statement in the contract of employment that inventions made during the course of employment belonged to the university, this would not have been enough. Ultimately, it appeared that the "evidence was insufficient to establish that the inventive concept... was developed by Gray while he was an employee or in the course of his employment at the UWA".

Intellectual asset management and due diligence

The case was complicated in part due to the number of entities involved. Over the course of the research, three research institutes, two corporate entities and the UWA were involved in providing funding and staff to the project. Changes in the employment status of staff during their involvement in the project were common (eg, when one entity ran out of funds and another entity took over employment responsibilities). This led to a number of problems, most notably that often the researcher and the other entities involved in the project were not certain who was employing the researcher at any given time. As the researcher remained with the project despite the change in employment status, no exit interviews were carried out, so it was impossible to determine later exactly when an invention was created and thus who was the employer at the time.

For corporate partners engaged in research with universities, this decision highlights the need to pay particular attention to the employment status of researchers to ensure that assignments are obtained from the correct employer, and that licensors have clear ownership of patent(s), so that the risk of disputes arising once commercial success has been achieved is minimised. It also shows the risk of not formally addressing a change in employment where the researcher remains with the project.

The corporate sector may take heart from the judge's comment that Gray's "employment obligations differed from those of a person employed by a private

commercial entity". However, the case provides a textbook reminder that intellectual property derived from the academic sector requires due diligence exercises to be conducted with method, persistence and a willingness to dig beneath the surface.

This case also serves as a salient reminder of the importance of ongoing intellectual asset management and IP education within all organisations. There are many reasons for maintaining and recording experimental results to a high standard. In this case, laboratory notebooks were examined by the judge in order to determine the correct inventors of the patents. In some instances, it was not possible to locate the notebooks, making it impossible to verify inventorship claims. In other instances, the contributions were supported only by fading memories and contradictory recollections. Unfortunately, no laboratory notebook policy for education was in place at the time.

Lessons for the boardroom

While the decision has particular importance for the university sector, there are some important lessons for private business.

The UWA argued that Gray had breached his fiduciary duties to the university. While the judge did not formally find that Gray, as a professor of surgery, owed fiduciary duties to the UWA, it can be implied that where a senior member of university staff creates an invention during the course of employment, the courts may be willing to find that the researcher owes the university fiduciary duties in respect of the invention, similar to those owed by senior staff in a corporate context. An understanding of the potential for fiduciary duties to exist is relevant to commercial partners of academic research.

As the key researcher, Gray was also a director, medical director and/or managing director of the research institutes during the course of the project. Care should be taken where key researchers hold positions of dominance in the corporate or research entities involved in the project as, given the intimate association between the researcher and the entity, this may give rise to an argument that the corporate or research entity is on notice of those matters within the knowledge of the researcher, regardless of whether the researcher has disclosed them.

Sirtex successfully cross-claimed against Gray for breach of director's duties and misleading and deceptive conduct. In 1999 Gray received correspondence from the UWA claiming that the university was entitled to some of the patents being exploited by Sirtex. Gray, who considered the claims spurious, took legal advice in relation to the letter but the matter was not resolved.

Gray did not disclose to Sirtex the letter or his legal advice. He further failed to disclose the letter in later due diligence questionnaires completed prior to the public floating of Sirtex.

In finding for Sirtex on this issue, the judge stated that Gray's opinion that the claims were spurious was immaterial and he had a duty to disclose the letter to Sirtex. The judge also considered that the fact the UWA was ultimately unsuccessful in its claim of entitlement to the patent(s) was irrelevant to the issue of whether Gray had breached his director's duties.

Of particular concern to the judge was that, by omitting to disclose the letter to Sirtex, Gray had deprived Sirtex of the chance to consider the possible implications and risks associated with the letter and take action accordingly.

Thus, the decision reinforces the need for directors to understand the obligations and duties that they have to the board of a company, including to disclose to the company all issues relating to technology and its ownership, regardless of whether the director thinks the issues are of concern.

The UWA has appealed the decision to the Full Bench of the Federal Court of Australia.

False suggestion and misrepresentation

Listed companies take considerable care to ensure that all relevant information is disclosed to the stock exchange in order to comply with corporations law. The implications of not instilling this discipline at all levels of an organisation became clear in another important decision in 2008.

In *Ranbaxy Australia Pty Ltd v Warner-Lambert Company LLC* ([2008] FCAFC 82) the Full Federal Court of Australia upheld a lower court finding that the claims of Warner-Lambert's patent directed to the enantiomer atorvastatin calcium should be revoked for false suggestion and misrepresentation. This finding is perhaps a portent of the manner in which revocation actions before Australian courts may proceed in future, mirroring the common practice in US patent matters in which allegations of fraud in the patent process are common.

Atorvastatin calcium is the active ingredient in a prescription cholesterol-lowering medication marketed in Australia under the product name Lipitor. In 2004 Ranbaxy Australia Pty Ltd proposed to import into Australia for sale a product containing atorvastatin calcium. Warner-Lambert alleged that the importation and sale of the product would constitute infringement of two of its patents covering Lipitor. Ranbaxy commenced a proceeding seeking an order revoking the narrower patent directed to an enantiomer of the

active ingredient. Warner-Lambert filed a cross-claim seeking to restrain Ranbaxy from infringing both patents.

The Full Federal Court stated that: "if a representation that was false or misleading materially contributed to the commissioner's decision to grant a patent, even if other circumstances or causes also played a part in the making of that decision, it may be said that the patent was obtained by a false suggestion or misrepresentation. It is sufficient if the representation materially contributed to the commissioner's decision to grant the patent or was a material, inducing factor, which led to the grant."

Ranbaxy asserted that false suggestions or misrepresentations were made in the patent specification itself and in the patent prosecution process by statements made to the examiner concerning the results of comparative testing of the enantiomer. The court agreed. In particular, it found that the data in the patent specification did not correctly represent the results of tests that were carried out by Warner-Lambert, and that in fact Warner-Lambert had selected only that data which supported a case for patentability and had withheld concurrently obtained data which showed a significantly lesser degree of activity. Further, in prosecuting the patent application, the patent attorney had highlighted the selected data and had asserted a tenfold increase in efficacy, when in fact only a twofold increase had been seen in broader trials. Since it had been proven that Warner-Lambert had been in possession of, but had withheld, data which contradicted the attorney's assertion, its actions were found to be material in misleading the commissioner.

This brings into sharp focus the need for inventors to disclose full details of their experiments to their patent attorneys, and for patent attorneys to interrogate inventors properly so that what is drafted into a patent specification is a truthful account of an invention, rather than an attempt to obtain commercial advantage by half-truths.

The yellow brick road? Not quite!

The landscape in Australia relating to the registrability of single-colour trademarks has been coloured by decisions in *Woolworths Limited v BP Plc (No 2)* ([2006] FCAFC 132) and *Cadbury Schweppes Pty Ltd v Darrell Lea Chocolate Shops Pty Ltd (No 8)* ([2008] FCA 470).

The decisions provide companies with pause for thought as to how they can obtain monopoly protection for what they may consider as their distinctive corporate colours, and make clear that decisions to pursue such protection must involve all facets of the business if success is to be achieved.

Background

In the absence of trademark registration for the colour purple, in respect of which Cadbury asserted that it had rights that were encroached upon by Darrell Lea, Cadbury took action for passing off and for misleading and deceptive conduct under Australian competition law. Cadbury's royal purple is well known to consumers, but Darrell Lea's use of the colour in its packaging is also longstanding. The courts ultimately affirmed a decision that in using the colour purple, Darrell Lea had not passed off its business or products as those of Cadbury; nor had it acted in an anti-competitive manner.

BP filed a number of applications for registration of the colour green in relation to petroleum-related goods and services. In a seesawing series of appeals, the Full Federal Court reversed the lower court decision and affirmed the decision of the trademark registrar to refuse the applications. BP was refused leave to appeal to the High Court of Australia.

What a prospective colour mark owner needs to prove

Although questioning whether colours *per se* were registrable in Australia, the courts have affirmed their understanding that a colour, or a combination of colours, constitutes a sign which is registrable under the Trademarks Act 1995. However, single colours are not inherently adapted to distinguish. If it can be demonstrated that the colour is to "some extent inherently adapted to distinguish", then evidence of use or intended use may be sufficient to persuade the registrar or a court that the mark is registrable. Generally, however, evidence of factual distinctiveness will be required. Such factual distinctiveness must be demonstrated at the time that the application for

registration is filed. Evidence must demonstrate that the colour has been used intrinsically in the marketing of the goods or services to the extent that it has acquired a secondary meaning. It does not follow that a company is entitled to a monopoly in a colour simply because the colour is associated in the minds of consumers with a particular product or service. While surveys are still likely to provide useful evidence, it is essential that the survey relate to the nature of the mark for which the application is lodged.

When dealing with colour trademarks (whether single colours or combinations of colours), the notion of the representation and the identity of the mark will almost inevitably be linked to the context in which the mark is used. Accordingly, it will almost certainly be central to the understanding of both the representation and the identity of the trademark to describe the mark by way of an endorsement to the trademark application. As the endorsement may well be critical to the ultimate success of the application, considerable care must be exercised in describing the mark. Any amendment to the endorsement will be rigorously scrutinised to ensure that the amendment does not extend the scope of the mark for which protection is sought.

A whole business perspective is required

While there is undoubted value in obtaining monopoly rights in a colour or colour combination, considerable forethought is required before any application for registration is filed, including a marketing plan to educate the purchasing public to associate the colour with the goods or services of a business, and the determination of the manner in which the colour is to be used to ensure such use is as a trademark and not simply decoration.

Prior to joining the patent attorney profession in 1978, Brian Hendy practised as a research chemist working on the development of optical brightening agents (resulting in the grant of several patents) and on pre-cursor projects to the development of Australia's polymeric banknotes. Mr Hendy has extensive experience in non-contentious trademark matters, including the management and maintenance of trademark portfolios for both Australian and overseas clients.

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Karen Sinclair has over 20 years' experience in assisting Australian companies with the successful commercialisation of research in international markets through strategic management of their intellectual property. Her practice focuses on advising on intellectual asset management. She specialises in the fields of chemical synthesis, pharmaceuticals, agrochemicals, polymer chemistry and formulation chemistry. Ms Sinclair is a senior fellow in the Law Faculty at Melbourne University, president elect of the Licensing Executives Society of Australia and New Zealand, and a registered trainer for the LESI.

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Lachlan Wilson has licensing and commercialisation experience in past positions as the IP manager at Melbourne's prestigious Walter and Eliza Hall Institute of Medical Research and at the Department of Primary Industries' commercialisation office. He has post-doctoral laboratory research experience in the United Kingdom and Australia. Dr Wilson specialises in all aspects of IP protection, providing advice on patents and trademarks with a focus on ensuring alignment of intellectual assets with commercial strategy.

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