

**Employee's Rights in Respect of Patent,  
Designs and Copyright Material\***

by

D.G. Poole

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I. INTRODUCTION

What rights do employees have in respect of patents, designs and copyright material they produce? It would be facile to reply that their rights and obligations are governed by the contract of employment. This paper does not attempt to examine the various fact situations which have come before the courts — such an exercise would be of little value in an area of the law where so much turns on the particular circumstances of each case. What is important are the general criteria and methods of reasoning the courts will apply to determine rights to property which arise out of the master/servant relationship. How much can an employer expect from his employees? Ought the law to encourage inventive employees? How far does the law permit the parties to determine the incidents of their relationship?

This paper commences with an examination of the master/servant relationship and with what entitles an employer to claim for himself an employee's intellectual output. Next is a study of the courts' approach to express agreements regulating employees' obligations and to enforcing employees' obligations. Finally, the interests protected and residual interests are examined.

II. CONTRACT OF SERVICE

In the absence of express agreement or statutory provision,<sup>1</sup> the employee's rights to copyright, patent and designs material are deter-

See s.9 Copyright Act 1962 which substantially enacts the common law position; see *Lawrence & Bullen v. Aflalo* [1904] A.C. 17.

mined by the general law relating to service contracts. Relevant issues include: Was there a contract of service? Was it the employee's duty to produce such material? Was the material executed in the course of employment? While these factors tend to go hand in hand, it is not always safe to assume that the existence of one necessarily implies the existence of others. In fact the majority of employees will never be under a duty to invent or produce copyright and designs material notwithstanding the subsistence of a master/servant relationship. If such employees were, for example, to produce a patentable invention they would not be obliged to hand it over to their employer, even if it were executed in their employer's time and with his materials.<sup>2</sup> Similarly an employee whose duty is to invent, will not be obliged to hold an invention on trust for his employer where the invention was so unrelated to the employer's business that it could not be said to arise in the course of employment.<sup>3</sup>

The issues noted above will be dealt with generally and then the peculiarities of copyright, patents and designs law in the field of service contracts will be examined.

#### A. *The Contract of Service*

Although the contract of service is a common prerequisite of the employee's duty to hold material he produces on trust for his employer, it is not a necessary criterion. Cases could be postulated where there was no contract of service yet the court would hold that there was an implied term of the particular agreement that rights in the subject-matter of the agreement would rest with the person ordering the work.<sup>4</sup> This apparent *volte-face* by the law from the prima facie position that the originator of the work is entitled to rights in it<sup>5</sup> rests primarily on implied terms<sup>6</sup> or notions of good faith in confidential relationships<sup>7</sup> rather than on any strict categorisation of master and servant.

Nevertheless it is evident that the contract of service provides the most usual and fertile background for the imposition of an obligation to hold the products of one's talents for the benefit of another. The law defining the incidents of a contract of service is a dubious mixture of law, equity and notions of status. We speak of a "contract of ser-

<sup>2</sup> *Mellor v. William Beardmore* (1927) 44 R.P.C. 175, 191.

<sup>3</sup> *Vokes v. Heather* (1945) 62 R.P.C. 135.

<sup>4</sup> Cf. s.9(3) Copyright Act; *Lawrence & Bullen v. Aflalo*, supra. Note that the commissioner's rights may only extend to a licence to make reasonable use of the material; *Fisby v. B.B.C.* [1967] Ch. 923, 947, per Goff J.

<sup>5</sup> Copyright Act, s.9(1); Patents Act 1953, s.7(1) (a); Designs Act 1953, s.6(1).

<sup>6</sup> See cases in n.4, and provisions in n.5.

<sup>7</sup> See *Regal (Hastings) Ltd. v. Gulliver* [1942] 1 All E.R. 378, 387; *Canaero v. O'Malley* (1973) 40 D.L.R. (3d) 371.

vice" yet it would be unwise not to recognise that the relationship is peculiarly divergent from traditional contractual concepts. In our context, for example, one would expect that the "implied term"<sup>8</sup> to transfer inventions to one's employer would yield to evidence that no such term ought reasonably to be implied. It is trite law that implied terms are merely inserted to give a contract "business efficacy" or to give effect to the reasonable intentions of the parties.<sup>9</sup> The implied term to forego rights to inventions is however a duty of a different character. It is not surprising to find discomfort on the part of judges when dealing with this concept. In *Sterling v. Patchett*<sup>10</sup> Lord Reid was moved to say:<sup>11</sup>

Strictly speaking, I think that an implied term is something which in the circumstances of the particular case the law may read into the contract if the parties are silent and it would be reasonable to do so: it is something over and above the ordinary incidents of the particular type of contract. If it were necessary in this case to find an implied term in that sense I should be in some difficulty. But the phrase "implied term" can be used to denote a term inherent in the nature of the contract which the law will imply in every case unless the parties agree to vary or exclude it.

In that case, while there existed an "understanding" that the employee should have at least some benefit from his inventions (although agreement had not been finalised) the House of Lords held that the employer was entitled to the whole benefit of the invention. Their Lordships, while asserting that the "implied term" was of an unusual character in the case of master and servant, were less clear as to the classification of the character of the duty involved. Viscount Simonds, an equity lawyer, had less difficulty in implying a term in the circumstances. He suggested that the employer's right was a proprietary one which could thus be excluded only by express agreement.<sup>12</sup> With respect this seems somewhat circular. Even if the right is a proprietary one, it must still have its genesis in the contract of service, and the issue remains: did the particular contract contemplate that the employer would have the whole benefit of the invention? And the assumption that the right is proprietary itself forecloses discussion. However to say that Viscount Simonds begged the question (which he described as a "radical fallacy"<sup>13</sup>) probably ignores the underlying thread in his judgment — that of viewing the master/servant relationship as one of status rather than contract. He described the obligation in this way:<sup>14</sup>

It is a term which given the conditions which are present . . . the law imports into the contract . . . it is only an implied term in the contract of any workman that what he produces shall become the property of the employer.

<sup>8</sup> Blanco White, *Patents for Inventions* (1974), para. 9.302.

<sup>9</sup> *Halsbury's Laws* (4th ed.) vol. 9, para. 355; *The Moorcock* (1889) 14 P.D. 64, 68. (1955) 72 R.P.C. 50 (H.L.).

<sup>10</sup> *Ibid.*, 58.

<sup>11</sup> *Ibid.*, 56-57.

<sup>12</sup> *Ibid.*, 56.

<sup>13</sup> *Idem.*

Some doubts remain, however. Given that the existence of a contract of service is a matter of fact<sup>15</sup> determined according to the special circumstances of the case<sup>16</sup> it would seem strange that the incidents of that relationship were determined without regard to the particular facts and expectations of the parties — unless of course one accepts that status rather than contract governs the relationship.

What facts give rise to this relationship? A detailed discussion of the concept is beyond the scope of this paper, but a few particular points will be noted.

Although the traditional test for the existence of a master/servant relationship is "control" this may be inappropriate in the cases before us. "Control" includes whether the employer can direct the time in which work can be done, the means to be adopted, and the method of work.<sup>17</sup> The problem with the control test is that while one can easily see control present in the case of the worker on the assembly line, it is not easy to see the management of a firm having much direct control over a researcher who is engaged in work about which they often know little, for a result which until completed, is at most a hazy expectation, and who often does much work out of regular hours and away from the firm's place of business.<sup>18</sup> In many cases management will be unwilling to interfere lest creativity be impeded.

The courts' approach to this problem has been varied. The High Court of Australia takes the view that where control exists in even a small area of employment, that is sufficient. What matters is lawful authority to command so far as scope for it exists.<sup>19</sup> The English Courts have abandoned, with reluctance, the control test — at least in the field of copyright and patent law. Since the control test was generally applied to more menial jobs it was argued that the contract of service could not extend to skilled or inventive employees.<sup>20</sup> This *non-sequitur* was hardly appealing, either in logic or in law, and the Courts bent the principle of control rather than obliterate the contract of service in this context.<sup>21</sup> In *Cassidy v. Ministry of Health*<sup>22</sup> Somervell J. was prepared to adopt the broad proposition of whether there existed a contract of service within the meaning that an ordinary person would give to the words.<sup>23</sup> While this clearly introduced no

<sup>15</sup> *Smith v. General Motor Cab Co.* [1911] A.C. 118.

<sup>16</sup> *Simmons v. Heath Laundry* [1910] 1 K.B. 543, 549.

<sup>17</sup> *National Federation of Sub Postmasters v. Minister of Health* (1939) 116 L.T. 337, 338.

<sup>18</sup> *Morren v. Swinton & Pendlebury B.C.* [1965] 2 All E.R. 349, 351.

<sup>19</sup> *Zuijs v. Wirth Bros* (1955) 93 C.L.R. 561 per Dixon C.J., Williams, Webb and Taylor JJ.

<sup>20</sup> See *Beloff v. Pressdram* [1973] 1 All E.R. 241, 248.

<sup>21</sup> *Cassidy v. Ministry of Health* [1951] 2 K.B. 343; *Zuijs v. Worth Bros*, supra; *Beloff v. Pressdram*, supra.

<sup>22</sup> [1951] 2 K.B. 343.

<sup>23</sup> *Ibid.*, 351-352.

novel criterion, it opened the way to the examination of new factors. In *Stevenson Jordan and Harrison v. MacDonald and Evans*<sup>24</sup> Lord Denning, after citing various examples, went on to say that "one feature which seems to run through the instances is that, under a contract of service, a man is employed as part of the business, and his work is done as an integral part of the business."<sup>25</sup> Clearly the "integration" test is a broader one than "control". Subsequent English authority has affirmed the view that the distinction lies in whether the person engaged is performing the services as a person in business on his own account or not<sup>26</sup> and has gone as far as indicating that control will be of little relevance where the employee is highly skilled.<sup>27</sup>

This development of the law has brought English authority in line with the American decisions. In *U.S. v. Silk*<sup>28</sup> the Supreme Court stated:<sup>29</sup>

the courts will find that degrees of control, opportunities for profit and loss, investment in facilities, permanency of relation and skill required in the claimed independent operation are important for decision. No one is controlling nor is the list complete.

What are the consequences of the master/servant relationship? It has already been noted that this relationship is not of itself enough to give rise to proprietary rights in the employer but in combination with other factors — such as a duty to produce the work, and whether the work was in the course of employment — may result in an irresistible presumption of property in the employer.<sup>30</sup> The basis of this result in the implied term has already been doubted.<sup>31</sup> In *Triplex v. Scorah*<sup>32</sup> Farwell J. suggested that it lay in "equity" or "good conscience".<sup>33</sup> Other cases too have emphasised the question of whether it is inconsistent with good faith that an employee should hold an invention or other material for himself.<sup>34</sup> One cannot help but wonder to what extent it can be said to be an act of "good conscience" for an employer to insist on property in an invention on which his employee has spent much of his own time and labour and about which the employer showed disinterest until it proved profitable.<sup>35</sup> In such cases

<sup>24</sup> [1952] 1 T.L.R. 101.

<sup>25</sup> *Ibid.*, 111. See also *McMullin Holdings v. Clerical Workers Union* [1969] N.Z.L.R. 530, 532.

<sup>26</sup> *Market Investigations v. Min. of Social Security* [1968] 3 All E.R. 732, 737.

<sup>27</sup> *Beloff v. Pressdram*, *supra*, 250.

<sup>28</sup> 331 U.S. 704 (1946).

<sup>29</sup> *Ibid.*, 716.

<sup>30</sup> *Sterling v. Patchett* (1955) 72 R.P.C. 50 (H.L.).

<sup>31</sup> See p.357, *ante*.

<sup>32</sup> (1938) 55 R.P.C. 21.

<sup>33</sup> *Ibid.*, 28.

<sup>34</sup> *Selz's Application* (1954) 71 R.P.C. 158, 164; *British Syphon v. Homewood* [1956] R.P.C. 275.

<sup>35</sup> As were indeed the facts in *Triplex v. Scorah*, *supra*.

setting up a legal fiction such as “implied term” to transform the employee into a trustee and then using this to deny validity to a waiver by conduct (on the ground that acquiescence or inaction cannot operate as a release of a trust)<sup>36</sup> seems less than reassuring.

### B. *Course of Employment*

As we have seen the existence of the master/servant relationship is by no means conclusive. The critical factor is whether it was part of the employee’s job to come up with the material concerned — was it produced in the course of his employment? There are two aspects to this question: First, to what extent are the employee’s obligations governed by strict contract? For example, if one employs an aeronautical engineer to design new equipment one naturally expects to get the rights to those designs as part of the consideration for employing him.<sup>37</sup> The second aspect involves doctrines of good faith or confidentiality which make it unconscionable for an employee to resist the demands of his employer.<sup>38</sup> An interesting development of this aspect of the law has been the extension of company directors’ fiduciary liabilities to senior employees.<sup>39</sup>

While the courts have made it clear that “no one sells or mortgages all the products of his brains to his employer by the mere fact of his employment”<sup>40</sup> it is by no means certain how far short of this they will go. It is not difficult to itemize several indicia of cases where the work will be said to have been executed in the course of employment — that the employee was instructed to perform the particular services,<sup>41</sup> that the material produced has application in the employer’s business,<sup>42</sup> that the work was done in the employer’s time and with his materials,<sup>43</sup> that the employer has made use of the material with the employee’s acquiescence in his business,<sup>44</sup> that the status of the employee in the organisation cast upon him obligations to hold material as trustee.<sup>45</sup> What presents more difficulty is discerning the underlying criteria for these essentially factual tests, none of which

<sup>36</sup> *Triplex v. Scolah*, supra.

<sup>37</sup> See *Reid & Sigrist v. Moss & Mechanism Ltd.* (1932) 49 R.P.C. 461, 480.

<sup>38</sup> See *British Syphon v. Homewood* [1956] R.P.C. 225, 230-231; *Worthing Pumping Engine v. Moore* (1903) 20 R.P.C. 41.

<sup>39</sup> *Canaero v. O’Malley* (1973) 40 D.L.R. (3d) 371; *Industrial Developments v. Cooley* [1972] 2 All E.R. 162.

<sup>40</sup> *Public Affairs Association v. Rickover* 177 F.Supp. 604 (1959).

<sup>41</sup> *A.S. Solomons v. U.S.* 137 U.S. 342, 346 (1890).

<sup>42</sup> Cf. *Mellor v. Beardmore* (1927) 44 R.P.C. 175, 191.

<sup>43</sup> *British Syphon v. Homewood*, supra, n.38, 229; cf. *Selz’s Application*, supra, n.34.

<sup>44</sup> *Barnett v. Overton* (1949) 66 R.P.C. 315.

<sup>45</sup> *Edisania v. Forse* (1908) 25 R.P.C. 546.

could be regarded as conclusive in themselves.<sup>46</sup> Thus it has been suggested that the real question is whether the employee would have breached his contract of service had he not performed the work or not made his work available to his employer.<sup>47</sup> While this is helpful, it is suggested that it may be misleading in some cases by understating the importance of obligations of good faith imposed *ab extra*, which flow from the status of the employee and his knowledge of his employer's business. In *Electrolux v. Hudson*<sup>48</sup> one of the most recent reported cases in this area, Whitford J., rather than alluding to a duty on the defendant's part to perform the work in question (which he was clearly not under)<sup>49</sup> concentrated on whether there was anything unfair or dishonest in the defendant's conduct,<sup>50</sup> or a breach of good faith or fidelity.<sup>51</sup> In other words, the mere fact that an employee would not breach his contract if he failed to do the act in question, or that his employer had no power to command him to do the act<sup>52</sup> may not conclude the issue of whether it is consistent with good faith that he hold the material against his employer.<sup>53</sup> Of course it is customary to assert that such obligations are part and parcel of the contractual duties<sup>54</sup> and in an extremely broad sense they probably are. It is suggested that the fiduciary duties falling upon company directors and senior employees can be seen as representing an area of this obligation of good faith in service,<sup>55</sup> although their duty actively to disclose and make benefits available for their company<sup>56</sup> is obviously stricter than a lower employee's — which, depending on the facts, might be no more rigorous than not to be actively dishonest.<sup>57</sup>

Where the obligations of good faith are minimal the question to be asked is whether the employee would have breached his contract by not making his ideas available. Where there is sufficient proximity between the employer and the employee and the subject matter concerns the employer's business there may be additional obligations of good faith or confidence which preclude an employee from calling the property his own. To take an example, copyright in Maitland's lec-

<sup>46</sup> See *Marshall and Naylor's Patent* (1900) 17 R.P.C. 553; *Worthing Pumping Engine v. Moore*, *supra*, n.38.

<sup>47</sup> Bloom, "Teacher's Copyright in his Teaching Materials" [1972] J. Soc. Pub. T.L. 333, 344; *Stevenson Jordan & Harrison v. MacDonald & Evans* [1952] 1 T.L.R. 101, 107.

<sup>48</sup> [1977] F.S.R. 312.

<sup>49</sup> *Ibid.*, 323.

<sup>50</sup> *Ibid.*, 325.

<sup>51</sup> *Ibid.*, 330.

<sup>52</sup> See n.47, *supra*.

<sup>53</sup> *Triplex v. Scorch*, *supra*.

<sup>54</sup> *Sterling v. Patchett*, *supra*.

<sup>55</sup> *Canaero v. O'Malley* (1973) 40 D.L.R. (3d) 371, 384.

<sup>56</sup> *Regal (Hastings) Ltd. v. Gulliver* [1942] 1 All E.R. 378; *Industrial Developments v. Cooley* [1972] 2 All E.R. 162, 173-174.

<sup>57</sup> See *Electrolux v. Hudson*, *supra*; cf. *Hivac v. Park Royal* [1946] 1 Ch. 169.

tures would be Maitland's, not that of the University of Cambridge, because delivery of the particular lectures was not controlled by the contract of service — the number and content of the lectures was his affair.<sup>58</sup> And it certainly could not be said that Maitland would breach obligations of good faith or confidence by publication of his lectures — and in no sense could the lectures be called the trade secrets of the University. At the other end of the spectrum, while company directors may not be said to be employed, in usual circumstances, under a contract of service,<sup>59</sup> their equitable obligations compel them to be trustees for their company for knowledge they acquire. Their obligations are so strict that they will not be permitted to profit from knowledge and skill acquired during service.<sup>60</sup> In such cases there may well be no duty (in the contractual sense) to prepare the material, yet once it is prepared trusteeship is imposed. It will be seen that similar, if somewhat weaker, concepts are applied to employees in the strict sense, and it is now proposed to examine the applications of these concepts in patent, designs and copyright law.

#### (i) Patents and designs

So far as the legal relationship arising from employment is concerned, patent law is applicable to designs as well.<sup>61</sup> What one finds in patent law is a greater emphasis on the interrelation (and possible confusion) of legal duty, good faith obligations, and trade secrets. The reason is not difficult to find. Modern management may have little idea of what its researchers are up to (making it difficult to establish any contractual duty). More importantly, since the essence of patents is novelty,<sup>62</sup> the discovery of a patentable invention is perhaps a matter of accident rather than design, so that it is difficult to formulate contractual obligations which contemplate the invention occurring. Further, the fact that patent law, as compared with copyright, protects ideas,<sup>63</sup> must necessitate greater obligations of good faith and secrecy. Of course, these difficulties are not insuperable, and it must be asked whether the law ought to be sympathetic to employers in this way. As we shall see, in many cases the law results in employers getting something for nothing where, had the parties contracted on the basis that inventions would be made, the employee may have received handsome royalties.<sup>64</sup> There are, of course, many other considerations

<sup>58</sup> See *Stevenson Jordan & Harrison v. MacDonald* [1952] 1 T.L.R. 101, 107.

<sup>59</sup> *Antocks Lairn v. Bloohn* [1972] R.P.C. 219; *Re Lee & Behrens* [1932] 2 Ch. 46, 53.

<sup>60</sup> *Regal (Hastings) Ltd. v. Gulliver*, supra, n.56; *Cranleigh Precision Engineering v. Bryant* [1966] R.P.C. 81.

<sup>61</sup> *Blanco White*, *op. cit.*, 350.

<sup>62</sup> See *Bristol Myers Application* [1972] F.S.R. 604, cited in *Blanco White*, *op. cit.*, 112 et. seq. On designs, see *Blanco White*, *op. cit.*, 320.

<sup>63</sup> See *Hicktons Patent Syndicate v. Patents Co.* (1909) 26 R.P.C. 339 (C.A.).

<sup>64</sup> Cf. *Sterling v. Patchett* (1955) 72 R.P.C. 50 (H.L.).

— under our law, if the employer did not have property in the invention or design, the employee would have exclusive rights to it and be able to play “dog in the manger” with material which might be of vital importance in the particular business.

It is important to realise, however, that under English law the “duties” referred to are general ones — an employee need not be requested to devise the particular invention nor need he have been asked to advise on the question<sup>65</sup> for the invention to be his employers. Any requirement of a “duty to invent” tends to wither away into an implication drawn from the circumstances.<sup>66</sup> To this extent, “course of employment” has a broader meaning in English law than it does in the United States. In *A.S. Solomons v. U.S.*<sup>67</sup> the Supreme Court stated:<sup>68</sup>

[an employee] may exercise his inventive faculties in any direction he chooses, with the assurance that whatever invention he may thus conceive and perfect is his individual property. . . . But . . . if one is employed to devise or perfect an instrument or a means of accomplishing a prescribed result, he cannot, after successfully accomplishing the work for which he was employed, plead title.

The U.S. position stresses the need for the duty to be imposed by the contract of service — our position asks whether it is inconsistent with an employee's duty of good faith that he hold the invention as trustee.<sup>69</sup> Is there any substantive difference between those two positions? It is suggested that there is; for one thing, the participation required of the employer by U.S. law is considerably greater. The U.S. courts also take a more flexible view of the rights conferred. Thus the dictum cited above only applies where the employer is claiming beneficial rights in the invention itself. Where an invention (which does not fall within the test above) is made in the employer's time, with his materials and has an application in the employer's line of business, then the employee will be compelled to grant a “shopright” (non-exclusive licence) to his employer<sup>70</sup> to use the invention in his business. English law would appear to favour granting the employer sole rights in such a case,<sup>71</sup> although conceivably the court might opt for the employee.<sup>72</sup> An obvious objection to the “shopright” doctrine is that the value of the licence may well exceed the cost to the employer in the employee's time and wages. To reject it altogether on this basis would, however, be foolhardy. The “shopright” doctrine offers more

<sup>65</sup> *British Syphon v. Homewood* (1956) R.P.C. 225, 230-231.

<sup>66</sup> Cf. *British Syphon v. Homewood*, supra; *Barnett Instruments v. Overton* (1949) 66 R.P.C. 315.

<sup>67</sup> 137 U.S. 342 (1890).

<sup>68</sup> *Ibid.*, 346.

<sup>69</sup> *Selz's Application* (1954) 71 R.P.C. 158, 164; *Electrolux v. Hudson* [1977] F.S.R. 312, 326.

<sup>70</sup> *Solomons v. U.S.*, supra; *U.S. v. Dubiler Condenser Corp.* 289 U.S. 178 (1935).

<sup>71</sup> *Barnett Instruments v. Overton* (1949) 66 R.P.C. 315; see also *Triplex v. Scoriah*, supra.

<sup>72</sup> *Selz's Application*, supra n.69; *Vokes v. Heather* (1945) 62 R.P.C. 135, 167.

to the employee than current English law, which in many corresponding fact situations would give the employer property outright.

English law, having no half-way position analogous to "shop-right", has not felt constrained to insist on the same requirement of a specific duty to invent or of some employer participation which has found favour in the U.S. law. The policy disadvantage of the English approach is that it provides no guarantee of reward for employees who, while they may hold some position of responsibility or are to devise methods of construction or manufacture, are under no specific duty to invent. By contrast, under the "shopright" doctrine, if an employer wants the patent rights, he must bid for them. In the event of failure of agreement, he is adequately protected by his licence to use the invention. For this reason, American law has been able to distinguish between mere employment to devise new methods of manufacture, and employment to invent,<sup>73</sup> pursuing its general reluctance to imply assignments of inventive ability.<sup>74</sup>

This discussion has ignored the effect of the Patents Act 1953 and the Designs Act 1953 because they have had little impact at all in this area. In leaving the standing to apply for a patent or designs registration to the inventor "or his assignee"<sup>75</sup> or "the proprietor"<sup>76</sup> as the case may be, they leave it to the general law to determine who those persons are. Any attempt at statutory definition adds little to what one would expect the general law position to be.<sup>77</sup> Some attempt was made by the legislature in 1953 to provide apportionment in hard cases.<sup>78</sup> This provision has been a dismal failure because of the inexplicit wording in the phrase: ". . . unless satisfied that one or other of the parties is entitled to the exclusion of the other, to the benefit of an invention." On one construction, as under the previous law one party was always entitled, to the exclusion of the other, to the benefit of an invention, in all cases the court or commissioner must be satisfied that one of the parties is "entitled" to the invention.<sup>79</sup> The law assumes, at the outset of the inquiry, that the subsection can have no application, unless the parties expressly agree to apportionment, in which case it is superfluous. It has been asserted that there is a residual area in which section 65 (2) of the Patents Act might apply. Lord Reid in *Sterling v. Patchett*<sup>80</sup> suggested that it might "afford a convenient method of

<sup>73</sup> *U.S. v. Dubiler Condenser* 289 U.S. 178, 188 (1932).

<sup>74</sup> *Idem*.

<sup>75</sup> Section 7 Patents Act 1953 (N.Z.).

<sup>76</sup> Section 5(1) Designs Act 1953 (N.Z.).

<sup>77</sup> See Designs Act 1953, s.6.

<sup>78</sup> Section 65(2) Patents Act 1953. There is no analogous provision in the Designs Act 1953.

<sup>79</sup> *Sterling v. Patchett*, *supra*, 57-58.

<sup>80</sup> *Supra*, discussing s.56(2) (U.K.).

working out the terms of the parties agreement".<sup>81</sup> However, in the light of the result in that case any substantive alteration of the law by section 65 (2) must be discounted. There are other provisions for joint ownership of patents<sup>82</sup> but the courts have not been willing to accommodate such principles into the general law of employee inventions. Thus in *Barnett Instruments v. Overton*<sup>83</sup> Romer J. rejected an argument that employer and employee be joint owners of an invention, despite the absence of express agreement, on the grounds that it lacked authority<sup>84</sup> not, it might be noted, because it lacked factual basis.

## (ii) Copyright

The nature of copyright subject-matter will, in many cases, make strict contractual principles more appropriate than they are in patent law. The fact that copyright exists in the form rather than aiming to protect novel ideas makes it easier to contract in advance for copyright work. One can hire someone to write business articles, for example, without having to specify the ideas they contain. While it is probable that employees in menial occupations might initiate improved processes, it is perhaps unlikely that they will bother writing a book on them, or produce diagrams of a standard of "artistic craftsmanship", although it must be remembered that that standard is not at all high.<sup>85</sup> People who produce literary, artistic or dramatic works<sup>86</sup> (or indeed other works protected by copyright)<sup>87</sup> are usually employed as such. To some degree this must also be true of industrial designs, and it must be questioned whether the more liberal principles of "good faith" that are in vogue in patent law have as strict an application to designs. Designs, of course, have the same kind of protection as patented inventions, but the type of employee who initiates the design, and thus the relevant circumstances in determining "course of employment", may bear a closer resemblance to copyright. The overlap between copyright and designs law<sup>88</sup> can only heighten this confusion.

The essence of copyright protection lies in the form of the work as distinct from the ideas it contains. It could well be that copyright in a work ought, in a particular case, to rest with the author, but that the value of the facts and ideas contained in the work should rest with the employer. For this reason, it is suggested that notions of "good faith"

<sup>81</sup> (1955) 72 R.P.C. 50, 58.

<sup>82</sup> Section 84 Patents Act 1953. See also s.6(2) Designs Act 1953.

<sup>83</sup> (1949) 66 R.P.C. 315.

<sup>84</sup> *Ibid.*, 323.

<sup>85</sup> See *British Oxygen v. Liquid Air* [1925] Ch. 383.

<sup>86</sup> Section 7 Copyright Act 1962.

<sup>87</sup> See ss.13, 14, 15, 17.

<sup>88</sup> See *Johnson v. Bucko Enterprises* [1975] 1 N.Z.L.R. 311.

or unconscionable assertion of ownership play a somewhat limited role in copyright. Further, the nature of the subject matter makes it easier to establish that the material was executed before<sup>99</sup> or after<sup>90</sup> the employment and hence is not covered by the contract of service. Unless there is a breach of trust or confidence, the fact that an employee publishes information acquired in the course of employment (after employment has ceased) will not operate to vest copyright in the employer.<sup>91</sup> Indeed, even where there may be a breach of confidence for the employee to publish, he may still be able to rely on copyright to prevent publication by another. Any agreement preventing an employee making use of information acquired in the course of employment (not being confidential) will probably be a restraint of trade and unenforceable as such.<sup>92</sup>

But the fact that the subject-matter of the employment may, in the case of copyright, be determined with sweeping generality by the parties beforehand by reference to form may cause difficulties for an employee. *Beloff v. Pressdram*<sup>93</sup> illustrates that a background memorandum may be said to be produced in the course of employment, although counsel's concession in that case obviously weakens its authority.<sup>94</sup>

The general approach to employee's copyright rights in the United States follows that in respect of patents. For a work to be considered to be executed in the course of employment, a high degree of particularity in the terms of employment is required in order to vest property in the employer.<sup>95</sup> Thus American decisions stress the right of the employer to control the work,<sup>96</sup> and ask whether the work was done at the insistence of the employer, or whether the employer was the "motivating factor".<sup>97</sup> English authority tends to have concentrated on the existence of a master/servant relationship<sup>98</sup> and there appears to be little authority in copyright law relating to "course of employment". What there is, however, tends to follow the United States position a little more closely than does patent law. Thus in *Stevenson Jordan and Harrison v. MacDonald and Evans*<sup>99</sup> Lord Evershed M.R. spoke of the need to establish a contractual duty not only to give the lectures in question, but also it seemed, to establish

<sup>99</sup> See *Sun Newspapers v. Whippie* (1928) 28 S.R. N.S.W. 473, 478.

<sup>90</sup> *Stevenson Jordan & Harrison v. MacDonald & Evans* [1952] 1 T.L.R. 101, 110.

<sup>91</sup> *Idem*.

<sup>92</sup> *Herbert Morris v. Saxelby* [1916] A.C. 688, 714 (H.L.).

<sup>93</sup> [1973] 1 All E.R. 241.

<sup>94</sup> *Ibid.*, 247.

<sup>95</sup> *Phillips v. W.G.N.* 29 N.E. (2d) 849, 855 (1940); *U.S. Ozone v. U.S. Ozone of America* 62 F. 2d. 881, 884, 887 (1932).

<sup>96</sup> *Picture Music v. Bourne* 457 F. 2d. 1213 (1972).

<sup>97</sup> *Goldman Morgan v. Dan Brechner* 411 F. Supp. 382 (1976).

<sup>98</sup> See Copinger & Skane James, *op. cit.*, 144 et seq. 9.

<sup>99</sup> [1952] 1 T.L.R. 101.

that the firm's rights went beyond a mere licence and covered copyright as well.<sup>1</sup>

Of particular interest is the reservation of rights in journalists' works.<sup>2</sup> Previous attempts to reserve rights in journalists met with little success in the courts — under Australian provisions,<sup>3</sup> for example, it was held that the rights merely constituted a right to veto publication and did not give the author any copyright in the work.<sup>4</sup> The U.K. revision of the Copyright Act in 1956 (which was enacted in New Zealand) altered the law in order to give the employee a share in a split copyright in the work.<sup>5</sup> It is somewhat ironic that this provision — which is analogous to "shopright" or more accurately an apportionment — should have found ready acceptance in Commonwealth jurisdictions without any lead from the U.S. in this area, while patent law has withstood attempts to effect divisibility of ownership of employees' inventions.<sup>6</sup>

What, then, is the basis of the "course of employment" exception? One writer has drawn attention to the error in transposing cases decided under workers' compensation or tort to this area of the law.<sup>7</sup> For this reason, cases on workers' compensation, although cited liberally in standard texts,<sup>8</sup> have been avoided. Rather, what has been attempted is a synthesis of contractual duty and matters of good faith or conscience and an examination of the relevance of both in each area. Some peripheral areas remain. What, for example, is the status of work which has been submitted and rejected, or not accepted? In the field of patent law, it has been observed that mere disinterest will not be sufficient to preclude an employer from later demanding an invention, since the trustee cannot be divested of his trust without release.<sup>9</sup> Whether rejection of work would be sufficiently unequivocal to constitute a waiver or estoppel is uncertain.<sup>10</sup> Rejection may imply that the work is not required at the time, and nothing more — it need not amount to an acceptance that the work forms no part of the employee's duties.<sup>11</sup>

Another uncertain area is whether the law requires a duty to execute the work in question. As we have seen, in many cases this lies at the heart of the "course of employment" problem. The best conclusion

<sup>1</sup> *Ibid.*, 108.

<sup>2</sup> Section 9(2) Copyright Act 1962.

<sup>3</sup> (Commonwealth) Copyright Act 1912, Schedule, s.5(1) (b).

<sup>4</sup> *Sun Newspapers v. Whippie* [1928] 28 S.R. N.S.W. 473, 478.

<sup>5</sup> Copyright Society, *Studies in Copyright*, vol. I, 729.

<sup>6</sup> See s.65 (2) Patents Act 1953; *Sterling v. Patchett*, *supra*.

<sup>7</sup> Bloom, "Teacher's Copyright in his Teaching Materials", *loc. cit.*, 337, 344-345.

<sup>8</sup> *Copinger & Skane James, op. cit.*, 144 et. seq.

<sup>9</sup> *Triplex v. Scora*, *supra*.

<sup>10</sup> Cf. *Woodhouse Israel Cocoa v. Nigerian Produce Marketing* [1972] A.C. 741.

<sup>11</sup> Cf. Bloom, *loc. cit.*, 345, who appears to take a contrary view.

that can be drawn is that the duty must exist but the evidence required to establish its existence may vary widely depending on the area of the law (patent, design, or copyright) and the status of the employee and relevance of the material to the employer.

### III. EXPRESS AGREEMENTS

The discussion so far has concerned situations where the parties make no express agreement relating to material produced by employees and has examined the law's attempt to fill the vacuum. Very often, however, the parties do make an express contract covering the material in question. The general law will lend its aid to such agreements and usually enforces them. Contractual freedom leaves little or no room for *droit moral*<sup>12</sup> or "professional credit"<sup>13</sup> under our law, so that employees may find that they have divested themselves of all rights in their work. Equally, of course, there is nothing to stop the employer contracting out of his prima facie rights, but such cases appear to be rare — which is hardly surprising.<sup>14</sup> And even if an employee does succeed in exacting a promise of reward from his employer, he may subsequently discover that it is unenforceable for lack of consideration because of his prima facie position as trustee.<sup>15</sup>

The law is not beyond implying "express agreements" to vary the general position if it feels that the parties' dealings require it,<sup>16</sup> although a glance at *Sterling v. Patchett*<sup>17</sup> confirms that this has been applied somewhat unevenly. The law's attitudes to the parties' agreement will generally follow the rules applicable to contracts in general and little needs to be added in that regard. Employer/employee contracts have, however, been subjected with uncharacteristic vigour to the rules relating to restraint of trade. It is proposed to devote the bulk of this discussion to those principles.

Any contract in restraint of trade is prima facie unenforceable unless it can be shown to be reasonable as between the parties and not contrary to the public interest.<sup>18</sup> Some restraints will not require justification where they have been moulded by market forces and then have passed into the normal currency of commercial relations.<sup>19</sup> We are concerned with a particular type of promise — namely, that an

<sup>12</sup> See Marvin (1971) 20 I.C.L.Q. 675.

<sup>13</sup> Cf. *Misani v. Ortho Pharmaceutical Corp.* 198 A.2d. 791 (1964).

<sup>14</sup> See *Christopher Bede v. United Portraits* [1958] N.Z.L.R. 250 for such an agreement relating to commissioned copyright works.

<sup>15</sup> *Barnett Instruments v. Overton*, supra.

<sup>16</sup> *Massine v. De Basil* [1936-45] Mac. C.C. 223; *Lawrence and Butler v. Aflalo*, supra.

<sup>17</sup> Supra.

<sup>18</sup> *Nordenfelt v. Maxim Nordenfelt* [1948] A.C. 535; *Esso Petroleum v. Harper's Garage* [1967] 1 All E.R. 699.

<sup>19</sup> *Esso Petroleum v. Harper's Garage*, supra, 729, per Lord Wilberforce.

employee will grant an employer rights in his future work, and the circumstances in which such a term could be an unreasonable restraint of trade. This will be discussed from two standpoints: first, where such clauses have effect during the employment; and secondly, where they apply after employment.

### A. Restraints During Employment

Obviously the contract of service would cease to have much point if employees were free to work for others, or themselves, while purporting to work for their employer. The nature of the contractual relationship of master and servant requires extensive restriction of employees' rights to exercise their liberties to trade. "Normally the doctrine of restraint of trade has no application to such restrictions; they require no justification."<sup>20</sup> Indeed, Blanco White has baldly asserted that there is no authority that agreements giving employers inventions made in the duration of employment can be enforceable restraints, at least for the full-time employee.<sup>21</sup>

For this reason, argument in the cases followed a pattern that no exclusive restriction could be an unreasonable restraint in the sense of requiring justification.<sup>22</sup> They could only be struck down if they were oppressive, too "unilateral" or exorbitant<sup>23</sup> — somewhat narrow grounds. *Shroeder v. Macaulay*<sup>24</sup> presented an opportunity to review these authorities. The agreement in that case took the form of an assignment of copyright for an initial period of five years. The publisher could terminate on notice, but the songwriter could not. While the publisher promised to pay advances from royalties, there was no promise that the publisher would exploit the songwriter's work. The upshot was that the plaintiff was locked into an agreement for five years under which his earnings were entirely dependent upon the whim of the publisher. When faced with the argument that the copyright assignment could not be categorised as a restraint of trade because it applied during the currency of a contract for exclusive services, the Court of Appeal replied:<sup>25</sup>

Rather than attempt to classify some situations involving restrictions on trade as restraints of trade and other situations not, we would prefer a quite general approach to such situations.

Although the Court did accept that such restraints during employ-

<sup>20</sup> *Shroeder v. Macaulay* [1974] 3 All E.R. 616, 622.

<sup>21</sup> Blanco White, *op. cit.*, para 9.305, n.89.

<sup>22</sup> See *Esso Petroleum v. Harper's Garage*, supra, 713; *Instone v. Shroeder* [1974] 1 All E.R. 171 (C.A.).

<sup>23</sup> *Instone v. Shroeder*, supra, 177.

<sup>24</sup> [1974] 3 All E.R. 616 (H.L.); sub. nom. *Instone v. Shroeder* [1974] 1 All E.R. 171 (C.A.).

<sup>25</sup> *Instone v. Shroeder*, sub. nom. supra, 177.

ment were less likely to be unreasonable than those "after the contract has come to an end",<sup>26</sup> this only went to the question of reasonableness and was not viewed as a factor going to the categorisation of the clause as a restraint or not.<sup>27</sup>

The Court concluded that total lack of obligation on one side with total commitment on the other precluded justification. The appeal to the House of Lords was dismissed. The grounds for dismissing the appeal seem a little obscure. Lords Reid and Diplock delivered the only judgments — the other law lords concurred. Lord Reid might be thought to have adopted a narrower test of "sterilisation"<sup>28</sup> of potential which was discredited in the Court of Appeal,<sup>29</sup> and thereby reserving (or preserving) a special category for restrictions during employment. But what was of importance was not so much the restraint on the songwriter, but the near absence of obligations on the publisher. It does appear that Lord Reid did not view the obligations imposed on the songwriter as unreasonable in themselves, but only in the light of the absence of obligations on the defendant.<sup>30</sup> Such an agreement was hardly a restraint of trade at all in the traditional sense — it did not unreasonably deprive the songwriter of his liberty to trade with others. The objection was that the contract exploited his lack of bargaining power — it had a propensity to be oppressive.<sup>31</sup> This was clearly articulated in Lord Diplock's judgment, although he, too, categorised the doctrine as "restraint of trade",<sup>32</sup> where he stated:

If one looks at the reasoning of the nineteenth century judges in cases about contracts in restraint of trade one finds lip service paid to current economic theories but if one looks at what they said in the light of what they did one finds that they struck down a bargain if they thought it was unconscionable . . . .

One wonders why it is necessary to continue to pay "lip service" to a restraint of trade doctrine in the light of this hitherto submerged head of public policy.<sup>33</sup> It is suggested that *Shroeder v. Macaulay* has given the restraint of trade doctrine a novel and expanded significance. Before *Shroeder*, the "reasonableness" test was generally applied to the restraint itself<sup>34</sup> — were the restrictions reasonably necessary to protect the promisee's business? Public interest was virtually a dead letter.<sup>35</sup> While the consideration was considered to be an important element, it was generally a factor which led the Court to

<sup>26</sup> *Ibid.*, 178.

<sup>27</sup> *Ibid.*, 177.

<sup>28</sup> [1974] 3 All E.R. 622.

<sup>29</sup> *Supra*, 177.

<sup>30</sup> [1974] 3 All E.R. 622.

<sup>31</sup> *Idem.*

<sup>32</sup> *Ibid.*, 623.

<sup>33</sup> See *Naylor, Benzon v. Krainische Industrie Gesellschaft* [1918] 1 K.B. 331, 342; *Horwood v. Millar's Trading* [1917] 1 K.B. 305.

<sup>34</sup> See *Nordenfelt v. Maxim Nordenfelt*, *supra*, 565.

<sup>35</sup> *Ibid.*, 565.

find the clause reasonable.<sup>36</sup> *Shroeder* seems to indicate that consideration, if inadequate, will make an otherwise enforceable restriction unenforceable as against public policy.<sup>37</sup> While there is no clear logical distinction between the two positions it would appear that the result is that reasonableness is now used to strike down contracts which would otherwise be enforceable instead of merely providing a justification for restrictions previously categorised as unenforceable. Thus, while the case bears a superficial resemblance to *Petrofina v. Martin*<sup>38</sup> and *Amoco v. Rocca*<sup>39</sup> (in that it committed Macaulay to "tie" for a period in the future) there is a crucial distinction in the finding that the "tie" was not unreasonable *per se*.

Obviously, the doctrine needs to be more firmly worked out in this area. It might appear that any contract calling for future performance may be stigmatised as an unreasonable restraint of trade<sup>40</sup> and demand justification, unless it can be placed within a "normal currency" of commercial relations category.<sup>41</sup> Despite what Lord Wilberforce said in *Esso*,<sup>42</sup> it must be doubted whether service contracts can ever be put into such a category.<sup>43</sup> Public interest too, seems to have demanded the striking down of unfair or unconscionable contracts.<sup>44</sup> In our context, it is clear that employers will have to offer more than the chance to make money at their discretion when they hire people to produce copyright, patent or design materials. An agreement which ties an employee to exercise his inventive talents for one employer and which is capable of being used oppressively<sup>45</sup> will probably be struck down.

Another aspect of the *Shroeder* decision is the relevance of standard forms. The message is clear — customary restrictions will not be acceptable where such a custom is based on bargaining advantage.<sup>46</sup> This, it is suggested, would be applicable to most service agreements where standard conditions are used since there is an inevitable departure from such conditions where employees of proven worth are involved.

The willingness of courts to strike down such standard restraints was recently demonstrated in *Electrolux v. Hudson*.<sup>47</sup> This case was

<sup>36</sup> *Idem*; see also *Esso Petroleum v. Harper's Garage*, supra, 708; *Kerchiss v. Colera Printing* [1960] R.P.C. 235.

<sup>37</sup> Supra, 622, 624 (H.L.).

<sup>38</sup> [1966] Ch. 146.

<sup>39</sup> (1975) 49 A.L.J.R. 57 (P.C.).

<sup>40</sup> See *Petrofina v. Martin*, supra, 180.

<sup>41</sup> *Esso Petroleum v. Harper's Garage*, supra, 729.

<sup>42</sup> *Idem*.

<sup>43</sup> See *Esso Petroleum v. Harper's Garage*, supra, 732; *Shroeder v. Macaulay*, supra, 622.

<sup>44</sup> *Shroeder v. Macaulay*, supra, 623-624, per Lord Diplock.

<sup>45</sup> *Ibid.*, 622, 623.

<sup>46</sup> *Ibid.*, 622, 624.

<sup>47</sup> [1977] F.S.R. 312, per Whitford J.

novel in that, if Blanco White is correct,<sup>48</sup> this was the first case where an agreement to assign inventions made in the currency of employment was held unreasonable. It is also interesting from the point of view that the restriction was held to be too wide and therefore unenforceable *per se*,<sup>49</sup> whereas *Shroeder v. Macaulay* concerned a contract which promised nothing for the employee and was oppressive.<sup>50</sup> Indeed, *Shroeder* was distinguished.<sup>51</sup> While, therefore, Whitford J. might appear to reject the more radical approach in *Shroeder*, the case has a significance of its own in its implicit rejection of the traditional view that contracts for exclusive services are a category immune from the doctrine where the restriction operates during the currency of employment.<sup>52</sup> Indeed, Whitford J. suggests that the only appropriate area for the restriction before him was where the invention formed part of the course of the employee's job,<sup>53</sup> which must make extending the liability of employees practically impossible.

### B. Restraints Following Employment

Employers will frequently wish to prevent employees from making use of, or publicising, techniques and material they developed after their employment is terminated. There are obviously two ways of doing this — either prevent the employee from working in competition,<sup>54</sup> or provide that he may work only for you<sup>55</sup> (an assignment of future property). The motives behind such restrictions are most probably reasonable enough — no employer wishes his competitors to sponge off his investment, nor does he want his employees to take the business with them, so to speak, when they leave. Employees may even feel that they have a mutual interest in this and collude to prevent competition from workers.<sup>56</sup> The problem for the law is drawing the line between the reasonable interest of the employer in securing his business and the employee's interest in being able to move freely between jobs. There is also the public interest in preventing the sterilisation of productive talent.

Save for *Shroeder v. Macaulay*,<sup>57</sup> there appears to be a paucity of case law on restraints in the copyright and designs field.<sup>58</sup> Perhaps patent law is more closely allied with the doctrine because of the

<sup>48</sup> *Op. cit.*, para. 9.305, n. 89.

<sup>49</sup> [1977] F.S.R. 312, 322-324.

<sup>50</sup> *Supra*, 622-623.

<sup>51</sup> *Electrolux v. Hudson*, *supra*, 323.

<sup>52</sup> *Ibid.*, 323-324.

<sup>53</sup> *Ibid.*, 322.

<sup>54</sup> *Kerchiss v. Colera*, *supra*, n.36.

<sup>55</sup> *Electric Transmission v. Danneberg* (1949) 66 R.P.C. 183.

<sup>56</sup> *Kores v. Kolok* (1958) R.P.C. 200 (C.A.).

<sup>57</sup> *Supra*.

<sup>58</sup> Copinger & Skane James, *op. cit.*, do not appear to find it worth mentioning.

secrecy surrounding research into new processes and the corresponding fear on the part of corporations that their hard-won edge on their competitors might evaporate. The common test for justifying restrictions operative after termination of employment is: was the restriction reasonably necessary to protect the employer's business and not injurious to the public interest?<sup>59</sup> The fact that copyright protects form rather than ideas and that its requirement of "originality" seems rather less than the "novelty" required of a patent or design<sup>60</sup> means, of course, that employers will have less legitimate interest in demanding restraints on copyright after employment.

The employer must establish that the restriction is not unreasonable<sup>61</sup> — restraints applicable after employment have not been categorised (unlike those applied during service) as acceptable as part of the normal currency of business relations. An agreement preventing an employee from making use of any information acquired during employment will be unenforceable.<sup>62</sup> An agreement to assign the products of such information must also be void.<sup>63</sup> But a restriction covering property of a secret or confidential nature will be enforceable,<sup>64</sup> since such a clause would be a reasonable protection of business. Indeed, there is some authority that a restriction is only reasonable if it covers no more than trade secrets learnt in the course of service.<sup>65</sup> This may be a little restrictive. Such a clause could be reasonable (perhaps if it went no further than a licence) to protect the contribution the employer made in developing the improvements by the availability of capital and time. None of this has any real relation to breaches of confidence, so that while the extent to which the material caught by the clause as reasonably considered part of the employer's business may often be co-extensive with an employee's duty of confidence, other considerations, such as a proportional investment by the employer in the developments, may be relevant in determining reasonableness. Nor could it be said that a clause protecting an employer's investment in a particular process for which he already holds a patent would prevent the employee getting employment elsewhere, since such employment would have to be admitted as involving an infringement of the employer's rights, both to confidence and under his patent.

Commonly employers, after extracting a promise to assign future material, insert a clause providing that consent to use by the ex-

<sup>59</sup> *Triplex v. Scora*, supra.

<sup>60</sup> *University of London Press v. Tutorial Press* [1916] 2 Ch. 601.

<sup>61</sup> *Triplex v. Scora*, supra, 27.

<sup>62</sup> *Morris v. Saxelby* [1916] 1 A.C. 688, supra, n.55.

<sup>63</sup> *Electric Transmissions v. Danneberg*, supra, n.55.

<sup>64</sup> *Vandervell Products Ltd. v. McLeod* [1957] R.P.C. 185, 192.

<sup>65</sup> *Idem.*, see Farwell, 44 L.Q.R. 66; Blanco White, *op. cit.*, para. 9.305.

employee of the material will not be unreasonably withheld. Despite its being considered a factor pointing to reasonableness in one decision<sup>66</sup>, the general approach to such provisos is one of suspicion.<sup>67</sup> The courts generally demand that the clause be reasonable apart from the consent proviso,<sup>68</sup> thus construing the elements disjunctively to ensure that reasonableness is established at all stages.

What public policy is being enforced here? *Shroeder v. Macaulay*,<sup>69</sup> it seems, has shown a revival of public policy against oppressive contracts,<sup>70</sup> but the policy of encouraging the creation of novel material, and gainful employment for those who do so, does not seem to have been clearly articulated. The American courts, not surprisingly, do take account of the latter proposition. In *Guth v. Minnesota Mining*<sup>71</sup> it was stated:<sup>72</sup>

The public policy of the land . . . is one that encourages inventions and discourages the exclusion of an employee from engaging in the gainful occupation for which he is particularly fitted . . . .

This awareness of the *raison d'être* of the law may be contrasted with the attitude towards public interest demonstrated in *Kores v. Kolok*,<sup>73</sup> which was a peculiar case because it involved a contract whereby two employers mutually agreed not to hire each others staff without consent. One party wished to break this arrangement and sought to have the agreement declared unenforceable in restraint of trade. Lloyd Jacob J. was prepared to hold the agreement contrary to the public interest since it would permit the plaintiffs to deny workers employment with the defendants (together the firms seemed to hold a monopoly in the locality).<sup>74</sup> The Court of Appeal held primarily that the agreement was unreasonable between the parties.<sup>75</sup> It is hard to see why that should be so where the consideration supplied by one party is the same as that supplied by the other — it was for their mutual benefit to conclude an agreement, even if, as apparently occurred, it might turn out badly for one of them. While disclaiming any “public interest” against such monopolies<sup>76</sup> the Court did consider the plight of employees,<sup>77</sup> which surely must have formed the basis for the decision — unless that is so, it is hard to see that the employers had “no legitimate interest”<sup>78</sup> in preventing employees working for other

<sup>66</sup> *Kerchiss v. Colera*, supra, n.36.

<sup>67</sup> *Persl v. Saalfeld* [1892] 2 Ch. 149; *Chafer v. Lilley* [1947] L.J.R. 231.

<sup>68</sup> *Chafer v. Lilley*, supra, 234; *Technograph v. Chalwyn* [1967] R.P.C. 339, 344.

<sup>69</sup> Supra.

<sup>70</sup> *Ibid.*, 623; cf. *Printing Numerical Register v. Sampson* (1875) L.R. 19 Eq. 462, 465.

<sup>71</sup> 72 F. 2d. 385, 388-389 (1934).

<sup>72</sup> *Ibid.*, 388-389.

<sup>73</sup> [1958] R.P.C. 200 (C.A.).

<sup>74</sup> See [1957] 3 All E.R. 158, 163.

<sup>75</sup> [1958] R.P.C. 200, 208-209.

<sup>76</sup> *Ibid.*, 210-211.

<sup>77</sup> *Ibid.*, 209.

<sup>78</sup> *Idem.*

firms. The disclaimer of any reliance on "public interest" not only makes the decision puzzling, but also a matter for concern since it is clear that the employees would have had no standing to have the agreement avoided.<sup>79</sup>

### C. Effect of Restraints

It is of importance to note that an executed assignment of property pursuant to an invalid restraint may still have effect and the employer will be entitled to the work subject to royalty payments provided for.<sup>80</sup> But it must be recognised that if the employer merely has an equitable title, he cannot compel the execution of a legal assignment in such a case since this would amount to enforcement of the restriction. The result is that if the agreement is executed by the "innocent" party, the court will enforce it to the extent of requiring the "oppressor" to perform his promises.

It is also possible that an otherwise invalid restraint could be given effect by a New Zealand court under section 8 of the Illegal Contracts Act 1970. Modifications must be reasonable at the date the contract was made,<sup>81</sup> and any such modification will be enforced like any other term.<sup>82</sup> It is hoped that initial judicial enthusiasm in using the new powers<sup>83</sup> will be tempered by a desire to ensure that an "oppressive" employer does not get the best of both worlds by enforcing the term when he can and having the court enforce it to a reasonable degree when he cannot.<sup>84</sup> There is some evidence, however, of a judicial inclination to enforce restrictions to the extent that it is reasonable to do so, rather than strike down a clause altogether because it could be applied unreasonably.<sup>85</sup>

Where restraints have no effect at all, there remains the question of whether the law will step in to fill the void and place some obligations on the promisor. Despite the opinion that the common law rules had an "annihilating effect" on the contract,<sup>86</sup> the courts have shown a willingness to impose obligations on an employee despite invalidity. Thus, in *Triplex v. Scolah*,<sup>87</sup> Farwell J. refused to allow an employee to be, as he put it "as dishonest and to act as unfairly as he pleases".<sup>88</sup>

<sup>79</sup> *Mogul S.S. v. McGregor Gow & Co.* (1889) 23 Q.B.D. 598, 619; (1892) A.C. 25, 39, 46.

<sup>80</sup> *Instone v. Shroeder*, supra, n.22. See also Dawson (1974) 90 L.Q.R. 455, 460.

<sup>81</sup> *H. & R. Block v. Samott* [1976] 1 N.Z.L.R. 213, 220; *Cessford v. Hobbs* [1977] N.Z. Recent Law 126.

<sup>82</sup> *H. & R. Block v. Samott*, supra, 220.

<sup>83</sup> *Idem*.

<sup>84</sup> See *Greenwich v. Murray Stewart* [1978] N.Z. Recent Law 135.

<sup>85</sup> *Clark v. Electronic Appliances* [1963] R.P.C. 234, 237; *Littlewoods v. Harris* [1978] 1 All E.R. 1026 (C.A.).

<sup>86</sup> *H. & R. Block v. Samott*, supra, 219.

<sup>87</sup> *Supra*.

<sup>88</sup> *Ibid.*, 28.

The American view is substantially the same — equity will not allow a party to make use of one of its doctrines (restraint of trade) to defeat another (viz., the employer's equitable right to the material under the general law).<sup>89</sup> It must seriously be argued against this view, that a salutary and rigid rule may be the best means to achieve justice in the long term<sup>90</sup> and perhaps the "clean hands" doctrine should apply to defeat a claim in equity (as it was in *Triplex v. Scorah*) for an assignment where the employer had attempted to use oppressive means to achieve his end.

#### IV. INTERESTS PROTECTED AND RESIDUAL RIGHTS

It is now proposed to examine the interests the law favours in determining rights to employees' patent, designs and copyright material and whether the employee retains, or should retain, any residual rights in his work.

The employer, no doubt, has a legitimate interest in receiving the consideration for which he bargained and in restraining the unfair use of his trade secrets and techniques. But his interest should not extend to "windfall" rights arising somewhat fortuitously after the terms of the employee's contract of service have been set. The marginal cases demand not the rough justice of an all-or-nothing outcome which is presently the law, but a greater flexibility to ensure our law recognises varying degrees of participation in inventive work. In cases where an employer's time and materials have been used to formulate a new process it would be a mistake not to recognise his capital contribution. Mere recovery of expenses might not be adequate since without his facilities the discovery may not have been possible. The law will fail to encourage inventiveness if it does not allow the employer to recover some share for freely making his facilities available, and the mere fact that the invention was not contemplated by the service agreement should not be a bar to such an interest. As we have seen, English law does not recognise "substantial (but not total) interest" in an invention.<sup>91</sup> In equivocal cases it tends to favour the employer.

The Banks' Committee rejected the idea of a type of joint ownership of patents as inhibiting future exploitation — presumably by encouraging "dog in the manger" attitudes on the part of employees.<sup>92</sup> They failed to make any recommendation on the "shop-right" doctrine which would in many cases effect a division of owner-

<sup>89</sup> *Guth v. Minnesota Mining*, supra.

<sup>90</sup> See *Mason v. Provident Clothing* [1913] A.C. 724, 745-746.

<sup>91</sup> See *Melin v. U.S.* 478 F.2d. 1210, 1215 (1973); cf. *Barnett Instruments v. Overton* (1949) 66 R.P.C. 315; *Sterling v. Patchett* (1955) 72 R.P.C. 50.

<sup>92</sup> *British Patent System* (1970), Cmnd. 4407, para. 467.

ship without making one party dependent on the goodwill of the other. In any case, any fear of withholding consent could easily be overcome by dispensing with consent in appropriate cases, which appears to be the position in U.S. copyright law. The Banks' Committee discussed a statutory award scheme with reservation<sup>93</sup> — however it has recently found favour in the U.K.<sup>94</sup> It might be argued that such a scheme, inherently likely to be clumsy and uneven in application, would be unnecessary if the law achieved a reasonable balance between competing interests in the first place, thus giving employees an initial bargaining edge and ensuring that they achieved the market value for their work.

Ought the law to diminish an employee's right to sell his common law rights to inventions outside the course of employment? The Banks' Committee and the Patent Law Reform report favoured abolition of an employee's present power to diminish his rights by contract.<sup>95</sup> However, it is suggested that this would do even rougher justice than is done at present. In some cases it may be perfectly reasonable for an employer to contract for an interest in material of which he would otherwise be deprived — indeed, abolition of an employee's powers to sell future inventions may deprive him of a substantial market for his work. It is significant that neither report refers to the considerable contribution made by the restraint of trade doctrine in this area of law. In the light of that, statements that "there is some evidence that the practice of contracting out of the common law position . . . can operate inequitably . . ."<sup>96</sup> must be viewed with some scepticism. No doubt there is a problem today that patent research needs large amounts of capital and to some extent harsh terms may be imposed by those having such facilities.<sup>97</sup> Trade unions have shown little concern to further the interests of their more talented members,<sup>98</sup> indeed there appear to be no awards in New Zealand which make any attempt to ameliorate the general position. This may be one occasion where the courts have shown themselves prepared to give a lead.<sup>99</sup>

The application of types of residual interests may also be a means of balancing competing interests. Inalienable rights of ownership, for example, while contrary to our way of thinking, play an important role in continental law<sup>1</sup> and apply not only to copyright,<sup>2</sup> but also to

<sup>93</sup> *Ibid.*, para. 465.

<sup>94</sup> *Patent Law Reform* (1975), Cmnd. 6000, p.10.

<sup>95</sup> Cmnd. 4407, para. 469.

<sup>96</sup> Cmnd. 4407, para. 469.

<sup>97</sup> Stedman, "The Employed Inventor" (1970) 45 N.Y.U.L.R. 1.

<sup>98</sup> Stedman, *loc. cit.*, 12; Phillips, "Punishing the Good" (1975) 125 New L.J. 1003, 1004.

<sup>99</sup> *Shroeder v. Macaulay*, *supra*.

<sup>1</sup> See Marvin (1971) 20 I.C.L.Q. 675.

<sup>2</sup> Roubier, *Le Droit de la Propriete Industrielle* (1954), 22.

patents — albeit to a limited extent.<sup>3</sup> For our purposes, the more important of these rights are the right of recognition as author or inventor, and the right of withdrawal.<sup>4</sup>

In copyright, the Berne Convention provided that authors should have the right, even where copyright is transferred, to claim authorship and object to distortion, mutilation, or other alterations.<sup>5</sup> These provisions received somewhat limited application in section 62 of the Copyright Act which, rather than recognising moral rights, really just codified and adapted the existing tort of passing off. Hence, rather than a right to be recognised as author of a particular work, all one has is a right not to have authorship of other subject-matter falsely ascribed to oneself. Where an employee is the author of a work which is represented to be the work of another, it has been suggested that he has a claim in injurious falsehood.<sup>6</sup> But this surely only applies where copyright and authorship reside in the same person. If the author has no copyright, it is difficult to see what proprietary interest<sup>7</sup> he has which is capable of being slandered — bearing in mind that the common law does not recognise a right of credit in authors — unless he could show that non-recognition reflected unfavourably on his business as a writer.<sup>8</sup> It would be difficult, in many cases, to prove such indirect harm from mere non-recognition.

Whether any substantial residual rights exist in patent law is equally doubtful. No doubt the right to be named as inventor on the patent application will be of some value, and the tort of passing off will protect inventors from false attributions. In relation to injurious falsehood, a similar difficulty to that in copyright arises. However, in *Misani v. Ortho Pharmaceutical*<sup>9</sup> the New Jersey appellate court was prepared to recognise a right to intellectual credit in tort. Although the Court based its reasoning on the action for interference with prospective economic advantage<sup>10</sup> (which is not a recognised tort in our law) they were also prepared to draw an analogy with slander of title, although they recognised the difficulty of establishing a proprietary interest capable of protection under injurious falsehood,<sup>11</sup> since the credit for a patentable invention was not alienable. There are no statutory provisions in the Designs Act reserving rights in the author and it must be assumed that the position at common law is analogous

<sup>3</sup> Roubier, *op. cit.*, 20.

<sup>4</sup> Roubier, *op. cit.*, 20-22.

<sup>5</sup> Article 6 (b) (ii), *supra*.

<sup>6</sup> Copinger & Skane James, *supra*, para. 251.

<sup>7</sup> Cf. *Radcliffe v. Evans* [1892] 2 Q.B. 524, 527, 532.

<sup>8</sup> Cf. *Fielding v. Variety Incorporated* [1967] 2 A.C. 841.

<sup>9</sup> 198 A.2d. 791 (1964).

<sup>10</sup> *Ibid.*, 798.

<sup>11</sup> *Idem.*

to copyright and patents law.

Is the present position satisfactory? The U.K. Copyright Committee clearly thought that there was adequate protection under the present law to comply with Article 6(b)(ii) of the Berne Convention.<sup>12</sup> This is doubtful. Once an employee has lost copyright in a work he loses all rights to complain about alteration or publication, unless a substantially new work is produced so as to lead to a passing-off,<sup>13</sup> or the publication is in some way defamatory of him. Further, the limited protection given by section 62 only applies to works under section 9 of the Copyright Act.

What is needed is a positive requirement of recognition of the author or inventor. It is suggested that the common law is adequate to deal with false attributions of authorship or defamatory publication. What the employee is probably more concerned about is a right to publicity as creator of the work. In many cases this may be impractical if the employer is expected to shoulder the burden of making his employee "known", if he wishes to use the material. Perhaps a good first step would be the registration of the author's name with applications under the Designs Act, as is presently done with patent applications. It might also be advisable to enact rights to professional credit similar to those expounded in *Misani v. Ortho-Pharmaceutical*.<sup>14</sup> This at least would obviate misconceptions about the identity of the original author or inventor.

Any further extension of *droit moral* principles could considerably impede the free flow of copyright, patents and designs material and would certainly limit the powers of subsequent owners to adapt the works to meet changing circumstances and market demand. Perhaps artistic sensitivity should yield to commercial necessity in such cases.

## V. CONCLUSION

The principal criticism of the present law is that it is inadequate to deal with hard cases where it cannot be said with conviction that the party intended is to be entitled to the material to the exclusion of the other. What is required is a more imaginative solution than the current "winner-takes-all" approach. It cannot be said that the necessary proprietary concepts are absent — shoprights, licences, joint ownership, reservations of rights are common elements in Anglo-American intellectual property law. Judicial reticence is all that prevents their application.<sup>15</sup>

<sup>12</sup> Cmnd. 8662, paras. 219-226.

<sup>13</sup> See *Samuelson v. Producer Distributing Co.* [1932] 1 Ch. 201.

<sup>14</sup> *Supra*.

<sup>15</sup> *Barnett Instruments v. Overton*, *supra*.

There is also some contest between the criteria of strict contractual duty and what an employee ought to do to preserve good faith. Copyright law is increasingly adopting the former. Indeed, it is said to be a consequence of *Antocks Lairn Ltd. v. I Bloohn Ltd.*<sup>16</sup> that the employee must be specifically employed to produce the work in point.<sup>17</sup> Patent law, on the other hand, still clings to notions of good faith. Admittedly, an undercurrent appears to have diluted the requirement considerably — now it is little more than an absence of active dishonesty<sup>18</sup> — but the doctrine lingers on. That it has its place in determining breaches of confidence is indisputable, but it is an imprecise instrument for defining an employee's contractual duties.

To do nothing to alter the current legal position would not be an unreasonable proposition. Those for whom inventing or writing forms the substance of their employment are likely to be adequately rewarded already. Cases where inventing or designing forms only a peripheral part of an employee's job are likely to be few in number. But it must be realised that such cases will most probably involve the nascent inventor or author who is in most need of encouragement. If the policy of the law is to foster such industry, a shift in outlook will certainly be required.

<sup>16</sup> *Supra*.

<sup>17</sup> *Halsbury's Laws* (4th ed.), vol. 9, para. 860.

<sup>18</sup> *Electrolux v. Hudson*, *supra*, 325 et seq.