



Commercial notes

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Managing Commonwealth intellectual property

On 5 February 2004, the Australian National Audit Office (ANAO) released its Audit Report on Intellectual Property Policies and Practices in Commonwealth Agencies ('the Report'). The Report followed an audit by the ANAO on whether agencies have systems in place to efficiently, effectively and ethically manage their intellectual property assets. In conducting its audit, the ANAO surveyed 74 agencies and subsequently conducted case studies of seven agencies to further examine their intellectual property management practices.

One major recommendation of the Report is that agencies should develop an intellectual property policy appropriate to their functions and circumstances.

Key findings

Some of the key findings arising from the Report were that:¹

- there is no whole-of-government policy approach to managing intellectual property – this means that agencies are responsible for devising their own approaches to managing intellectual property that they generate or acquire
- only 30 per cent of agencies surveyed had a policy addressing the management of intellectual property even though 90 per cent of these agencies rated intellectual property as of medium or high importance to their business
- only half of the agencies surveyed reported that they had mechanisms in place for identifying intellectual property and for deciding on the appropriate level of ownership for their intellectual property
- only 19 per cent of agencies surveyed had a system in place for monitoring agency use of their own intellectual property
- only 34 per cent of agencies surveyed had systems in place to manage the licensing, transfer, sale or disposal of agency intellectual property.

ANAO recommendations

Based on the key findings of the audit, the ANAO has put forward two major recommendations.²

Recommendation 1

In order to ensure the effective and efficient management of intellectual property, agencies should develop an intellectual property policy appropriate for agency circumstances and functions, and implement the required systems and procedures to support such a policy.



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All agencies should develop an intellectual property policy.

Recommendation 2

In order to ensure that the Commonwealth's interests are protected, the Attorney-General's Department, the Department of Communications, Information Technology and the Arts, and IP Australia (together with other relevant agencies), should work together to develop a whole-of-government approach and guidance for the management of the Commonwealth's intellectual property, taking into account the different functions, circumstances and requirements of agencies across the Commonwealth, and the need for agency guidance and advice on intellectual property management.

What is intellectual property?

Intellectual property encompasses a range of intangible property rights, including copyright, designs, trade marks, patents and confidential information (and agreements dealing with these rights). The types of material that are the subject of intellectual property rights that require appropriate management include software (including licensed software), databases, website material, written reports (whether internal or from external consultants), graphic works, music, inventions and logos.

What is intellectual property management?

The ANAO states that intellectual property management involves the implementation of measures which will ensure that an organisation identifies, adequately protects, and controls intellectual property assets, and where appropriate, facilitates exploitation of those assets for commercial, operational and public benefit.³

The ANAO considers that good IP management is critical.

Importance of developing an intellectual property management strategy

The ANAO considers that good intellectual property management is critical to ensuring that agencies are better able to make use of their existing intellectual property resources and identify opportunities for transfer and uptake of intellectual property with the concomitant benefits.⁴ The benefits arising from this process may also include public benefits such as stimulation of economic growth, industry development, improved industry competitiveness and increased employment growth.⁵

The Report sets out some of the consequences of not properly identifying, protecting and managing intellectual property assets, including:⁶

- loss of the ability to protect intellectual property
- exposure to the risk of infringing third party intellectual property rights
- inability to identify ownership of intellectual property under the agency's control
- duplication of effort to redevelop existing intellectual property assets
- financial and efficiency losses from duplication in procurement
- the loss of operational benefits resulting from loss of strategic control of intellectual property
- the risk that intellectual property assets will be disposed of without a transparent process to ensure probity
- loss of potential benefits (including financial benefits) arising from commercialisation of intellectual property
- minimisation of the risk of third party abuse of Commonwealth intellectual property,⁷ and
- lack of guidance for agency staff leading to risk averse behaviour which stifles innovation.

The heads of agencies subject to the *Financial Management and Accountability Act 1997* (the FMA Act) must manage the affairs of their agencies in a way that promotes proper use of the Commonwealth resources.⁸ In this context, the ANAO considers that the reference to Commonwealth resources clearly includes a reference to *intellectual property* resources of FMA Act agencies.⁹

In addition, the draft Australia-United States Free Trade Agreement (the FTA) requires the Commonwealth to put in place appropriate laws or administrative measures to ensure that agencies do not use infringing computer software, and only use computer software as authorised in the relevant licence. Any such administrative measures could involve (for example) maintaining an inventory of software licensed to the agency. Obligations under the FTA may need to be reflected in intellectual property management policies adopted by individual agencies.¹⁰

What is involved in developing an intellectual property management strategy?

In essence, the development of an intellectual property management strategy would involve:¹¹

- identifying agency owned and controlled intellectual property
- deciding what agency owned intellectual property to protect and how to protect it
- developing an appropriate management framework for all intellectual property assets, whether owned or licensed
- deciding the basis on which an agency would retain ownership of, license, commercialise or transfer its intellectual property
- determining the requirements for intellectual property training within an agency
- determining the requirements for ongoing management or protection of agency intellectual property, and
- determining the requirements for evaluation of, and reporting on, intellectual property assets and their management.

Factors to be considered in developing an intellectual property management strategy

The ANAO considers that the approach that an agency takes to managing intellectual property will be influenced by:¹²

- the nature of intellectual property activity and the type of intellectual property managed
- the extent to which an agency relies on the revenues generated by the sale of intellectual property
- whether the agency owns intellectual property in its own right, acts as custodian of the intellectual property on behalf of the Crown, or licences the use of intellectual property from another party
- the mandate of the agency to undertake intellectual property activities, and
- whether intellectual property is developed or procured as part of a planned activity or emerges incidentally as part of routine operations.

The development process will differ according to the specific circumstances of each agency.

Clearly, the process of developing an intellectual property management strategy will differ according to the specific circumstances (including the core functions and objectives) of each agency.

Action for agencies

Following the recommendations of the ANAO in the Report, agencies should consider

- establishing intellectual property management strategies, and/or
- evaluating the effectiveness of their current strategies in order to facilitate better utilisation and management of their valuable intellectual property.

The Audit Report is available on the ANAO website at <<http://www.anao.gov.au/WebSite.nsf>>.

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Notes

- ¹ See pages 19–21 of the Report
- ² Paragraphs 2.24 and 2.26 of the Report
- ³ Paragraph 1.22 of the Report
- ⁴ Paragraph 1.27 of the Report
- ⁵ See paragraph 1.43 of the Report
- ⁶ See paragraph 1.36 of the Report
- ⁷ Paragraph 5.1 of the Report
- ⁸ Section 44 of the FMA Act
- ⁹ Paragraph 1.34 of the Report
- ¹⁰ See Article 17.4.9 of the FTA – 1 March 2004 (draft)
- ¹¹ See generally, sections 3–7 of the Report
- ¹² Paragraph 1.37 of the Report

Picture perfect?

The Federal Court's decision in *Sullivan v FNH Investments* [2003] FCA 323 serves as a timely warning of the dangers of not paying attention to the terms of a copyright licence agreement with a contractor. It also makes clear that flagrantly continuing to use copyright material in breach of a licence agreement can result in significant additional damages being awarded by the courts.

Background

Sullivan is a professional photographer who had been contracted by FNH to take photographs of FNH's Palm Bay Hideaway Resort in the Whitsunday Islands. Sullivan was to be paid \$14,850 for a series of photographs of the resort, of which half was to be paid in advance and the other half at the end of the contract.

The contract included a licence for FNH to use the photos 'on receipt of full payment'. FNH received the photos from Sullivan, but refused to pay the second instalment for them on the basis that the photos were not of sufficient quality. However, FNH went on to use a number of the photos in a promotional brochure and in advertisements in national magazines promoting the Resort.

Sullivan's solicitor wrote to FNH specifying three copyright infringements:

- converting the photographic images from film to digital format
- publishing the resort brochure containing the photos
- publishing the photos in national style and travel magazines.

Despite this and subsequent warnings from Sullivan's solicitors, FNH continued to distribute brochures containing the photographs.

Decision

Justice Jacobson held that FNH was not entitled to withhold payment and at the same time use the photographs. The court further found that FNH's conduct was flagrant because FNH used the photos knowing that it had no right to do so and without regard to the legal consequences of infringing Sullivan's copyright. The court also held that the photos were of merchantable quality, which was demonstrated by the experts called by both sides.

Copyright infringement

Under the contract between the parties, it was clear that the licence to use the photos for a period of two years for promotional purposes, was only granted upon full payment of the contract fee. Under copyright law, Sullivan is the owner of the copyright in the photographs that he took. Because FNH did not have a valid licence to use those photos, FNH infringed Sullivan's copyright (subsection 36(1) of the *Copyright Act 1968*). In other words, because full payment was never made, a licence was never granted and the result was infringement of copyright. The infringement was embodied in reproducing and publishing the photos and communicating them to the public. His honour noted that a claim also lay for damages for breach of contract, but did not investigate this on the basis that there cannot be double recovery of damages for the same conduct.

Damages

The court's finding that there was a breach of copyright rather than contract worked against FNH. Damages for breach of contract could have been to pay the remaining sum of \$7,425, although FNH's approach had been that it should pay a lesser sum owing to its view of the quality of the photos.



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... because full payment was never made, a licence was never granted.

Justice Jacobson determined that there were two awards of damages for which FNH was potentially liable. The first was damages for the infringement of copyright and the second was additional damages for the flagrant nature of the infringement. With regard to the first, the purpose of damages is to compensate Sullivan for loss suffered as a result of the infringement. The appropriate damages for this would be an amount equivalent to the licence fee (*Bailey v Namol Pty Ltd* (1994) 53 FCR 102). Because only half the licence fee was still outstanding, the damages under this head were assessed at \$7,425.

However, section 115 of the Copyright Act allows additional damages to be awarded where an infringement of copyright is established and there are one or more aggravating circumstances (see *Raben Footwear Pty Limited v Polygram Records Inc* (1997) 75 FCR 88). Section 115(4) sets out those aggravating circumstances. The first is the flagrancy of the infringement of copyright. In considering flagrancy, the court must consider the need to deter similar infringements of copyright and the conduct of the defendant after the act constituting the infringement or, if relevant, after the defendant was informed that they had allegedly infringed the plaintiff's copyright. Other relevant aggravating circumstances are whether the infringement involved the conversion of a work or other subject-matter from hardcopy or analog form into a digital or other electronic machine-readable form, and any benefit shown to have accrued to the defendant by reason of the infringement.

The Copyright Act allows additional damages where an infringement is established and there are one or more aggravating circumstances.

Justice Jacobson found that the behaviour of FNH in infringing Sullivan's copyright was flagrant on the basis of the test in *Raben*. Under that test, glaring or blatant conduct involving calculated disregard of the copyright owner's rights or cynical pursuit of benefits is sufficient for flagrancy. FNH argued that as there was no secret or deceitful behaviour on their part, there ought not be any additional damages awarded. Justice Jacobson considered that the blatancy of FNH's behaviour militated in favour, rather than against, the finding of flagrant infringement.

Furthermore, FNH's behaviour also involved conversion of the photographs into digital format and the obtaining of benefit from the publicity generated by the photographs being used in the advertising material. The court did not determine whether these other matters were sufficient by themselves for an award of damages, although the number of aggravating circumstances no doubt fed into the quantum of the damages.

While Justice Jacobson noted the legislative trend against awarding additional damages, and the rare circumstances in which they are normally awarded, he based the award of damages on the fact that 115(4) specifically contemplates the award of such damages. In the end, an additional \$15,000 in damages was awarded to Sullivan over and above the \$7,425 already awarded. Justice Jacobson noted that the additional damages did not include any damages for personal hurt and injury which have in some circumstances been awarded under subsection 115(4) (see *Milpurruru v Indofurn Pty Ltd* (1994) 30 IPR 209) as the degree of Sullivan's hurt was not sufficient to justify more than \$15,000 in additional damages.

Implications for clients

In general (there are some qualifications) the Commonwealth or a State or Territory cannot infringe copyright. This arises as a result of the statutory licence arrangements in section 183 of the Copyright Act. The statutory licence benefits departments and agencies as well as statutory bodies

which are subject to such control as to be properly regarded as an ‘agent or emanation’ of the relevant Crown for section 183 purposes.

Apart from the agreement between the Commonwealth and the Copyright Agency Limited (CAL) concluded under section 183 covering photocopying and certain electronic copying and communication, it should be the exception rather than the rule for agencies to resort to section 183 where there is an operating commercial market for the material in question. From a policy viewpoint, it is preferable to negotiate a voluntary licence with the copyright owner in advance of the use of the relevant material.

In negotiating a licence, careful consideration should be given to the interplay between the licensing provisions in the contract and other provisions relating to performance standards and payment. For example, whether unsatisfactory material will nonetheless be licensed to or owned by the client.

Further, where a client has entered into a licence agreement with a contractor to use copyright material, it is important to only use that material in accordance with the terms of the licence. This may mean that it is not possible to use the material until the licence becomes available – such as the licence only being granted on full payment of licence fees as in the *Sullivan* case. Importantly, it also means refraining from any uses or copying of the material which are expressly prohibited under the licence terms.

Clients should take action to ensure that terms of licences are being met. Clients should address the situation immediately should a contractor state that their copyright material is being used either outside of the terms of the licence, or in an infringing manner. Continuing to use copyright material once warned of the breach is likely to lead to a higher award of damages – especially in a claim framed around copyright infringement and brought against an entity which does not have the shield of section 183.

Action for agencies

- Agencies wishing to use material in which copyright is owned by another party should generally seek to negotiate a voluntary licence with the owner of the copyright.
- Agencies should take action to ensure they are complying with the terms of their licences and if a licence does not come into effect until a condition has been met (e.g., payment of the licence fee), the material must not be used until the condition is complied with.
- Finally, if a contractor or other copyright owner claims that their copyright material is being used in an infringing manner by the agency, the agency should determine if this is so and address the situation immediately in order to avoid a potential claim for additional damages.

Agencies should negotiate a voluntary licence with the copyright owner.

Adrian Snooks has a number of years experience in providing legal advice to government and private sector organisations both in Australia and the United Kingdom. His legal expertise includes information technology licensing and procurement, copyright and other intellectual property matters, development of new technologies, and corporate and contract law. Adrian has extensively advised on complex contracting arrangements and also on a number of international electronic commerce transactions.

The SPAM Act

On 12 December 2003, the *SPAM Act 2003* ('the Act') received Royal Assent. Despite its name, the Act extends beyond the regulation of what is commonly understood to be 'SPAM' and it will affect all organisations who use email and internet facilities as part of their day to day operations.

The term SPAM has traditionally been used interchangeably with 'Unsolicited Bulk Email' or 'UBE'. While SPAM may take many forms, the term is commonly used to describe the practice of sending promotional emails to a large number of people at the same time without their consent.

In contrast, the Act sets up a scheme for regulating commercial email and other types of Commercial Electronic Messages ('CEMs'), regardless of the number of recipients by:

- prohibiting the sending of most CEMs without consent
- requiring all CEMs to include accurate information about the person or organisation who authorised their sending
- requiring most CEMs to include a functional unsubscribe facility
- prohibiting the supply, acquisition or use of address harvesting software or the address lists they produce, and
- providing a number of legal mechanisms to assist the Australian Communications Authority ('ACA') in its new role as enforcer of the Act's requirements.

In conjunction with the *SPAM (Consequential Amendments) Act 2003*, the Act empowers the ACA to investigate, and where necessary, prosecute people or organisations who send non-compliant CEMs.

The 2003 report produced by the National Office for the Information Economy entitled *SPAM: Final report of the NOIE review of the SPAM problem and how it can be countered*¹ was the catalyst for the Act. It made five main recommendations including new legislation, better international cooperation and a public information campaign to raise awareness of SPAM related issues.

The substantive provisions of the Act (Parts 2 to 6) commence on 10 April 2004.

What are commercial electronic messages?

CEMs are defined in section 6 of the Act. Sub-section 6(1) effectively provides that CEMs are electronic messages with at least one commercial purpose. Sub-section 6(1) sets out 13 examples of purposes which will satisfy the CEMs definition, but s 6 also includes scope for additional purposes to be prescribed by regulation later on. The examples provided include offering, advertising or promoting:

- goods or services
- interests in land, or
- business or investment opportunities.

In determining whether a particular message has a commercial purpose, s 6(1) states you should have regard to:

- its content
- the way in which it is presented, and
- the content that can be located using any links, telephone numbers or contact information (if any) set out within the message.



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Accordingly, a message might fall within the scope of the CEMs definition even if it does not directly contain anything of a commercial nature. For example, if an email contains a link to a website which is sufficiently commercial in nature, the message could constitute a CEM, even if nothing in the email itself serves any commercial purpose.

In addition, a message may fall within the CEMs definition even if the identifiable commercial purpose is only one of its purposes rather than the primary or sole purpose. Accordingly, it is essential to think laterally when identifying the types of messages your organisation sends which might be caught by the relevant provisions of the Act.

What does consent mean?

According to Schedule 2 of the Act, consent may be express or inferred from the conduct and business or other relationships of the individual or organisation concerned.

Examples of circumstances in which consent may be inferred include membership of a professional association, subscription to information/advisory services or having an existing business relationship with the sender of a message, and as part of that relationship, knowingly and directly providing them with an electronic address.

Consent might also be inferred if an electronic address is published in a conspicuous location, such as on a public Internet site. However, there are restrictions on this general rule and consent will not be inferred if the published address is accompanied by a statement stating the recipient does not want to receive unsolicited CEMs.

Whether or not consent has been obtained is a question of fact to be determined according to the particular circumstances. However, it is worth remembering that under s 16(5) of the Act, the person authorising the sending of the CEMs bears the evidential burden of proving the recipients' consent.

Are government bodies exempt?

Despite what you may have heard about exempt organisations, the Act does not exclude any individuals or organisations from its requirements as such. The Act does provide limited exemptions for CEMs that constitute 'Designated CEMs', but it is the nature of the messages that attracts the exemptions, not the nature of the organisation that authorises them.

Schedule 1 of the Act sets out the criteria for determining which CEMs constitute Designated CEMs. According to section 2 of schedule 1, CEMs consisting of no more than factual information and any of the additional information set out in s 2(1)(a) of Schedule 1 are Designated CEMs. Sections 3 and 4 of Schedule 1 define additional types of Designated CEMs, but section 3 is the most relevant to government bodies.

Section 3 of Schedule 1 provides that electronic messages sent by government bodies, registered political parties, religious organisations, charities and charitable institutions are Designated CEMs if:

- they relate to goods or services, and
- the party authorising them is the supplier, or prospective supplier of the goods or services.

... the person authorising the sending of the CEMs bears the evidential burden of proving the recipient's consent.

However, the following types of CEMs sent by these 'exempt bodies' may not fall within the Designated CEMs definition for the purposes of the Act:

- CEMs that do not relate to goods or services but that still have one of the prescribed commercial purposes, or
- CEMs relating to goods or services the authorising party does not, or will not, supply.

Accordingly, government bodies, political parties, religious organisations and charities are all capable of sending non-compliant CEMs if they are not careful.

Even though Designated CEMs are exempt from the consent and functional unsubscribe facility requirements of the Act, they are not exempt from the accurate authorisation requirements set out in s 17. Accordingly, all organisations, including those afforded limited protection under ss 3 or 4 of Schedule 1 to the Act, need to assess their potential exposure to liability based on the types of messages they and their staff are likely to send after 10 April 2004.

Section 12 of the Act is of particular relevance to government bodies since it specifically states that the Act binds the Crown in each of its capacities. Subsection 12(2) provides limited protection for the Crown in the form of an exemption from prosecution or liability for a pecuniary penalty. However, this protection does not extend to authorities of the Crown.

Authorisation and ancillary contravention provisions

In addition to liability for direct contraventions, the Act also includes provisions which could affect organisations in a less direct fashion. Organisations crafting policy and procedural changes need to realise that what their staff do in their official capacity is only part of the risk. What staff may do in their personal or unofficial capacity also needs to be considered.

Section 8(1) of the Act provides that organisations will be deemed to have authorised the sending of electronic messages where individuals authorise those messages on their behalf. However, this provision will not apply if the individuals exceed their authority when doing so.

Having said this, Australian courts have traditionally taken a fairly broad view of what constitutes authorisation, at least in the context of copyright (see *University of New South Wales v Moorhouse* (1975) 133 CLR 1).

Accordingly, unless organisations implement appropriate policies and procedures to ensure their staff are aware of what they can and can not send while they are at work, the organisations themselves could be held responsible for any non-compliant CEMs their staff send, even if the CEMs do not relate to the organisations' official business (e.g., where they relate to a private business or recreational association).

The Act also includes a number of ancillary contravention provisions (see ss 16(9), 17(5) & 18(6)) prohibiting people from aiding, abetting or being in any way knowingly concerned in a contravention of a relevant provision. These provisions provide additional scope for employers of staff to be held accountable for emails their staff send while they are at work.

All organisations need to assess their potential exposure to liability.

How can organisations protect themselves?

Public sector organisations should:

- identify the types of electronic messages their staff could send using their communications facilities (including personal messages) and identify which messages may contravene the requirements of the Act if they are sent after 10 April 2004
- identify the circumstances in which express consent needs to be obtained before particular CEMs can be sent, particularly where no Designated CEMs exemption applies
- ensure all outgoing CEMs (including Designated CEMs) include accurate authorisation information in accordance with section 17 of the Act
- ensure all outgoing CEMs (other than Designated CEMs) include a functional unsubscribe facility in accordance with section 18 of the Act
- ensure adequate procedures are in place to respond to unsubscribe messages in the required 5 business day time frame where applicable
- refrain from supplying, acquiring or using address harvesting software or the lists they produce, and
- implement appropriate policies and procedures to ensure all staff are aware of their obligations under the Act and the conditions governing their use of their employer's communications facilities for both official and unofficial purposes.

Organisations wanting to reduce the amount of SPAM they receive should also consider placing a statement alongside any electronic addresses they publish in conspicuous places to indicate they do not wish to receive unsolicited CEMs.

***Andrew Schatz** has an extensive knowledge of technology related legal issues and has worked on a range of IT/IP legal matters. He has degrees in both law and computer science and was recently featured in the 'IT Whiz Kid' section of the ZDNet Australia and Australian Computer Society web sites. Andrew regularly presents on information technology and communications law issues.*

Note

- ¹ The report is available at
 <http://www.noie.gov.au/publications/NOIE/spam/final_report/>

AGS has a national network of commercial lawyers who specialise in technology and intellectual property law (T & IP). For further information on the articles in this issue of Commercial Notes or on other T & IP issues, please contact the network coordinator, Philip Crisp, or any of the lawyers listed below.



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