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Disputing Ownership of Copyright

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Disputes over ownership of copyright often arise in situations where one party "commissions" someone else to create an original work.

The starting position for ownership of copyright is that the author of an original work owns copyright in it. One of the exceptions to this is the "commissioning rule". Section 21(3) states that where a person commissions, and pays or agrees to pay for a work in which copyright can subsist, that person is the first owner of any copyright in the work. This applies only to certain types of copyright work, including artistic works, drawings and computer programs.

It is not always clear whether the work has been commissioned or whether the person who created it retains copyright in it, and has merely offered the products which are the embodiment of that work for sale to the other person.

In the recent Court of Appeal case of Oraka Technologies Ltd v Schwarz & Geostel Vision Ltd & Napier Tool and Die Co, the crux of the appeal centred around whether in fact the work was done on "commission".

The Court of Appeal stated that the relevant requirements of a successful commission were set out in Pacific Software Technology Ltd v Perry Group Ltd [2004] 1 NZLR 164:

1. A request or order must be made.
2. The commissioning must be antecedent to the work.
3. Commissioning requires an express or implied agreement to pay (s21).
4. The payment is quid pro quo for the copyright; that is, the making of the copyright work, not the physical embodiment of the work.

Napier Tool contended that what had been offered was a “free design service” and that the dealings between the two parties did not constitute a commission. The critical issue for the Court was then whether there had been an ‘implied’ commission between Oraka Technologies and Napier Tool to design and build the cup assembly in question (which was part of an asparagus grader), which would give copyright in the design to Oraka Technologies.

The factual progression of this case can be broken down into three significant events. First, Mr Schwarz (one of the appellants) came to Napier Tool and requested them to make an assembly cup. This request was accompanied with some drawings and an original prototype by Mr Schwarz. Secondly, provisional drawings were prepared by Napier Tool free of charge. Thirdly, the drawings were approved by Mr Schwarz and final industrially design drawings were then made and used to produce the assembly cup. The evidence showed that the plaintiffs made a payment of $26,000 for the work done in order to complete the cup assembly.

The Court of Appeal and the High Court differed only in how the second event affected requirements 3 and 4. Allan J in the High Court ruled that the fact that the drawings made by Napier Tools were ‘free of charge’ meant that there was never an implied agreement to pay for the copyright. On top of this, the final payment did not account for the copyright itself. The $26,000 covered the payment of making the assembly cup, and that was all.

The Court of Appeal focussed on the commercial reality of the dealings. The Court of Appeal ruled that creating two transactions between producing the drawings and making the product was an artificial separation that did not reflect the true nature of the relationship. The commercial reality test used by the Court showed that in ordinary practice a party would not make two separate payments for a transaction of this kind. The Court said that it was “everyday commercial sense” that what had transpired was one seamless transaction.

The Court further ruled that the fact scenario could be seen as a ‘conditional’ agreement of an implied obligation to pay. There was an implied obligation that the Oraka would pay the money if satisfactory drawings led to the manufacturing work. That conditional implied obligation arose before the work was undertaken.

The Court of Appeal therefore overturned the decision of the High Court and ruled that all the requirements of a commission were complete.

For many New Zealand SMEs, the issue of protecting their intellectual property is not at the forefront of contractual negotiations. However, what businesses must keep in mind is that not specifically deciding which party owns copyright can cause completion of a transaction can lead to problems, particularly if they do not want their competitors to have access to designs for any products they have specially developed for their own product portfolio.

Setting it out clearly in an agreement between the parties ensures that each party knows their rights and obligations at the time of creation of copyright works.

If you have any queries over ownership of copyright and wish to discuss further please contact Vineetha, or speak to your Baldwins contact.

Case Note: Oraka Technologies Ltd v Schwarz & Geostel Vision Ltd & Napier Tool and Die Co [2010] NZCA 232