to exercise his skill, and achieve an indicated result in such manner as he should, in his own judgment, determine.

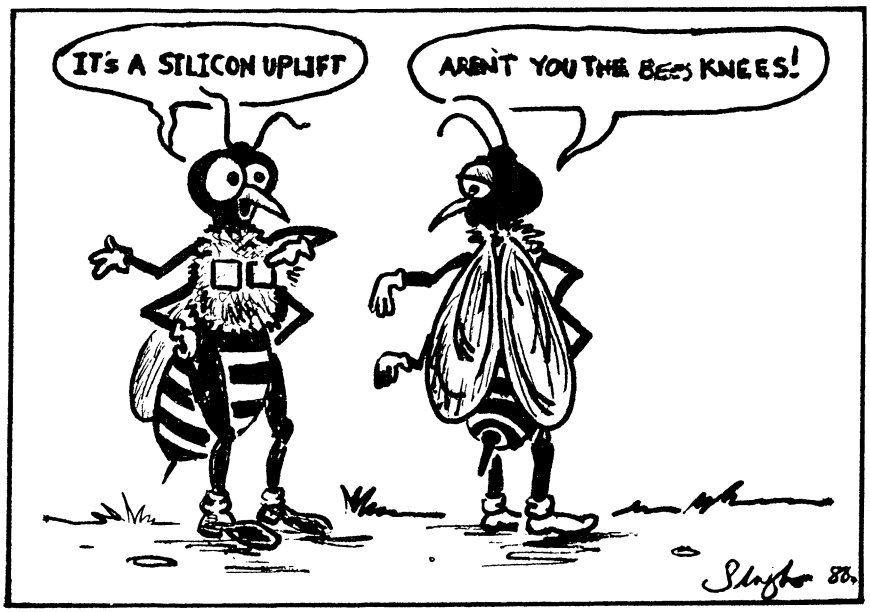
In the former case the person employed would be regarded as an employee and in the latter an independent contractor.
(continued pg 8)

HIGH TECHNOLOGY AND THE INVASION OF THE KILLER BEES

An article carried in the Sydney Morning Herald earlier this year concerned killer bees and their planned invasion of the United States sometime next year.

It appears that the US Department of Agriculture has spent a considerable amount of money devising ways of averting the attack. Solar cells developed by the makers of the MX missile will be glued to the bellies of thousands of killer bees. These chips will transmit an infra–red signal which can be picked up over a kilometre away.

As the SMH pointed out, the tricky part will be holding the bee still while the chip is glued to its belly.



FROM SMH JUNE 1988

Contracting con't

The greater the skill required for the work, the less significant is the element of control or supervision in determining whether the engaged party is working as an employee. Other factors, therefore, assume greater importance: such as the fact that he is paid a regular salary and holiday allowances or has health and superannuation payments made to him.

It has become common for consultants in the computer industry to utilise service companies which contract to provide the consultant's services to the commissioning party. In most cases it will be clear that the service company is a contractor, and the consultant an employee of the contractor. However, where service companies are not used cases frequently arise where the position is less clear [see for example, Royce Computer Services, Inc. v. Roberts, 517 N.Y.S. 2D 833 (New York Supreme Court, Appellant Division, 1987)].

Whilst drawing the line between contractors and employees will often be difficult, the consequences of falling into one category or the other may be quite different.

C. Intellectual Property – Copyright

1. An employer will own the copyright in work produced by an employee "in pursuance of his terms of employment" which is capable of copyright protection. Problems arise when employees undertake work on their own computers, outside work hours, and frequently related to but not directly flowing from their work duties. A well drafted service agreement should ensure that each party clearly understands what work will be regarded as the property of the employer, and should also ensure that copyright in any related work done by the employee automatically becomes the property of his employer.

2. An independent contractor will, in the absence of contrary agreement, own copyright in work done by him. An assignment of future copyright must be in writing for an automatic vesting of copyright in the commissioner.

3. The definition of an employee's job or a consultant's work specification should be as all encompassing and as detailed as possible to enable the maximum amount of material to be claimed as produced pursuant to the terms of his employment or engagement.

4. The obvious solution to any dispute is to incorporate into an employment agreement an assignment of all copyrights or those of all relevant material, whether or not the work was made in the course of employment. However, this can lead to difficulties. Blanket assignments in situations other than employment have been held invalid as in restraint of trade (Instone v. A. Schroeder Music Publishing Company Limited [1974] 1 WLR 1308).

5. There should be an express assignment to the employer or commissioning party of the copyright in any relevant matter which would otherwise be vested in the employee or contractor.

D. Intellectual Property – Patents

1. A carefully drafted provision in an agreement with the consultant or with an employee pursuant to which the consultant or employee assigns any invention made during his engagement, whether or not in the course of his duties, should be held to be valid in Australia.

2. An employee will be obliged to hold inventions on behalf of the employer whether the invention was made in the course of his employment. A contractor will in the absence of any agreement be entitled to his invention.

3. United States and United Kingdom precedents in relation to rights to patentable inventions should generally not be used in Australia as the law in this area is quite different.

E. Intellectual Property – Industrial Designs

1. The basic rule is that the author of the design is the owner of the design – Section 19(1) Design Act 1986 (Cth).

2. This rule is varied where, in accordance with an agreement for valuable

consideration entered into by a person with an independent contractor, the latter makes a design for the commissioner.

3. Where a design is made by a person in the course of his employment with the employer, the employer is the owner of the design.

4. Ownership in a design or any interest therein may be assigned in whole or in part provided that this is done in writing and signed by the assignor or on his behalf.

F. Confidential Information and Trade Secrets

1. Usually the most difficult problem in breach of confidence cases is establishing whether a given body of information is confidential. A useful summary of relevant factors is given in the American Re–statement of Torts (Article 757).

2. A claim for confidentiality in an agreement cannot convert information which is not confidential to confidential information. Nonetheless, a broad claim will assist an employer or commissioning party in establishing its view that the confidentialty of the relevant information was drawn to the employee's or consultant's attention.

3. Trade secrets protection for software programs remains available, even though object code is in daily use, provided the more readily copyable source code is kept confidential [Telex Corp. v. IBM 423 US 802, 96/SC 8 (1975)].

4. The general equitable duty to protect confidences can prove useful to protect trade secrets, whether from misuse by employees or contractors, and this duty can be enforced in parallel with any contractual obligations.

5. The agreement should make it clear to the employee or contractor that information gained in the course of his employment or assignment is confidential.

6. An agreement not to disclose information does not prevent an employee from making use of the information for his own purposes. A comprehensive restriction should therefore prohibit both disclosure and the use of the information.

7. A covenant restricting an employee or consultant from competing once the employment or engagement has ended is a suitable way to protect trade secrets.

8. Documents supplied by the employer and documents created by the employee in the course of his duties remain the property of the employer and may be reclaimed by him. A term forbidding copying of the employer's documents is recommended. In the case of contractors, unless the agreement creates an obligation to hand back documents, there is the risk that such documents will be irrecoverable, unless the agreement ensures otherwise.

G. No Compete Agreements

1. The use of agreements not to compete with an employer and agreements restraining a consultant from undertaking other assignments related to the assignment covered by the agreement is common in the computer industry. Such clauses will usually be upheld by courts if the clauses are reasonable as between the parties, are reasonable when the public interest in free movement of labour is taken into account, and go no further than is reasonable for the protection of the employer's legitimate interest.

2. Restraints are best imposed prior to the commencement of the employment.

3. Restraints imposed on consultants are more likely to be upheld than restraints imposed on employees.

Conclusions

In conclusion, the information technology industry has particular complexities arising out of the confidential and proprietary nature of hardware and software systems, the high mobility of personnel, and the extensive use of contract staff. In Australia, there has to date been little litigation between companies and ex–employees or ex–consultants. As the industry matures, and more software and hardware research and development is carried out in Australia, the

prospects of such litigation increases. Companies will be well advised to consider whether they have clearly defined the rights and obligations of their employees and contractors, both during and after employment or engagement. Generally, properly drafted employment or consultancy agreements can avoid the difficulties that may otherwise arise, and ensure that companies comply with all their legal obligations, at relatively little expense.

The full text of Mr. Peter Leonard's paper can be obtained from the author at Sly and Weigall.

COMPUTER SOFTWARE SALES TAX CHANGES

The Federal Government has announced that there will be changes to the sales tax legislation as it applies to computer software in the near future. It was originally anticipated that the amendments would be announced in the 1988–89 Budget but to date no amendments have been introduced.

There are two proposals. Firstly that computer software developed for sale or licensing to single users will not be subject to sales tax. However software developed for sale or licensing to multiple users will remain taxable. Secondly, the government intends to impose sales tax on computer software which is delivered by means of electronic transfer.

It is likely that the proposed changes will go considerably further than the statement contained in the Budget papers. For example, will the amendments excluding single user software, cover charges for work done by suppliers of packaged software for modification and customisation?

Any amendments imposing sales tax on software distributed electronically may also catch software downloaded into a computer prior to sale or software downloaded at the clients premises. In situations where data and software are regularly transferred between separate corporate entities being part of one group, the amendments may give rise to some anomalies.

A more detailed analysis of the sales tax proposals will be published in a subsequent edition of the Newletter. At this time there may be a clearer indication as to the direction in which the Federal Government wishes to move.

Elizabeth Broderick
