

## To What Extent Are University IP Policies Legally Binding?

### Part 2: Students

By Philip Mendes

#### Introduction

In Part 1 the extent to which a university IP policy is legally binding upon a university's staff was considered. In this part we consider that question in relation to students, both undergraduate and postgraduate.

The IP policies of universities and research organizations (for brevity, the term "university" is employed, and refers not just to a university, but to all forms of a non-for-profit research organization) seek, by force of the policy alone, to change where the ownership of IP lies. The university, by the force of its IP policy alone, seeks to expropriate the ownership of the IP, either by:

1. The policy itself divesting a student of that ownership, and vesting it in the university, or
2. The policy creating an obligation upon a student to execute an assignment of IP to the university at a future date.

The university IP policy seeks therefore to have a legal effect, just as a contract has legal effect, by creating legal rights and obligations. But unlike a contract which is consensual in nature, an IP policy, by itself, is a unilateral non-consensual document.

A policy document, being a unilateral document, cannot of itself be legally binding upon a student. Something more is needed for such a unilateral policy document to have a legal status and a binding legal effect. This Part 2 considers what that "something more" is okay in the United States, Canada, the United Kingdom, and Australia, in relation to students. It also considers how successful this "something more" is to make an IP policy legally effective in those countries in relation to students.

Often, a university will need to own the IP created by a student in order to avoid the fragmentation of the ownership of the IP, and to have the power to do something meaningfully with the IP. It is therefore important that there is a legally effective mechanism to ensure that when needed, the IP created by students vests in the university.

#### A Legal Basis for IP Policies

There are two ways that an IP policy can be legally binding, and that is if:

1. It forms part of a legally binding contract, or
2. It has legislative force.

#### IP Policies With a Contractual Basis—Incorporation by Reference

An IP policy that seeks to divest a student of the ownership of the IP created by the student, may be effective to do so if it has a contractual effect. This can be accomplished by "incorporating it by reference" into a contract between the student and the university. For most students, the only contract that they will ever have with their university, is the student enrollment contract, as contained in the enrollment applications completed by students.

It is not uncommon for university enrollment applications to include an obligation upon the student to comply with the university's policies, or the university handbook, which in turns contains the university's policies.

In Part 1 the question of the effectiveness of such an "incorporation by reference" was considered in the context of university staff. In *Kucharczyk and Mosely v. Regents of University of California* 946 F.Supp. 1419 (1996), which concerned the incorporation by reference of a university IP policy, the Court quoted the following passage with approval:

"For the terms of another document to be incorporated into the document executed by the parties the reference must be clear and unequivocal, the reference must be called to the attention of the other party and he must consent thereto, and the terms of the incorporated document must be known or easily available to the contracting parties. *Williams Const. Co. v. Standard-Pacific Corp.*, 254 Cal.App.2d 442, 61 Cal.Rptr. 912 (1967)."

In *Kucharczyk*, the University of California's IP policy was duplicated on a document that each staff member signed upon employment at the university commencing, called a "University of California State Oath of Allegiance and Patent Agreement." The fact that the IP policy was duplicated on that document persuaded the Court that it was sufficiently "incorporated by reference" into the document for the university staff member to be contractually bound by the IP Policy. The same was held in two later cases where the same document was considered: *Shaw v. The Regents of the University of California*, 58 Cal. App. 4th, 67 Cal. Reptr. 2d 850 (3d Dist., 1997) and *Singer v. The Regents*

of the University of California 1997 WL 34594173. All three cases concerned university staff members.

Unlike Kucharczyk, Shaw and Singer, students do not sign a document that duplicates the university's IP policy, and which states that the student agrees to be bound by it. Having regard to the principles in *Williams Const. Co. v. Standard-Pacific Corp.*, 254 Cal.App.2d 442, 61 Cal.Rptr. 912 (1967) approved in Kucharczyk, it is doubtful that in the United States a student's signing or completion of an enrollment application that refers to the university's policies or handbook, would be sufficient to incorporate the university's IP policy by reference. According to Williams what is required is:

1. The reference to the IP policy is clear and unequivocal;
2. The reference is called to the attention of the student;
3. The student has consented to the IP policy, which suggests that the student must have the opportunity to read it, and to consider its contents; and
4. The terms of the IP policy must either:
  - (a) Already be known to the student, or
  - (b) Easily available to the student.

It is much easier for these requirements to be met where compliance with an IP policy is contained in the employment contract between a university and a staff member.

It is much harder, if not impossible, for a student enrollment application that refers to compliance with the university's policies or handbook to satisfy these requirements.

The same is so in relation to the similar requirements in the United Kingdom, Australia, and Canada for there to be a successful "incorporation by reference."

That being so, it is most unlikely that an IP policy that seeks to divest a student of ownership of the IP created by the student in the future would be successfully "incorporated by reference" into the enrollment contract, and in turn, unlikely that the student would be bound by the university's IP Policy.

## **IP Policies With a Contractual Basis—Unconscionable Contract**

But let's assume that a student enrollment contract, or some other document between a student and the university does adequately incorporate by reference compliance with the university's IP policy. There is another impediment to any contract that incorporates the university's IP policy by reference, being binding upon a student.

In each of the United States, Canada, United Kingdom, and Australia, the law relating to unconscionable transactions will impact upon any such contract.

In the United States, the law was on unconscionable contracts and was succinctly stated in *Williams v. Walker-Thomas Furniture Company* 350 F.2d 445 (D.C. Cir. 1965). The Court held:

"We hold that where the element of unconscionability is present at the time a contract is made, the contract should not be enforced. Unconscionability has generally been recognized to include an absence of meaningful choice on the part of one of the parties together with contract terms which are unreasonably favorable to the other party. Whether a meaningful choice is present in a particular case can only be determined by consideration of all the circumstances surrounding the transaction. In many cases the meaningfulness of the choice is negated by a gross inequality of bargaining power. The manner in which the contract was entered is also relevant to this consideration. Did each party to the contract, considering his obvious education or lack of it, have a reasonable opportunity to understand the terms of the contract, or were the important terms hidden in a maze...."

That passage refers to the following indicators of unconscionability:

1. Absence of choice. When a student signs an enrollment form or other document that incorporates an IP policy by reference, the student is not given a choice about the contents of the IP policy. In fact, a student would not even appreciate that the enrollment form is a contract, nor appreciate that contract incorporates an IP policy by reference, let alone that the IP policy contains provisions purporting to divest a student from ownership of the IP created by the student.
2. Terms that are unreasonably favorable. The fact that a student undertakes a course of study at a university would not normally of itself be considered sufficient justification for the divestment from a student of the ownership of IP created by the student.

The fact that a student will share in commercialization revenue cannot necessarily be regarded a sufficient consideration to make the terms balanced. A student might be entitled to one third of commercialization revenue under an IP policy, but that is not the same as 100 percent of commercialization revenue if the student owned the

■ Philip Mendes,  
Opteon,  
Principal,  
Brisbane, Australia  
E-mail: [philip@opteon.com.au](mailto:philip@opteon.com.au)

whole of the IP.

3. Inequality of bargaining power. There is probably no better example of a relationship with unequal bargaining power, that of a young and inexperienced student, and that of an institution such as a university. When a student is presented with an enrollment form, the student can hardly negotiate its terms, or the terms of the IP policy sought to be incorporated by reference, nor would any attempt by a student to do so be accepted, or even tolerated.
4. Understanding the terms. Entering into an enrollment agreement with a university would not normally be understood as entering into an agreement to divest oneself of the ownership of IP.

As the Court continued to say in *Williams v. Walker-Thomas Furniture Company* 350 F.2d 445 (D.C. Cir. 1965):

“When a party of little bargaining power, and hence little real choice, signs a commercially unreasonable contract with little or no knowledge of its terms, it is hardly likely that his consent, or even an objective manifestation of his consent, was ever given to all the terms. In such a case the usual rule that the terms of the agreement are not to be questioned should be abandoned and the court should consider whether the terms of the contract are so unfair that enforcement should be withheld.”

At the time that the contract in *Williams* was formed, § 2-302(a) of the *Uniform Commercial Code* was not yet enacted. Its enactment by the time of the Court’s decision assisted the Court:

“Congress has recently enacted the Uniform Commercial Code, which specifically provides that the court may refuse to enforce a contract which it finds to be unconscionable at the time it was made. 28 D.C.CODE § 2-302 (Supp. IV 1965). The enactment of this section, which occurred subsequent to the contracts here in suit, does not mean that the common law of the District of Columbia was otherwise at the time of enactment, nor does it preclude the court from adopting a similar rule in the exercise of its powers to develop the common law for the District of Columbia. In fact, in view of the absence of prior authority on the point, we consider the congressional adoption of § 2-302 persuasive authority for following the rationale of the cases from which the section is explicitly derived.”

§ 2-302(a) of the *Uniform Commercial Code* provides:

“If the court as a matter of law finds the contract or any clause of the contract to have been unconscionable at the time it was made the court may

refuse to enforce the contract, or it may enforce the remainder of the contract without the unconscionable clause, or it may so limit the application of any unconscionable clause as to avoid any unconscionable result.”

§ 2-302(a) has limited application to the sale of goods. But is reproduced in near identical terms in *Restatement (Second) of Contracts* at §208.

“If a contract or term thereof is unconscionable at the time the contract is made a court may refuse to enforce the contract, or may enforce the remainder of the contract without the unconscionable term, or may so limit the application of any unconscionable term as to avoid any unconscionable result.”

In the Technology Transfer Practice Manual published by the Association of University Technology Managers, its chapter *Managing Student Intellectual Property Issues at Institutions of Higher Education: An AUTM Primer*, warns (at pages 5-6):

“With students unlikely to regard academic enrollment as contractual and unable to meaningfully negotiate the terms involved, any ambiguous or unduly burdensome IP provisions risk invalidation...”

The risk of a student enrollment contract, if it seeks to incorporate by reference a university’s IP policy, being unconscionable, is indeed a very high risk.

This risk is not confined to just a student enrollment contract. It extends to any contract between a student and a university. It will include a document by which a student assigns IP to the university. A university that presents a student IP assignment to a student for signing, and refers to its IP policy as obliging the student to execute the assignment document runs the risk of the assignment being struck down as an unconscionable transaction.

In the same year that *Williams v. Walker-Thomas Furniture Company* 350 F.2d 445 (D.C. Cir. 1965) was decided in the United States, *Morrison v. Coast Finance Ltd* (1965), 55 D.L.R. (2d) 710 was decided in Canada by the British Columbia Court of Appeal. The Canadian Court felt the same way about unconscionability as the U.S. court did:

“A plea that a bargain is unconscionable invokes relief against an unfair advantage gained by an unscrupulous use of power by a stronger party against a weaker. On such a claim the material ingredients are proof of inequality in the position of the parties arising out of the ignorance, need or distress of the weaker, which left him in the power of the stronger, and proof of substantial unfairness of the bargain obtained by the stronger.”

As in the United States, a Canadian court that finds an agreement tainted with unconscionability may decline to enforce the terms of the agreement.

In the United Kingdom the principle of unconscionability was famously summarized by Lord Denning MR in *Lloyd's Bank Limited v. Bundy* [1975] QB 326, [1974] 3 All ER 757 in the following way:

“Gathering all together, I would suggest that through all these instances there runs a single thread. They rest on “inequality of bargaining power.” By virtue of it, the English law gives relief to one who, without independent advice, enters into a contract upon terms which are very unfair or transfers property for a consideration which is grossly inadequate, when his bargaining power is grievously impaired by reason of his own needs or desires, or by his own ignorance or infirmity.”

In the United Kingdom, the unconscionability principle has been broadened by the Consumer Rights Act 2015, section 62(1) of which provides:

“An unfair term of a consumer contract is not binding on the consumer.”

A student is a consumer for the purposes of that provision.

In the United Kingdom there have been a number of publications that refer to the sensitive relationship between students and universities in relation to IP policies, contracts that seek to incorporate them by reference, and IP assignments.

In 2006 Praxis/UNICO, the association in the United Kingdom that represents technology transfer offices, said in its publication *Practical Guide—Students and IP* (at paragraph 3.7):

“Terms may also be unfair if they do not strike a fair balance between your [that is, the student’s] rights and obligations and those of the university—for example, if they...assign all intellectual property rights (IP) for any of your work to the university, regardless of the circumstances.”

In 2007 the *JISC Legal Investigation into Student Work and IPR* made a similar comment:

“Although an assignment may be appropriate and fair in some circumstances, a blanket requirement of assignment is unlikely to meet the test of fairness in the *Unfair Terms in Consumer Contracts Regulations 1999*.”

The *Unfair Terms in Consumer Contracts Regulations 1999* was the forerunner of the Consumer Rights Act 2015.

More recently in 2015, the English Competition and Markets Authority said in its *Undergraduate Students—Your Rights Under Consumer Law* (at paragraph 3.16):

“In general, universities have no automatic right to the intellectual property (IP) generated by students, given that they are not employees. A term that allows a university to claim all IP generated by all students during their studies—for example, all written work, creations, inventions and discoveries, regardless of the circumstances of study or type of course—may be unfair.”

Given the laws on unfair contracts and unconscionable contracts, it is difficult to have confidence that a student in the United Kingdom can be contractually bound by the terms of an IP policy, even one that is successfully incorporated by references into an enrollment contract.

In Australia the law on unconscionable contracts is fundamentally the same. In *Commercial Bank of Australia Ltd. v. Anadio* (1983), 151 C.L.R. 447 the Court said:

“Relief on the ground of unconscionable conduct will be granted when unconscientious advantage is taken of an innocent party whose will is overborne so that it is not independent and voluntary, just as it will also be granted when such advantage is taken of an innocent party who though not deprived of an independent and voluntary will, is unable to make a worthwhile judgment as to what is in his best interests.”

The unconscionability principle has also been broadened in Australia by legislation. Section 21 of the *Australian Consumer Law* provides:

“A person must not, in trade or commerce, in connection with:

(a) the supply or possible supply of goods or services to a person... engage in conduct that is, in all the circumstances, unconscionable.”

An enrollment contract between a university and a student is a contract in trade or commerce in connection with the supply of services, namely education, and a “person” includes a university.

Section 22 of the *Australian Consumer Law* sets out matters that the Court may consider to determine whether they has been any unconscionability. The very first one is “the relative strengths of the bargaining positions” of the parties.

In Australia, as in the other countries considered, an attempt to incorporate by reference an IP policy that seeks to divest a student of the IP created by the student, is likely to be unconscionable.

## IP Policies With a Legislative Basis

An IP policy might be binding, not because it forms part of a contract, but because the IP policy is enshrined in legislation or subordinate legislation. State universities in the United States that are formed by statute sometimes have their IP policy part of that stat-

ute. In those cases, it is therefore not just a policy, but a law as well.

In other countries, as was described in Part 1, the courts have been reluctant to give effect to statutory provisions that divest a person of property.

In the United States, when an IP policy is effectively a law, either as legislation or as subordinate legislation, a student is bound by it. Such legislation will overrule the common law or general law described in *Williams v. Walker-Thomas Furniture Company*, as well as any statute that reflects §208 of the *Restatement (Second) of Contracts*.

It does seem incongruous that at universities whose IP policies do not have a legislative sanction, an attempt by the IP policy to divest the student from ownership of IP created by the student is highly likely to be unconscionable and void, but that at universities whose IP policies do have a legislative sanction, they are valid.

The law should not treat students unequally, depending on whether they are enrolled in a university whose IP policies are enshrined in legislation or subordinate legislation, or a university whose IP policy is not enshrined in that way.

## IP Policies and Students—Conclusion

In relation to students in the United States, Canada, United Kingdom, and Australia, it is highly doubtful that IP policies that seek to expropriate IP created by them can be successfully incorporated by reference into their enrollment contracts. This is because firstly of the difficulty of seeking to incorporate by reference an IP policy into the enrollment contract between the student and the university, and secondly because the law of unfair or unconscionable contracts in each country is a major obstacle to the unilateral IP policy being contractually binding, even if successfully incorporated by reference.

When IP policies have a legislative basis, a difficult question of principle needs to be addressed in relation to students: should IP policies enshrined as state laws divesting students of the ownership of their IP prevail, when, had the same IP policy been based on contract, questions of unconscionability make it doubtful that the IP policy would have been effective?

## Does a University Need to Own the IP Created by a Student?

Sometimes a university needs to own the IP created by its students.

Where a student is a member of a research team, which produces commercializable IP, that IP will be jointly owned by the student, and the university, as the employer of the remaining members of the research team. The joint ownership of IP in this way fragments ownership, and impedes commercialization. In the

United States, a joint owner of a patent can grant a license without the consent of the other.<sup>1</sup> A university can therefore grant a license without the student joint owner's consent. But so can the student, and that devalues the IP to each of them. It also impedes commercialization as a licensee would normally seek all of the rights, and not just rights from one joint owner, leaving the other joint owner free to grant a license to a competitor. In other countries, an exclusive license of a patent cannot be granted by one joint owner without the consent of the other joint owner.<sup>2</sup> This effectively confers on each joint owner a power of veto over the grant of a license.

A university in the United States, or in any other country, is therefore precluded from granting a worldwide exclusive license of a patent, without a student joint owner's consent.

In these circumstances, it is important that the university secure ownership of the IP created by the student. If the university is to achieve its mission of its research outputs benefiting the community, it is necessary that the university be able to commercialize those research outputs without impediment. Where those research outputs were mostly created by university staff, and partly created by a student working with its staff, it will usually be the university that is best placed to commercialize the research outputs. It has a technology transfer office, as well as the expertise and resources to protect the IP, to find potential commercial partners for the IP, and to successfully commercialize the IP.

Where a student is part of a research team carrying out research under a sponsored research agreement, the university will have obligations in relation to the research outputs of that research team, to the industry sponsor of research. Under the terms of the sponsored research agreement the industry sponsor may have a right of first refusal, a license, or in exceptional circumstances, ownership of the research outcomes.

In these circumstances, the university needs to own all the IP produced under the sponsored research

1. *Schering Corp v. Roussel* 104 F.3d 341 at 343 (1997).

2. See for example: Australia—Section 16(2) “Patents Act” 1990; Brazil—Article 1314 “Brazilian Civil Code,” Canada—*Forget v. Specialty Tools of Canada Inc.* (1995) 62 CPR (3d) 537; China—Article 15 “Patent Law”; France—Article L. 613-29 “Intellectual Property Code,” Great Britain—Section 36(3) “Patents Act” 1977; Hong Kong—Section 54(3) “Patents Ordinance”; India—Section 50(3) “Patents Act” 1970; Japan—Article 73(3) “The Patent Law”; Malaysia—Section 40 “Patents Act” 1983; New Zealand—Section 63(3) “Patents Act” 1953; Russia—Article 1229(3) Part IV “Russian Federation Civil Code”; Singapore—Section 46(3) “Patents Act”; South Africa—Section 49(2)(b) “Patents Act” 1978; South Korea—Article 99(4) “Patent Act.”

agreements, to be able to perform its obligations under the sponsored research agreement. If a student has part of the ownership of the IP, the university is without the capacity to confer on the industry research sponsor the rights that it purported to grant. That will expose the university to legal liabilities.

In both these situations therefore:

1. Research that leads to commercializable IP.
2. Research undertaken under a contract that is therefore subject to contractual obligations.

It is important that the university own the IP. In each case, any ownership of the IP by a student will either impede commercialization, and impede the university in the achievement of its mission, or expose the university to legal liabilities.

But does a university need to own the IP created by students on other occasions?

The vast quantity of IP created by students will not be commercializable. It will not even be the subject of an invention disclosure. A university does not need to own this IP.

A student might create IP with the use of university equipment, laboratories, and other facilities. The fact that a student may use these in creating that IP may not of itself be a sufficient justification for the university to own the IP. IP policies that refer to “significant” use of a university’s equipment, laboratories, and other facilities as triggering the vesting of IP in the university beg the question of what amounts to “significant” use. Even if there is what can be described as “significant” use there is likely to be a disproportionate relationship between the value of the use made, which most often is modest, and the value of the IP created. Even if the use is more than modest, which has the greater value—the use of the equipment to conduct an experiment, or the innovation that created the IP before the experiment was conducted? In these circumstances, seeking to divest a student of the ownership of IP solely created by the student, just because the student used university facilities, may be subject to the laws on unconscionability described earlier.

A student may have the assistance of a supervisor to create the IP. If a supervisor or other university staff member contributes to the creation of IP, the result is that the IP is jointly owned by the student, and the university, as the employer of that staff member. If the jointly owned IP is commercializable, or subject to a contract, it should be owned by the university, as described above. But if it is neither commercializable, nor subject to a contract, it does not necessarily matter that its ownership remains joint between the student and the university.

It is not the case that a university needs to own all the IP created by all its students, and therefore not

the case that it needs to divest all its students of the ownership of the all the IP created by them.

A university that in its IP policy does seek to own all the IP created by all its students, whether it needs it or not, invites controversy and disputes. These are not necessarily litigated, and therefore reported. But that does not mean that disputes do not occur. They do occur, and needing resolution, they are resolved. But as with disputes involving staff, that happens only after much anxiety, and often, only after a commercialization transaction has been delayed, or put at risk, and rarely but occasionally, after a commercialization transaction has been abandoned. It also needlessly takes up the time and resources of the technology transfer office, for which handling these disputes is a wasteful distraction.

## **Obtaining an IP Assignment From a Student**

There are two situations when a university will need to own the IP created by its students. The first is where the research project in which a student is included is expected to give rise to commercializable IP. The second is where the research project in which a student is included is subject to contractual obligations.

In the first case the university will need to own the IP created by the student to achieve its mission, and in the second to meet its contractual obligations.

An assignment of IP by the student, to the university, will on these occasions be necessary. Such an assignment by a student needs to be the student’s informed, intentional and voluntary act, untainted by unconscionability.

Any “standard form” procedure by which students assign the IP created by them, whether upon enrollment, or in some other “standard” way, is at high risk of being an assignment that is unconscionable, and therefore void.

This represents a major risk to a university.

If a university acts on an assignment of IP from a student and, for example, enters into a license of that IP, the university is exposed if the student should later successfully challenge the validity of the assignment. If such an assignment is declared void, it would mean that the university did not own that IP which it believed it owned as a result of that assignment. That will breach express or implied warranties in the license that the university owned the IP the subject of the license, and was entitled to grant the license. The resulting damages claim from a licensee could be significant.

For a university to confidently obtain an assignment of IP from a student, the student must assign the IP voluntarily, on a fully informed basis, and without any taint of unconscionability. As well, the assignment needs to be on equitable financial terms.

When it is sought to divest a student of the student's IP under the terms of an enrollment contract, which refers to compliance with an IP policy, on the face of it, the divestment of IP may not appear to be on equitable financial terms. Under the IP policy, the student may participate in the university's commercialization revenue sharing policy, and along with other inventors share in for example one third of the net commercialization revenue. However, but for the assignment, the student might have been entitled to 100 percent of all revenue, or 50 percent if the IP was jointly owned with the university. That, with the circumstances of the divestment amounting to an involuntary divestment on the part of the student, together make the transaction unconscionable, and liable to be set aside as void.

However, an intentional and voluntary assignment by the student, made with the student being fully informed, where the student is treated in the same manner as the university's staff in relation to the sharing of net commercialization revenue, is less likely to be considered an unconscionable transaction.

Allowing a student a reasonable period of time to consider the terms of an assignment document and all the information provided by the university in relation to the assignment, and if the student so chooses, to obtain independent legal advice, will also help negate any appearance of any unconscionability.

## Conclusion

It is important that universities own the IP created by their students in the circumstances described. However, casting a wide net over all IP created by all students, as IP policies seek to do, will involve the university in time consuming and distracting disputes about the ownership of IP.

An IP policy casting such a wide net also sits uncomfortably with student entrepreneurship. Many universities teach entrepreneurship, often with a student's own innovations being part of the courses of study that the students undertake. As well, universities operate incubators and entrepreneurship centers, which have the aim of fostering and nurturing innovation and entrepreneurship amongst not just the university's staff, but its students as well.

When a university needs the IP created by a student, the assignment of that IP to the university needs to be obtained in circumstances untainted by unconscionability. Without that, a university that deals with the IP such as by way of license can never know whether it will have a potential legal liability arising from a successful challenge by a student to the assignment, and its being found to be void. ■

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