

IN THE COURT OF APPEAL OF NEW ZEALAND

**CA145/2009
[2010] NZCA 232**

BETWEEN	ORAKA TECHNOLOGIES LIMITED First Appellant
AND	ORAKA GRADERS LIMITED Second Appellant
AND	MICHAEL WILLIAM SCHWARZ Third Appellant
AND	GEOSTEL VISION LIMITED First Respondent
AND	PAUL DAYNES AND GORDON ROBERTSON Second Respondents
AND	NAPIER TOOL & DIE LIMITED Third Respondent

Hearing: 23 February 2010

Court: Glazebrook, Hammond and Randerson JJ

Counsel: B P Henry and A E McDonald for Appellants
E J Hudson for First and Second Respondents
K J Crossland and P Verboeket for Third Respondent

Judgment: 8 June 2010 at 11 am

JUDGMENT OF THE COURT

A The appeal is allowed.

- B** We make a declaration that the appellants are the owners of copyright in the drawing of 3 February 1993 and the three drawings of 10 February 1993 which are the subject of this proceeding.
- C** The third respondent is to pay costs to the appellants (jointly and severally) on a Band A basis and usual disbursements on this appeal. The costs in the High Court are to be fixed in that Court.
- D** We remit the proceeding to the High Court for determination of the remaining issues in the proceeding.

REASONS OF THE COURT

(Given by Hammond J)

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Introduction

[1] The appeal concerns the ownership of the copyright in certain industrial drawings. The particular issue is whether those drawings were commissioned by the appellants in terms of s 9(3) of the Copyright Act 1962 (the 1962 Act).

[2] Since the early 1980s the appellants have been committed to developing a machine for the automatic grading of asparagus spears by reference to their weight, colour, size and appearance. To this end, Mr Schwarz, the third appellant, evolved a machine called the “Oraka grader”. This comprises a conveyor belt with a

specialised cup assembly that receives individual asparagus spears. The conveyor belt carries the cups along to a camera/illumination station at the rate of about 12 spears per second. The image of each individual spear is captured by the camera, and processed by a computer. Each spear is then graded by the computer according to its length, colour and quality, depending on the demands of the market for which the crop is destined. When the asparagus spear reaches a designated collection chute for its grade, that cup assembly automatically trips. The spear drops from the cup into the particular collection chute from where it is packaged, with other spears, as part of the machine's delivery of a programmed weight of spears.

[3] This is a relatively sophisticated machine. Mr Schwarz did not personally develop every aspect of the Oraka grader. As only one instance, the necessary computer software to operate the machine was developed by others under what Allan J, the trial Judge, described as "appropriate contractual arrangements".¹ Mr Schwarz was however directly involved with the development of the cup assembly used to transport and grade individual asparagus spears as well as with the design of the collection chutes which would collect the spears when the cup assembly was electronically triggered. Both the cup assembly and the collection chute were the subject of dispute in the High Court. The collection chute is not now in contention before this Court.

[4] The Oraka grader has been a commercial success. It has been sold to growers in New Zealand, Australia, the United States of America, South Africa, Greece, England, the Philippines, Chile, Mexico and Peru.

[5] The second respondents, Messrs Paul Daynes and Gordon Robertson, are shareholders in the first respondent, Geostel Vision Limited (Geostel). Mr Daynes had been associated with Mr Schwarz, for whom he developed much of the computer software which is incorporated in the Oraka grader. At that point Mr Daynes worked through his company, Kamber Electronics Company Limited, as an independent contractor.

¹ *Oraka Technologies Ltd v Geostel Vision Ltd* HC Hamilton CIV-2005-419-809, 18 February 2009 at [5].

[6] Over time, as the Judge put it, Mr Daynes “became disenchanted with Mr Schwarz”.² He thought Mr Schwarz’s business methods were inefficient and that he was underfunded.

[7] The Judge found:³

Perceiving an opportunity of his own, [Mr Daynes] incorporated Geostel with Mr Robertson, who formerly had been Mr Schwarz’s Greek representative. Thereafter, Geostel engaged in competition with the appellants both in respect of the sale of new graders, and in respect of the provision of replacement parts for the [Oraka] grader.

[8] The third respondent, Napier Tool and Die Ltd (Napier Tool) is an engineering company. That company undertook design, tooling and manufacturing work for Mr Schwarz in respect of the cup assembly.

[9] The appellants allege that all respondents have infringed the appellants’ copyright. In the case of Geostel, it is said that from about 2001 onwards, it manufactured and sold a cup assembly and a chute that are substantial copies of the appellants’ copyright works. Napier Tool is alleged to have infringed the appellants’ copyright in the cup assembly only, by manufacturing infringing works both for Geostel and on its own account. There is an additional cause of action against Napier Tool for breach of fiduciary duty, but it is unnecessary for us to deal with that issue.

[10] The appellants say that, in copyright terms, the work Napier Tool did was done on “commission”, and that the appellants in consequence own the copyright in certain design drawings. The Judge did not agree. That holding is the central issue on this appeal.

[11] It is convenient to note here that there are some subsidiary issues arising out of the relationships between the appellants but we have not been asked to address them. They were not reached in the High Court because the Judge found there was not a commissioning. Therefore, he did not have to decide these issues. For the

² At [8].

³ At [8].

purposes of the appeal, counsel are agreed that we can treat the appellants as one, and we refer to them collectively as “Oraka”.

The artistic works

[12] It is common ground that in the course of the development of the Oraka cup assembly the following artistic works were produced:

- (a) Drawings and sketches created by Mr Schwarz of the workings of the cup chassis and trigger of the Oraka cup assembly. These were alleged to have been drawn on the back of a beer coaster at Perth International Airport, and were said to have been followed by approximately three drawings prepared by hand by Mr Schwarz for, and given by him to, Napier Tool.
- (b) A prototype comprising a cup made from PVC piping with a chassis and trigger each made from sheet metal and incorporating springs.
- (c) Some 18 drawings produced by Napier Tool being:
 - (i) One drawing dated 3 February 1993.
 - (ii) Three drawings dated 10 February 1993.
 - (iii) Eleven drawings dated respectively either 1 March 1993, 15 March 1993 or 25 March 1993.
 - (iv) Three drawings, two of which are dated 13 November 2003 and the last, 16 December 2003.
- (d) A mould created by reference to the foregoing works.

[13] The drawings directly in issue before us are (c) (i) and (ii).

The pleadings

[14] The averments in the fourth amended Statement of Claim, on which the trial was conducted, are as follows:

Particulars of conduct/circumstances on Basis of which Commissioning Express or Implied.

[For ease of reference, the actual names of the parties have been substituted]

The drawings were produced by Napier Tool in performance of an agreement between Oraka Technologies or Mr Schwarz and Napier Tool entered into about 1993 (“the Agreement”) in terms of which Napier Tool agreed to design and manufacture a tool for the manufacture of the Oraka Cup Assembly in accordance with certain design parameters given by Oraka Technologies or Mr Schwarz, details of which were communicated to Napier Tool in terms of the following:

- (a) the drawings and sketches particularised (in [12] above).
- (b) the prototype of the cup assembly which gave the dimensions, shape and geometry of the tooling ultimately produced by the third defendant.
- (c) information comprising advice regarding the working of the Oraka Cup Assembly and the inter-relationship of the working parts namely the cup itself, chassis and trigger including:
 - * the v-shape, length and flaring of the cup itself;
 - * the pivot design of the Oraka Cup Assembly having a cup pivoted onto the chassis and held horizontal by the latching of a trigger with a cup hook;
 - * spring arrangements produced from the inter-cooperation of design elements in the cup, the chassis and the trigger to provide impetus once the trigger was activated and the latch released.

The Agreement imposed on Oraka Technologies or Mr Schwarz had an implied obligation to pay Napier Tool for the creation of the drawings.

The Agreement did not contain an express term reserving copyright in the drawings to Napier Tool.

[15] It was further averred that prior to the creation of the drawings by Napier Tool, it represented to Oraka Technologies or Mr Schwarz that they would own copyright in the tooling. The particulars were that representations were made by Robert Walter Witham on behalf of Napier Tool in discussions with Mr Schwarz in

or about 1992 or early 1993 at Napier Tool's place of business in Napier and/or at Boyd's Packhouse in Cambridge and/or in the course of telephone discussions between Mr Schwarz and Mr Witham.

[16] It was pleaded that in about 2003 Napier Tool allowed Oraka Graders to uplift the tooling from it in the knowledge that Oraka Graders intended to use and subsequently did use it to have the cup assembly manufactured elsewhere - without any obligation on it to account for doing so to Napier Tool. And further, that Napier Tool did not allege until approximately July 2007 (that is, after the commencement of this proceeding) that, contrary to the earlier representations referred to above, it and not Oraka Technologies or Mr Schwarz owned copyright in the drawings.

[17] Then it was pleaded that the implication that the drawings were produced pursuant to a commission:

...is reasonable and equitable, obvious and necessary to give business efficacy to the agreement including providing Oraka Technologies or Mr Schwarz with the right to take action against third parties for copyright infringement.

[18] We record that the respondents at one point endeavoured to suggest that this appeal was outside the pleadings. We do not accept that to be the case on a fair reading of the pleadings.

The law on commissioning

[19] Before we turn to the facts in greater detail it is convenient to now set out the law in this subject area.

[20] Whereas some kinds of intellectual property – patents for instance – rely on a grant for their validity, copyright arises automatically. The general rule is that copyright vests in the author of the work. The author is the person who contributes the skill, labour, and judgment comprising the actual work, not the mere contributor of the basic idea.

[21] This fundamental proposition of copyright law gives rise to a number of difficulties where more than one person is involved in the “evolution” of the work. For instance A may request B to undertake for him or her something which would be a “work” under the Copyright Act. Who then holds the copyright in the resultant work?

[22] The Copyright Act 1962, s 9 provided as follows:

9 Ownership of copyright in literary, dramatic, musical, and artistic works

- (1) Subject to the provisions of this section, the author of a work shall be entitled to any copyright subsisting in the work by virtue of this Part of this Act.
- (2) Where a literary, dramatic, or artistic work is made by the author in the course of his employment by the proprietor of a newspaper, magazine, or similar periodical under a contract of service or apprenticeship, and is so made for the purpose of publication in a newspaper, magazine, or similar periodical, the said proprietor shall be entitled to the copyright in the work in so far as the copyright relates to publication of the work in any newspaper, magazine, or similar periodical, or to reproduction of the work for the purpose of its being so published or to broadcasting the work; but in all other respects the author shall be entitled to any copyright subsisting in the work by virtue of this Part of this Act.
- (3) Subject to subsection (2) of this section, where a person commissions the taking of a photograph, or the making of a painting, drawing, engraving, model, or sculpture and pays or agrees to pay for it in money or money’s worth, and the work is made in pursuance of that commission, the person who so commissioned the work shall be entitled to any copyright subsisting therein by virtue of this Part of this Act.
- (4) Where, in a case not falling within either subsection (2) or subsection (3) of this section, a work is made in the course of the author’s employment by another person under a contract of service or apprenticeship, that other person shall be entitled to any copyright subsisting in the work by virtue of this Part of this Act.
- (5) Subsections (2), (3), and (4) of this section shall each have effect subject, in any particular case, to any agreement excluding the operation thereof in that case.
- (6) The preceding provisions of this section shall have effect subject to the provisions of Parts 7 and 8 of this Act.

[23] It will be observed that the starting point is the traditional copyright proposition that the author holds the copyright. That is the default position under

s 9(1) of the Act. But s 9(3) provides for commissioned works. Where a commission arises, the copyright is vested in the commissioner, not the author. Under s 9(5) the parties can contract out of these statutory presumptions of copyright ownership. This enables, for instance, a photographer to continue to hold the copyright in prints, even in the case of a commission.

[24] Under the Copyright Act 1994 (the 1994 Act), s 21 provides as follows:

21 First ownership of copyright

- (1) Subject to the provisions of this section, the person who is the author of a work is the first owner of any copyright in the work.
- (2) Where an employee makes, in the course of his or her employment, a literary, dramatic, musical, or artistic work, that person's employer is the first owner of any copyright in the work.
- (3) Where –
 - (a) A person commissions, and pays or agrees to pay for, the taking of a photograph or the making of a computer program, painting, drawing, diagram, map, chart, plan, engraving, model, sculpture, film, or sound recording; and
 - (b) The work is made in pursuance of that commission, that person is the first owner of any copyright in the work.
- (4) Subsections (2) and (3) of this section apply subject to any agreement to the contrary.
- (5) Subsections (1) to (4) of this section apply subject to sections 26 and 28 of this Act.

[25] The rationale of the traditional rule was concisely summarised by the Department of Justice in a Law Reform Division Report:⁴

There are two reasons for the existence of the Commissioning Rule. One is that if a work is made pursuant to a commission and has been paid for, the commissioner should be entitled to copyright in the work. In many instances, the commissioner will often have directed or influenced the nature of the work created. The other rationale is that works such as photographs, paintings and even plans are frequently commissioned by members of the public for private or domestic purposes. These people will usually not appreciate the existence or the implications of copyright protection and would not be likely to bargain to obtain copyright.

⁴ Department of Justice, Law Reform Division, *Copyright Bill: Departmental Report to Commerce Select Committee* (1994) at 23.

[26] Counsel and the Judge in the High Court agreed that for the purposes of this case there is no difference between the 1962 Act and the 1994 Act. The 1994 Act made some important extensions to the possible subject matter of a commission – for instance it now includes computer programmes - but the so-called “commissioning rule” itself was not disturbed.

[27] The 1994 Act came into force on 1 January 1995. By virtue of cl 14 sch 1 of that Act, the question of first ownership of copyright in a work made before the commencement of the 1994 Act is to be determined in accordance with the law in force at the time the work was made. Most of the works in which copyright is claimed by the appellants came into existence in 1993 or 1994. But for present purposes there would be no material difference if they had fallen under the 1994 Act.

[28] Section 21 of the 1994 Act was considered by this Court in *Pacific Software Technology Ltd v Perry Group Ltd*.⁵ This was a computer software case. The evolution of computer software raises particular difficulties. This Court took the view that copyright in prior independent work, such as the library code involved in developing computer software, is licensed rather than transferred. In that particular case Hammond J, for the Court, said that it was both necessary and appropriate to imply a non-revocable licence for the Perry Group to use any library code which was embedded in the source code; and further, a term that such licence also enures for the benefit of any successor or assignor of the Perry Group.

[29] That is, this Court adopted an implied licence approach in preference to an alternative view that all copyright is transferred under a commission. At least one commentator has suggested that to be the preferable solution.⁶

Overall, the implied licence approach is clearly preferable to the view that all copyright is transferred under a commission and it is most in accord with practice not only in the software industry but also in other industries, with the legal profession an obvious example.

[30] This Court held that the following principles are applicable to commission cases in New Zealand:

⁵ *Pacific Software Technology Ltd v Perry Group Ltd* [2004] 1 NZLR 164.

⁶ Anna Kingsbury “IP: Recent Decisions from the Courts” [2003] 3 NZIPJ 234 at 236.

[51] It is possible (indeed this may well be the “usual” case) that all copyright elements in the newly commissioned work will vest in the commissioning party. That observation must rest on the scope of the commission, as found. But there can be problems where (as here) there is a suggestion that prior copyright work has been incorporated into a newly created work, which itself then attracts copyright (in the same way as there may be copyright in individual poems, which are then taken into an anthology which itself attracts copyright).

[52] Whether a work is “commissioned”; what the scope of that commission is; and the date on which the commission arises are all necessarily questions of fact in each case.

[53] Patently, the better practice is to have a written agreement, and software developers and purchasers would be well advised to see that sound industry contracting procedures are put in place. Be that as it may, inevitably there will be cases, such as the present, in which the exigencies of the moment, or a lack of “best practice” will see parties fail to attend to the obvious.

[54] Where there is no specific agreement, the law is now well settled, although it can be difficult to apply.

[55] First, to “commission” simply means to “order” or “request”.

[56] Secondly, this commissioning must be antecedent to the work. It must have been arrived at before the work is made.

[57] Thirdly, s 21 requires, in terms, a commission and an agreement to pay. Whilst an antecedent commissioning does not necessarily imply an obligation to pay, usually it will do so. And the very existence of a payment obligation can lend force to the notion of the commission itself. An agreement to pay can be express or implied. In *Alwinco Products Ltd v Crystal Glass Industries Ltd* [1985] 1 NZLR 716, this Court thought it sufficient that it be established that the work is to be paid for. For the purposes of a commission there need not necessarily be agreement as to the precise amount to be paid. And the authors of Laddie, Prescott and Vitoria, *The Modern Law of Copyright and Designs*, Vol 1 (2nd ed, 1995) at para 11.50 cite with approval *P S Johnson & Associates Ltd v Bucko Enterprises Ltd* [1975] 1 NZLR 311 for the proposition that there can be an implied commissioning arrangement “where it can only be assumed that [the work] would ultimately be paid for”. That said, matters can be left so vague that the supposed commission becomes unenforceable. (For a reported instance of this kind, see *Leah v Two Worlds Publishing Co Ltd* [1951] Ch 393).

[58] Fourthly, this payment is a quid pro quo for the copyright: that is, the making of the copyright work, not the physical embodiment of the work itself.

[59] Fifthly, the copyright in the commissioned work belongs to the commissioning party so soon as part of it is done. That is, the commission applies to incomplete as well as complete works.

[60] Sixthly, it will be apparent from the foregoing that although it is an agreement of a kind, a commission is closer to a term of art which is

employed in the copyright area for the resolution of first ownership issues. To put this another way, the notion of a commission is *sui generis* to copyright law. It involves the Court finding an arrangement of the requisite character between the parties, and what the terms of it are. The very existence of the commission may be inferred.

[31] In March 2006 the Regulatory and Competition Policy Branch of the Ministry of Economic Development published a discussion paper entitled “The Commissioning Rule, Contracts and the Copyright Act 1994”.⁷ This invited submissions on the adequacy of s 21 (3) of the 1994 Act and the more general question of the relationship between copyright law and contract law. The paper said that the impetus for it came from “stakeholders in the photographic industry regarding the application of the commissioning rule to photographs”.⁸ However, the Ministry noted that “increasingly, copyright-protected works are put on the market subject to contractual terms of access and use”.⁹ The Department expressed some preliminary concerns in that respect.

[32] The paper was not referred to by counsel. It is, with respect, a useful one. It details the history of the commissioning rule in New Zealand dating back to s 2 of the Fine Arts Copyright Act 1877, the various legislative reiterations of the fundamental policy; and international developments and approaches in the United Kingdom, Australia, Canada, Ireland and the United States. Submissions were sought on the paper.

[33] Subsequently a Copyright (Commissioning Rule) Amendment Bill 2008¹⁰ was drafted. Under a proposed new s 21 the commissioning rule would have been repealed.

[34] All told, there were seventy submissions on the Bill. The explanatory note to the Bill noted that there had been quite widespread consultation, and “arguments were split down creator and commissioner lines on whether to repeal the Rule, expand it, or keep the status quo”. No criticism or concern about the decision of this Court in *Pacific Software* seems to have been advanced in the review process.

⁷ Ministry of Economic Development *The Commissioning Rule, Contracts and Copyright Act 1994: A Discussion Paper* (2006).

⁸ At [3].

⁹ At [4].

[35] In the result, the administration of the day decided not to proceed with the proposal to change the existing law.

[36] For present purposes the significance of the foregoing is that the law has recently been reviewed in New Zealand. Parliament has not seen it as appropriate to intervene. The historic commissioning rule has been confirmed. If there had been some concern over the articulation of the commissioning rule as explained in this Court, it seems inconceivable that it would not have been voiced in that consultative process.

[37] It is convenient to note here the judgment of the English Court of Appeal in *R Griggs Group Ltd v Ross Evans*,¹¹ on which Mr Henry placed some reliance. That case involved an alleged commissioning of an advertising agency to produce a logo for the famous “Doc Martens” footwear. Jacob LJ, who delivered a judgment with which Chadwick LJ and Lloyd J agreed, noted that “the case boils down to the terms, express or implied, in the contract between Mr Evans and the advertising agency”.¹² His Lordship referred with approval to *Robin Ray v Classic FM plc*¹³ in which Lightman J summarised what he apprehended to be the general principles governing the respective rights of a contractor and client in the copyright in a work commissioned by clients.¹⁴ After referring to the well-established House of Lords authorities relating to the implication of terms in contracts generally, Lightman J had said that if it is necessary to imply some grant of rights in respect of a copyright work, and the need could be satisfied by either the grant of a licence or an assignment of the copyright, the implication will be of the grant of the licence only. That said, circumstances may exist when the necessity for an actual assignment of copyright may be established.

[38] In other words there may be some cases in which, in addition to issues around the right to use the copyright works, issues of the right to exclude the contractor from using the work and the ability to enforce the copyright against a third party could

¹⁰ Copyright (Commissioning Rule Amendment Bill 2008 (299-1).

¹¹ *R Griggs Group Ltd v Ross Evans* [2005] EWCA (Civ) 11, [2005] FSR 31.

¹² At [8].

¹³ *Robin Ray v Classic FM plc* [1998] FSR 622.

¹⁴ See at [13].

arise. One of these is where a contractor creates a work which is derivative from a pre-existing work of the client, for instance when a draftsman is engaged to turn designs of an article or sketch drawn by the client into formal manufacturing drawings, and the draftsman can not then use the drawings himself without infringing the underlying rights of the client.¹⁵ Mr Henry, of course, placed distinct store by that observation by Jacob LJ.

[39] Resort to implied terms and licences is relatively common with respect to the relief to be granted in copyright cases. But each case depends on its own circumstances. Necessity *may* only require the grant of a licence. If so the ambit of the licence should be the minimum which is required to secure to the client the entitlement which the parties to the contract must have intended to confer upon him. Since there are usually arguments both ways in these cases, Jacob LJ thought that the right question to ask is: “given that Parliament vests the first ownership in the author, is it sensible that the parties intended to remain in that position?”¹⁶

This case

[40] The issue is: was there in law a commissioning of the relevant cup assembly drawings? This requires (1) a request to make the drawings; (2) an antecedent payment or an agreement to pay for them in money or money’s worth; and (3) the making of the drawing. The critical issue is element (2), and such an obligation may be express or implied.

[41] The evidence here is made difficult by virtue of the fact that the alleged commissioning occurred almost eighteen years ago. No contemporary records were produced. The witnesses who gave oral evidence were themselves in real difficulty in being able to describe precisely what had happened. We mention this now because this is one of those cases where fact finding necessarily turns, to the highest degree, on what the parties actually did, not on what they now say, to the extent that they can say much at all. And as to that, as Allan J correctly noted there is not a great deal of dispute. So this is a case of what inferences can properly be drawn

¹⁵ At [13], sub-point 7.

from what actually happened. The Judge did not make – indeed it is hard to see how he could have made – credibility type findings on what was said in Court when the parties admit to such hazy recollections.

[42] Late in 1992 or early in 1993 Mr Schwarz approached Napier Tool for engineering assistance with respect to the cup assembly. The reason he did so was that Napier Tool had a reputation in the engineering field and particular expertise with fruit and vegetable grading. Napier Tool had no detailed knowledge of asparagus grading at all. So Mr Witham of Napier Tool, in the company of Mr Schwarz, went and had a look at an earlier version of an asparagus grader which was operating at Boyd's Packhouse, near Cambridge.

[43] Mr Schwarz's evidence was that he provided Mr Witham with some sketches and an early prototype. Mr Witham acknowledged that he received the prototype. He said he had no recollection of any drawings.

[44] Mr Schwarz said one of the selling points Mr Witham made to him was that any work produced by Napier Tool for the appellants would "entirely belong to us", if at any time the appellants chose to go to another manufacturer. Mr Schwarz also claimed that it was at least implicit in that advice that since the appellants had the right to control production from the mould, they would also own copyright in the mould and in the final design of the cup assembly. Mr Witham again had no explicit recollection of any such assurance. But he accepted that he could well have assured Mr Schwarz that ownership of the tooling and the exclusive right to use it, would rest with the appellants. Mr Schwarz's evidence was that "I took assurance from this advice because I felt it meant I didn't have to worry about being 'held to ransom' if I was unhappy with the [Napier Tool] manufacturing prices."

[45] There is no dispute that Napier Tool produced the first of the concept drawings dated 3 February 1993. Mr Witham discussed this with Mr Schwarz and Mr Schwarz told him there would be some serious operational problems with what was there laid out. So Napier Tool went back to the drawing board. On 10 February

¹⁶ At [15].

1993 it produced a further three drawings. These provided greater component detail. They were quite satisfactory to Mr Schwarz.

[46] Mr Schwarz then asked Napier Tool to prepare a quote for the preparation of tooling based on those designs, and also for the manufacture of components used in the tooling. Napier Tool duly prepared a written form of quotation, which was subsequently accepted by Mr Schwarz. There is not extant a copy of the written quotation but as the Judge said, it must necessarily have followed Mr Schwarz's approval of the design drawings of 10 February 1993.

[47] Again it is common ground that Napier Tool did subsequently produce tooling drawings and then manufactured the tool itself. There were later agreements with Mr Schwarz for the production of cup assemblies, utilising that tooling.

[48] Although the parties have not been able to unearth the paperwork, it was common ground that Mr Witham and Mr Schwarz agreed a price of \$26,000 for Napier Tool to produce the tooling. Mr Schwarz's evidence was that "at the same time as we agreed the price" Mr Witham explained to him and he accepted that Napier Tool would produce design drawings based on the specifications he had provided with his approval.

[49] So, in broad terms this is a case that progressed from the expression of a concept by Mr Schwarz accompanied by some of his drawings and a physical prototype, through to early drawings prepared by Napier Tool that, when approved by Mr Schwarz, were evolved by Napier Tool into far more detailed industrial design drawings which were then utilised to produce a tool. The appellants paid Napier Tool \$26,000 for its work.

[50] It would be extremely difficult to contend that there was no "commissioning" if the facts remained within that circumference. The unusual complicating feature in this case is that Mr Witham gave evidence that Napier Tool's approach to design work is that it offers what he called a "free design service". This was aimed at attracting new customers with a view to securing later tooling and manufacturing work. Mr Witham's claim was that the design work was to be carried out free of

charge and had Mr Schwarz decided not to proceed to the tooling stage, he or the other appellants could have done so without any financial obligation. That would have incurred some detriment to Napier Tool, but he said the overall resulting losses from that practice are outweighed by the additional engineering and manufacturing work attracted to the company. Napier Tool called customer evidence to corroborate this policy of providing design work for free. The Judge said: “I am satisfied that [Napier Tool] did not charge [the appellants] for the concept and design drawings of 3 and 10 February 1993”.¹⁷ More problematically, the Judge said “... and that no plaintiff made any payment in money or money’s worth to [Napier Tool] for those drawings”.¹⁸

[51] It was this way of looking at things that led the High Court Judge to accept Napier Tool’s submission that this was really not one transaction, but two. He considered that the first – a free service – was the instruction to prepare concept and design drawings; the second was for the later drawings and the production of the tool, and still later for the manufacture of components.

[52] This was not an evidential finding in the normal sense of that term: it was the construction the Judge put on the bare facts of what had actually happened. Moreover, it is a construction which has necessarily to be approached with some caution. Napier Tool had, in a broad sense, utilised Mr Schwarz’s creation, and it was only when challenged, and after taking advice and casting about, that it came up with the argument that copyright in the concept and design drawings lay with it, as a traverse of a serious allegation of copyright infringement.

[53] In evidence Mr Schwarz protested at this “ex post” justification raised by Napier Tool. He said, in chief:

Mr Witham made no mention whatsoever that [Napier Tool] would retain copyright in the design of the cup assembly and the tooling and that the \$26,000 price did not include the preparatory drawings prepared as part of the mould manufacture. He didn’t ask me to sign anything or give me any indication that the price excluded the drawings. Nor would there have been any reason for him to do so, since, if I understand his [subsequent solicitor’s letter] correctly, even he didn’t know at that time that this was the position

¹⁷ At [44].

¹⁸ At [44].

that Napier Tool would decide to take. Without wishing to state the obvious, I take it from that that Mr Witham was operating on the basis that Napier Tool didn't own copyright in the drawings, which was certainly what I understood the position to be. Had I for one moment understood from anything that Mr Witham and I discussed in the conversations I had with him that Napier Tool could prevent me from taking action against anyone who had copied the cup assembly or, indeed if Napier Tool could take action against me, if I copied the tooling as indeed it has threatened to do, there was absolutely no way I would have commissioned [Napier Tool] to do the job.

[54] These observations reflect what we would have thought to be the strong commercial probabilities of the situation.

[55] In this case, this Court is in as good a position as the trial Judge to assess the evidence in this case.

[56] First, as a general observation, the dividing of the events by the Judge into two transactions seems to us to be artificial, and not to accord with the commercial realities. Further, it has all the appearance of having been created as an afterthought defence to an infringement action. The commercial reality was that what transpired was one seamless transaction.

[57] That said, there are two lines of analysis which both lead to a conclusion that the s 9(3) criteria in the statute are satisfied. First, this is a case in which there is no dispute about two of the required three elements. There was a request by Mr Schwarz for the drawings; and they were in fact made. The issue is whether Mr Schwarz paid, or agreed to pay, for the drawings in money or money's worth before they were undertaken. In commercial terms, it seems to us that the agreement was that if Napier Tool could come up with satisfactory drawings it would get to do the manufacturing work and be paid for it if an appropriate price could be worked out. This is in fact what happened. Oraka was satisfied with the drawings, tooling manufacture proceeded, and a price for that work was agreed and paid. It also seems to have been represented that any subsequent tooling would be owned by Mr Schwarz and that he would have the right to use that tooling. It makes everyday commercial sense for this potential business opportunity (to Napier Tool) to fall within the rubric of "money's worth".

[58] The other line is that it can be said that arising from the request to prepare the drawings, there was an implied obligation that the appellants would pay in money or money's worth if satisfactory drawings led to the manufacturing work. That implied obligation arose before the work was undertaken and was a normal and necessary incident of the request by Oraka that drawings be prepared. Napier Tool claimed that they did not usually charge for such work, but there is no evidence this was ever conveyed to Oraka. We see no reason why s 9(3) of the 1962 Act and for that matter s 21(3) of the 1994 Act may not apply to a conditional agreement of this type where that condition is subsequently satisfied (as it was in this case) by Oraka's satisfaction with the drawing and its entry into a substantial contract with Napier Tool to prepare further working drawings and proceed with manufacturing.

[59] We accept there is no evidence that Oraka made any specific payment for the February drawings, but it is sufficient if Oraka agreed to pay for those drawings, either expressly or by implication. The fact that Napier Tool chose not to charge Oraka specifically for the February drawings in the circumstances is not material. The implied obligation by Oraka to pay is sufficient.

[60] Neither of these alternatives goes quite as far as Mr Henry would have had us go. As we understood him he would have the Court, if necessary, imply (as a matter of business efficacy) a fresh term for payment into the agreement. We do not think it necessary to go that far: we consider that an implied obligation to pay arose out of the transaction itself. It was part of it.

[61] In the result, we consider there was here a completed, lawful commission.

[62] The next question then is whether this is a case for vesting the entire copyright in the relevant drawings in favour of the appellants, or only some form of licence. This is a straightforward case under this head. It is really an all-or-nothing case where, as here, the respondents have wrongly proceeded as if the copyright is "theirs" and asserted it as a defence in an infringement action against them.

The tooling drawings

[63] At [62] of his judgment Allan J suggested that there was insufficient originality in the tooling drawings to qualify for separate copyright protection. We were not asked to determine this point, and it is not strictly necessary for our decision, but we have very real reservations about the Judge's conclusions in that paragraph. In order to be "original" a work must not be copied. Labour alone is enough to create an original work.

Relief

[64] The sealed order of 5 March 2009 of the High Court provides:

Napier Tool and Die Limited is declared the owner of copyright in the drawings of 3 February 1993 and the three drawings of 10 February 1993 which are the subject of its counterclaim against the first to third plaintiffs.

[65] We asked Mr Henry, if his clients established a commissioning, what relief they then sought from this Court? He responded: the reversal of that declaration.

[66] We therefore allow the appeal.

[67] We declare that the appellants are the owners of copyright in the drawing of 3 February 1993 and the three drawings of 10 February 1993 which are the subject of this proceeding.

[68] In so doing we record that we were not asked to, and do not make, any findings as between the appellants as to which of them, and under what circumstances, are the owner of this copyright. That is apparently still a live, undetermined issue in the High Court.

[69] As to costs, Napier Tool is to pay costs to the three appellants (jointly and severally) on a Band A basis, along with usual disbursements, in this Court. Costs in the High Court are to be fixed in that Court.

[70] We remit the proceeding to the High Court for it to determine the remaining live issues in the proceeding.

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