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Welcome to the Spring issue of *Commercial eSpeaking*. We hope you find the articles of interest. If you would like to talk further about any of the topics covered in this newsletter, please contact us.

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Software patent strategy in New Zealand

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In 2009 the government amended the Employment Relations Act 2000 by introducing the 90-day trial period provision for businesses with fewer than 20 employees. At the time the government's stated intention was to give small and medium sized business the confidence to hire new employees without the risk of legal proceedings for unjustified dismissal if the relationship did not work out… *CONTINUE READING*

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The next issue of Commercial eSpeaking *will be published in February 2011.*

NZLAW
AN ASSOCIATION OF INDEPENDENT LEGAL PRACTICES

New Patents Bill

Software patent strategy in New Zealand

The uncertainty surrounding the Minister of Commerce's announcement in July on provisions in the new Patents Bill has prompted substantial debate. It is proposed the new patents legislation will exclude all software from patent protection, although the Intellectual Property Office of New Zealand (IPONZ) will be charged with developing guidelines allowing for 'embedded' software.

Putting aside whether or not software *should* be patentable, the immediate question is – what does this mean for patent protection for software related inventions in New Zealand now? In the short term the answer is, not a lot.

Until the new legislation comes into force (perhaps not for several years), the status quo will remain and computer programs will continue to be patentable in New Zealand – embedded or otherwise.

However, some parties are questioning the value of proceeding with the patent process for their software related inventions if the new legislation could exclude their invention from patentability. What about those patents already granted or applications filed before the new legislation comes into force?

Current situation

The Patents Bill includes several transition provisions from the existing Patents Act 1953. Essentially, the current Act will continue to apply to those granted patents and complete applications having a filing date before the new legislation comes into force.

As computer programs are still patentable subject matter, patents/complete applications which fall within the transition provisions and are directed to computer programs will continue to be valid after commencement of the new Act.

Complete-after-provisional applications claiming an earlier priority date, but filed on or after the date of commencement, will fall under the new Act. If you are filing a provisional patent application within one year before the new Act comes into force, we recommend you discuss the merits of filing an early complete application with your patent attorneys.

Exclusions

It is still unclear what software related inventions the new Act will exclude. Patent attorneys are likely to test the limitations on behalf of their clients, and the scope of protection available may not be as restricted as feared (or celebrated). Inventors/businesses could miss out on protection to which they were entitled. Additionally, often the underlying invention is not restricted to being expressed as software – something businesses may not appreciate until you talk with your patent attorney.

Whatever happens, an application may be highly useful as part of your commercial strategy beyond the ability to enforce your rights after grant – for its deterrent effect – or in defining the invention and contributions of inventors when entering into dealings with other parties.

Only applies to New Zealand

The new patent legislation will apply only in New Zealand. Software is patentable in many jurisdictions such as Australia and the USA, with others such as Europe allowing 'embedded' software. Even under the new legislation, filing a New Zealand patent application may be a relatively inexpensive means for establishing a priority date for overseas applications. For a small market like our own, this is a highly relevant consideration.

To wrap up

The patentability of software is a contentious issue around the world. In New Zealand, the simple facts are:

» Computer programs are currently patentable in New Zealand

» The proposed changes to legislation will not come into force for some time

» The effect of these changes on the patentability of software is unclear

» There are provisions confirming the eligibility of patentable subject matter for existing software patents/applications after the change, and

» New Zealand patent applications may form the basis for applications in other jurisdictions, regardless of whether the subject matter is patentable in New Zealand.

90-Day Trial Period Provisions on Trial

Employers get first written warning

In 2009 the government amended the Employment Relations Act 2000 by introducing the 90-day trial period provision for businesses with fewer than 20 employees. At the time the government's stated intention was to give small and medium sized business the confidence to hire new employees without the risk of legal proceedings for unjustified dismissal if the relationship did not work out.

Many employers have relied on the 90-day provision to take on new employees, comforted by the knowledge that they can let an employee go within the 90-day trial period without the risk of a personal grievance for unjustified dismissal. As the government now looks to extend the 90-day trial period provision to all employers (the Employment Relations Amendment Bill (No 2) has had its first reading – see the article on Page 4), a recent judgment is a timely reminder of the need for best practice in employment.

In this case[1] the court addressed the interpretation and application of ss67A and 67B of the Act; these are the sections dealing with provisions for trial periods for new employees. The court held that the trial period provision set out in the employment agreement was ineffective and that the employee was not prevented from pursuing a personal grievance for unjustified dismissal and unjustified disadvantage – the very type of claim that the 90-day trial period provision was supposed to prevent.

So, what happened?

Heather Smith had worked for a couple of years as a retail assistant in a pharmacy. On 1 October 2009 the pharmacy was sold and Ms Smith was employed by the new owners. Ms Smith started work with the new pharmacy owners on 1 October but she did not sign the new employment agreement containing the 90-day trial period clause until the next day.

Two months later the pharmacy owners dismissed Ms Smith from her employment with them, relying on the 90-day trial period provision in the employment agreement. At the time of Ms Smith's dismissal the pharmacy owners declined to provide her with any reason for the termination of her employment nor did they give her the period of notice set out in the employment agreement (and, unusually, the employment agreement did not give the employer the right to pay in lieu of notice).

Ms Smith's challenge to her dismissal was successful. The Employment Court found that the 90-day trial period provision was not effective because even though Ms Smith had only been working for her new employer for one day she was deemed to be an existing employee, and not a new employee, when she signed the employment agreement. As a result, her employer was not entitled to take advantage of the 90-day trial period provisions. As Ms Smith was not given the contractual period of notice she was, in effect, summarily dismissed.

The Employment Court took a strict approach in interpreting the trial period provision on the basis that the provisions remove the usual protections enjoyed by employees.

Conclusion

The 90-day trial period provision remains a useful tool for smaller business employers to establish whether a new employee fits their needs while effectively delaying some of the risks associated with a permanent appointment for 90 days. The bottom line for employers is that they should exercise caution when relying on 90-day trial period provisions in employment agreements. Practical ways for employers to reduce their risk include:

- Ensuring employment agreements that contain trial period provisions are signed *before* the employee starts work
- Giving an employee who is being dismissed from employment under the trial period provision notice strictly within the terms of the employment agreement
- Including in the employment agreement a shorter period of notice for use during the trial period and the right to pay in lieu of notice
- Giving a reason for the dismissal if asked by the employee at the time of dismissal, and
- Keeping trial period provisions simple. Do not include clauses setting out regular meetings to assess performance and/or obligations regarding training and assistance.

There is no word yet as to whether the trial period provision will have another day in court, but employers should take this judgment as their first written warning.

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1 Smith v Stokes Valley Pharmacy (2009) Ltd [2010] NZEMPC 111.

Business Briefs

Major employment law changes ahead

The Employment Relations Amendment Bill No 2 and the Holidays Amendment Bill were introduced to Parliament in August 2010. Submissions for both bills have closed and the Select Committee report is due in early November. It is anticipated the legislation may take effect from 1 April 2011, although there may be some underlying policy changes passed before the end of the year.

The **Employment Relations Amendment Bill No 2** proposes 32 changes in total. Some of the more significant proposals are:

- Extending the current 90-day trial period to all employers
- Implementing a code of employment practice around disciplinary and dismissal procedures
- Broadening the test for justification in personal grievance cases from what a reasonable employer would have done to what a reasonable employer could have done
- Prescribing minimum requirements of a fair and reasonable process for the court or Employment Relations Authority (ERA) to consider
- Allowing the ERA to dismiss claims deemed to be vexatious or frivolous, and to penalise parties for obstruction or delay
- Promoting mediation by providing mediation services for early problem resolution without representation, requiring that priority be given in the ERA to mediated cases, and prescribing provisions for mediators to make a recommendation for dispute resolution
- Removing reinstatement as a primary remedy in personal grievances, and
- Providing that union access to workplaces is conditional on an employer's consent (which is not to be unreasonably withheld) and allowing employers to communicate directly with employees in good faith during collective bargaining.

The **Holidays Act Amendment Bill** proposes:

- Allowing the 'cashing in' of an employee's fourth week of annual leave
- Allowing the observance of public holidays to be transferred to another working day by agreement
- Addressing payment during a close-down period
- Changing the relevant daily pay calculation, and
- Allowing an employer to request a medical certificate earlier than the current three consecutive days, provided the employer pays for it.

Both Bills double the maximum threshold for penalties to $10,000 for an individual and to $20,000 for a company or body corporate.

We will keep you posted on the passage of these two major pieces of legislation as they go through the House.

Claims for compensation under Agreements for Sale and Purchase

The ADLS/REINZ form of Agreement for Sale and Purchase has recently been amended. The most significant changes were made in response to the 2010 Supreme Court decision in *Property Ventures Investments Limited* v *Regalwood Holdings Limited*[2]. In that case, the vendor (Regalwood Holdings) was in breach of one of its warranties. The key issue to be determined was whether the purchaser (Property Ventures Investments) was obliged to settle in full and then separately pursue its claim for breach of warranty, or whether it could refuse to settle (where a reduction in the price could not be agreed).

Clause 6.5 of the new Agreement form now provides that, unless the purchaser has validly cancelled the Agreement, it cannot defer settlement on the basis of a breach of warranty. Clause 7.0 now sets out a procedure to deal with claims for compensation that arise prior to settlement for errors, omissions or misdescriptions of the property or title, or breaches of warranty that meet the threshold required for an equitable setoff.

When selling a property, it is important to ensure that you are aware of the warranties and undertakings contained in clause 6.0 and that you are truly in a position to give them.

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2 [2010] NZSC 47