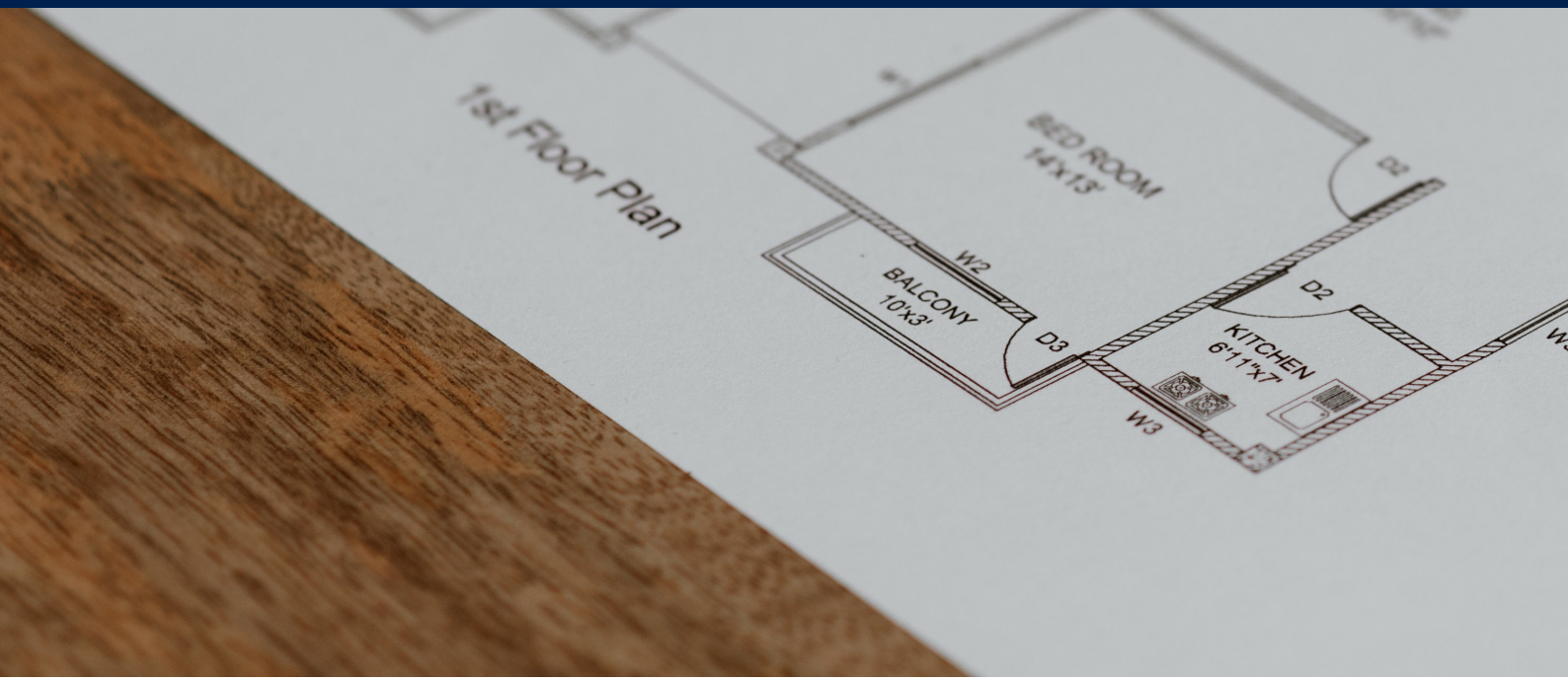

WA Supreme Court finds no implied licence to use home design plan

Kate Holland

In a recent Australian case, the WA Supreme Court was unwilling to interpret a contract between a home builder and their client to imply a licence allowing the client to use the builder's design in whatever way they pleased. Although the case was heavily fact-specific, it highlights the importance of careful drafting and clear communication between clients and construction professionals so that both parties are clear on how they can use the designs.

Background

Building Corporation WA Pty Ltd v Marshall (No 2) [2022] WASC 140 concerned a couple from Perth who had contracted with a luxury home builder to make a design concept plan to build a $5 million house on their property. The couple had taken the design prepared under that contract to a different builder and had them construct the home. The Court held that, in the particular circumstances of this case, the agreement did not contain an implied licence to use the design in whatever way the client pleased.

The Design Agreement and the Design Concept Plan

Mr and Mrs Marshall (the **client**) wanted to build a luxury home on their property. They approached a luxury home builder Giorgi Exclusive Homes (**Giorgi**). Giorgi engaged with its prospective clients using a three-step process:

1. **Design Agreement**

   The first step was a two-page standard **Design Agreement** and a $5,000 fee payment. Under this agreement, Giorgi would perform site inspections and provide a site survey, 3D image, **Design Concept Plan**, specification and fixed price proposal. The $5,000 fee would be credited against the fee at step three, but not refunded if the client decided not to proceed.

   The Design Agreement contained the following statements:

   Site Survey (to remain the property of Client in the event of failing to proceed with design/ building with Giorgi Exclusive Homes.

   NOTE: COPYRIGHT OF DESIGNS WILL REMAIN THE PROPERTY OF Giorgi Exclusive Homes DESIGN FEE TO BE CREDITED AGAINST BUILDING CONTRACT.

2. **Preliminary Agreement**

   If the Design Concept Plan was approved, the next step would be to enter into a second agreement. Under that second agreement,

Giorgi would draw up full plans for the build and apply for planning permission.

3. **Building Contract**

   The final step was for the the client to sign a building contract to have Giorgi build the home.

Dispute over the use of the Design Concept Plan

The client signed the Design Agreement, paid the $5,000 fee and obtained the Design Concept Plan. However, instead of moving on to stage 2, the client took the Design Concept Plan to another builder and had them draw up the full plans and build the home. Giorgi sued the client and their new builder and architects for copyright infringement.

Everyone accepted that the Design Concept Plan was an "artistic work" for the purposes of Australia's Copyright Act 1968, and therefore that Giorgio had owned the copyright. The issue was whether the Design Agreement (with its $5,000 fee) gave the client a licence to use the Design Concept Plan. If it did, the Copyright Act said the licence would override any claims of copyright infringement.

The Design Agreement certainly didn't include an express licence. So the question for the Court was: Did it contain an implied license (implied either by law or by fact)?

Could a licence be implied into the Design Agreement?

The existence (or non-existence) of an implied licence in the Design Agreement was a matter of contractual interpretation. The Court considered the extensive body of case law about contract interpretation and when a term may be implied. Ultimately, whether the licence could be implied into the Design Agreement came down to the objective purpose of the Design Agreement at the time it was entered and the benefit that the parties intended the contract would confer.

Giorgi drew attention to the express term written in the Design Agreement that the copyright of designs would remain with Giorgi. In addition, it claimed that its sales consultant had incorporated an express oral term in her telephone discussions with the client that they could not take the Design Concept Plan to another builder if they decided not to proceed with the rest of the process.

Giorgi claimed that the purpose of the Design Agreement was to enable the negotiation of the proposed building contract (step 3). It also argued that the $5,000 fee was such a nominal sum that the client could not have understood it to be the cost of the design for a home.

The decision – what was the purpose of the contract?

This case turned heavily on its facts. The Court closely analysed the terms of the Design Agreement, the associated documents and the

surrounding circumstances to determine the objective purpose of the contract and what benefit the parties intended to confer.

The Court held that the issue of the $5,000 fee being 'nominal' was not relevant in determining the purpose of the contract. It also did not accept that there had been an express oral term against taking the plans to another builder. The Court considered that the sales consultant had not expressly told the client before signing that they could not take the plans to another builder, but had instead merely pointed out the note on the Design Agreement regarding copyright. The sales consultant could not recall what she had said, and the Court considered that an oral caution of this sort was unlikely because the sales consultant was trying to build trust with the potential client at the time.

However, the Court accepted that the sales consultant did explain the three-step process to the client and had emailed a document outlining this three-step process before they signed. The communication of this three-step process to the client, the fact that the client knew Giorgi was a luxury home builder (and not a design consultant) and that the client had approached Giorgi to design *and build* the home were key determinants of the purpose.

The Court held that, in signing the Design Agreement, the parties did not intend to confer a contractual benefit of the construction of a home according to the Design Concept Plan. They understood that the Design Agreement was only the first stage of a process that might lead to the construction of a home. The purpose was the preparation of a full specification and fixed price proposal, so that the client could decide whether they wished to build a home in accordance with the Design Concept Plan.

The Court found that the written statements in the Design Agreement that the site survey would be the client's property but that the Design Concept Plan would remain property of Giorgi were also inconsistent with the existence of an implied licence. A reasonable person would understand these words to mean that the Design Agreement did not confer a right to use the Design Concept Plan to build a house unless and until they entered the building contract.

Key takeaways

The copyright rules for artistic designs in New Zealand differ from Australia. Under New Zealand's Copyright Act 1994, there is a default presumption that copyright belongs to the person commissioning the design. Written contract terms must therefore be carefully drafted to contract out of that statutory presumption.

There is dissatisfaction with this among New Zealand architects and support for the statutory presumption to be reversed. Since 2018, the New Zealand Government has been reviewing the Copyright Act generally and is expected to publish proposals in the near future.

Whether in NZ or Australia or otherwise, the Giorgi Homes case highlights the necessity of clear and unambiguous drafting, as well as clear communication and sound legal advice when entering into a design contract, so that each party is in no doubt about what they can do with that design.

ABOUT THE AUTHOR

Kate works as a clerk in NZDRC's Knowledge Management Team.*

She has recently joined us after working in trust law and succession planning. Previously, she has practised as a solicitor in the UK with an international commercial firm.

* Building Disputes Tribunal is a part of the NZDRC Group.