

Fourth Study Commission Public and Social Law

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Aspects of intellectual property and competition law in employment relationship

Introductory remarks: Statutory provisions on intellectual property and competition law are not bound to a certain form of relationship. Nevertheless in employment relationship on the one hand there are many rules to protect employees but on the other hand employment relationship bares certain risks for the employer. The purpose is to provide an overview on the provisions governing intellectual property and competition law in employment relationship in the legal systems of the participant countries.

Intellectual property

1. Who obtains intellectual property rights in case of an invention by an employee?

Virtually all countries (with the exception of Mozambique) have enacted legislation that confers on the author of an invention specific intellectual property rights (exclusive right to its exploitation). Where the inventor is an employee, deviations from this principle, which benefit the employer instead of or additionally to the employer, exist in a majority of countries, particularly, when the employee is hired as an inventor. This may flow from statutory provisions or case law.

2. If the employer obtains any rights: What connection between an invention and the employment relationship is necessary? What is the scope of the employer's rights (ownership of the patent, exclusive use, non-exclusive use...)?

Even where inventing is basically not a contractual task of the employee (see on that case question 4), most legal orders know a concept of an employment-related invention, usually defined as an invention made in the course of the employee performing their work. In some countries, this category covers also inventions which significantly involved the use of the employer's equipment (Algeria, Austria, Belgium, France, Georgia, Kazakhstan, Lithuania, Spain) or of knowledge that the employee acquired by working for their employer (Austria, Belgium, Finland, France, Germany, Lithuania, Spain). Conversely, UK law sets up the additional requirement that either an invention in the course of work performance must have been likely or that the employee was under a special obligation to further the employer's interests.

If now such a close relation of an invention to the employment relationship has been established, the majority of legal orders either provides for an *ex lege* shift of the right to its economic exploitation to the employer or at least enable the latter to claim the invention (formal ownership or right to exploitation) in the individual case. In Algeria, Austria and Estonia, even this choice option presupposes a prior written agreement with the employee, whereby Algeria provides for a possible replacement of the employee's consent by a court's decision. In Belgium, if there is no agreement, there is still discussion about to what extent the utilisation of the means and know-how of the enterprise can entitle the employer to claim rights concerning the invention. In all cases, the employee is obliged to inform the employer about the invention in a timely manner and entitled to a fair compensation for the transfer of rights to the employer. The latter is only true in case of inventions of outstanding benefit to the employer in the UK. In the Netherlands, compensation usually has to be paid.

Some countries know an intermediate category of inventions only loosely connected to the employer's field of activity: here, intellectual property rights remain with the employee exclusively, but the employer has a right of first refusal if the employee decides to sell them in Sweden and can acquire the right to use the invention in Finland.

Relevant criteria for the required amount of compensation may include the economic importance of the invention (France, Germany, Sweden, Switzerland), the employee's wage (Israel) and/or position in the company (Switzerland), and the degree to which the employed activity contributed to the invention (France, Germany, Israel, Sweden, Switzerland). Collective agreements play a major role in determining the level of compensation in France.

A number of countries have specialised bodies in place which can be seized in case of dispute and have a major role notably in establishing the amount of compensation due to the employee – e.g. the French National Commission on Employee Inventions or the Israeli Compensation and Royalties Committee.

3. Are there any boundaries to agreements between the parties of an employment contract on intellectual property rights (compulsory compensation, limitation of the rights that can be transferred)?

Several legislations (Algeria, Austria, Belgium, Canada, Germany, Israel, Switzerland) establish that the moral rights related to an invention (right to be referred to as inventor) cannot be signed away. In Germany, Portugal and the UK, patent rights can generally not be assigned in advance; Danish law prohibits this only for inventions made over one year after the employment relationship has ended.

In Algeria, Lithuania, Netherlands, Portugal and the UK, the agreed level of compensation is subject to compulsory review if it appears inadequate, especially in relation to the benefits derived by the employer. However, the Dutch report points to a very cautious approach of courts in this respect. In Kazakhstan, intellectual property rights return to the inventor after ten years, irrespective of contrary provisions in an agreement with the employer.

French law requires any agreement in this respect to be set out in writing.

4. Are there different provisions applicable to employees who are hired as inventors?

In the majority of countries, explicitly hiring an employee as an inventor entitles the employer to the ownership of all inventions made in the course of performance of that activity, even if such was not expressly stated in the contract. Canadian jurisdiction applies the rule only conditionally, dependant on additional factors such as whether an invention was likely under the given employment conditions or whether the employee received specific research instructions. In the Netherlands regarding inventions in a completely other area the employee remains entitled.

If now inventing is a contractual task, the employee is usually not entitled to compensation beyond what was agreed in the employment contract. However, under the law of Israel, Portugal and Spain, such compensation is nevertheless due if the invention has created outstanding benefits for the employer. Costa Rica generally entitles the employer merely to a third of the profits obtained from the invention.

In the EU member states, the respective national implementation of art 2(3) of the Software Directive ensures that the employer of a software developer acquires all related economic rights, unless otherwise provided by contract. In the Netherlands, the same applies to staff of universities, colleges and other research establishments.

Competition:

5. Are there any statutory limitations to the employee's possibilities of additional activities?

All countries depart from (written or unwritten) principles underlying an employment relationship (duties of good faith and loyalty/fidelity), which as a rule prohibit an employee from engaging in activities that would constitute economic harm to their employer. The latter is usually assumed to be the case if the employee's activities directly compete with those of the employer, potentially solicit the employer's customers, entice colleagues to change their workplace or are of detriment to the work carried out by the employee themselves for their employer. Austrian law prohibits the establishment of an independent undertaking by a white-collar employee even independently of a danger of competition with the employer's business. Sanctions for neglecting these duties commonly include disciplinary measures, dismissal and compensatory payments. Under Finnish law, also an employer who knowingly recruits an employee in violation of their duties vis-à-vis another employer can be held liable for compensation.

In several jurisdictions (e.g. Algeria and Germany), statutes or case law have set up a duty of the employee to report any additional occupation (and potentially also the profits from that activity) to the employer and sometimes explicitly authorise the employer to prohibit side occupations considered detrimental to their business. By contrast, Estonian law basically presupposes an explicit agreement on any restraint of other employment, which must moreover be reasonably and recognisably limited in terms of its space, time and objects.

Collective agreements play a major role in establishing concrete limits notably in Belgium and Sweden.

Public employees are sometimes restricted more severely in their possibilities of additional activities – such are only allowed exceptionally or upon explicit permission by the employer e.g. in Israel, Mozambique and Switzerland. Swedish law merely prohibits any activity of potential detriment to the public employee's impartiality or the public employer's reputation.

6. Are there any boundaries to agreements between the parties prohibiting certain activities of the employee while the employment relationship lasts?

Several correspondents (e.g. Israel, Netherlands, Portugal, Switzerland, UK) stress that agreements of this kind are highly frequent in practice. Some jurisdictions require the agreement to be reasonable and not to compromise essential rights of the employee (e.g. Costa Rica, Germany, Portugal) or to be necessary and proportionate for the achieving an employer's legitimate interests (Algeria, France, Switzerland). Mozambican law requires a monetary compensation to be paid to the employee. Dutch regulations provide for a written agreement and prohibit any restriction for underage employees.

7. What other obligations does an employee have in order to protect the competitiveness of their employer (boundaries of secrecy)?

Practically all countries prohibit the disclosure or commercial use of business secrets and similar confidential information, to which the employee has obtained access for purposes of their activities for the employer. Definitions of the kind of information protected by these rules can usually be found in legislation or case law. Besides the usual sanctions of dismissal and/or compensation obligations, e.g. French law envisages monetary and prison sentences in severe cases of violation of secrecy. Finnish provisions establish a conditional tort liability of the recipient of the secret information.

Exceptions apply usually where either the employee's interests or public interests (e.g. the disclosure of illegal activities) outweigh the employer's secrecy interest.

8. Once the employment relationship has ended: Are there any remaining limitations of the employee's possibilities to compete with their former employer?

In most legal orders, obligations of secrecy bind an employee even after the termination of their employment contract, though sometimes to a reduced extent. In Finland, this is the case only for unlawfully acquired knowledge of business secrets. In Belgium former employees have to avoid all forms of competition violating loyalty, which besides a secrecy obligation contains a prohibition of denigration of the former employer's goods or services and of a systematic poaching of their clients.

9. Are there any boundaries to agreements on such limitations even after the employment relationship is terminated?

At least in certain occupations (most of all in technology-related sectors), employers in all countries tend to contractually oblige their employees to refrain from certain activities after termination in order to avoid competition. To prevent excessive restrictions to the employee's future possibilities of economic activity, legislators and/or courts in almost all countries have developed a range of parameters to gauge the validity of such agreements. The most common limitations relate to the legitimate interest of the employer in the respective restriction and its temporal extent (both in virtually all countries), the geographical scope of restrictive covenants (Australia, Austria, Belgium, Canada, Estonia, France, the Netherlands, Switzerland, UK), the former position of the employee within the undertaking (Belgium, Denmark, Finland, Netherlands, Portugal, Sweden), the employer's responsibility for the termination of the employment relationship (Austria, Canada, Denmark, Finland, France, Latvia, Netherlands, UK) and the overall degree of restriction to the employee's future economic activities (Australia, Austria, Canada, Denmark, Latvia, Netherlands).

Swiss law does not recognise limits to competition if the relationship between clients and the former employer has been characterized by the personal capacities of the employee (as with dentists, coaches etc.). Austria and Belgium prohibit any restrictions for low-wage earners, Austria and the Netherlands for underage persons, Georgia for teaching staff of general educational institutions and Austria for former employees of a temporary employment agency.

Algerian, Belgian, Danish, Estonian, French, German, Latvian and Portuguese law require a compensation for the employee's restraint; in the Netherlands, such an obligation may be stated by a court in the individual case. Provisions in Belgium, Estonia, Latvia, Netherlands, Portugal and Switzerland demand a written agreement; French law allows for contractual references to terms contained in a collective agreement only if the employee was actually given insight into these terms.

Under most legal orders, courts or quasi-judicial bodies are given relatively extensive possibilities to amend the terms of agreements establishing excessive limitations.

Conclusions:

1. Intellectual property is an area of law which is harmonized in many aspects on an international level. One effect of this is, that in labour law the problems and solutions related to intellectual property are often very similar.
2. Usually there are models where the shift of intellectual property to an employer depends on criteria like relation of the invention to employment, scope of the duties of the employee due to his employment contract, but sometimes also the importance of the employers equipment and the knowledge acquired by working in this enterprise but also probability of an invention and relevant clauses of the employment contract.
3. These criteria (2) and the amount of wages paid to the employee are also important to determine, to which remunerations and royalties according to the economic value of the invention the employee is entitled.

Recommendation:

1. Due to the fact that it is very difficult to estimate the economic value of inventions in advance, it might be useful in order to safeguard the employees interests by demanding written or collective agreements for the shift of the ownership to the employer and to give the possibility for judicial control of the remunerations and royalties agreed.
2. Clauses limiting the economic freedom of the employee after the termination of employment contract should be related to the legitimate interest of the former employer and be restricted under aspects of duration, geographic limitation and to which extent the former wages are still paid by the old employer.

Topic for next year: Rights of sick and disabled employees.