

JUDICIAL OFFICE, ROYAL COURTS OF JUSTICE

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ASPECTS OF INTELLECTUAL PROPERTY AND COMPETITION LAW IN EMPLOYMENT RELATIONSHIP

INTRODUCTION

1. 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 of this Questionnaire 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

[This note addresses the intellectual property rights most likely to arise in the context of an invention by an employee and, as such, it does not seek to deal with trade marks, databases or domain names.]

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

2. To determine who owns the rights in a new work, it will be necessary to identify the type of rights which have arisen. On the whole, UK law generally favours employers.

Patents - Patents Act 1977 ("PA")

3. Patents give their owner a complete monopoly to use and exploit an invention. The inventor and the owner of a patent are often different and whilst an inventor has the statutory right to be referred to in a patent, it is the owner who can exploit the patent.
4. A patent will belong to the employer if the invention was made by an employee in the normal course of his employment duties, or of those specially assigned to him, and i) an invention is reasonably likely to result or ii) the employee is under a special

obligation to further the employer's interests¹. However, a future assignment of patent rights in inventions made by the employee is unenforceable².

5. To determine the scope of "normal" or "special" duties, a court will have regard to the detailed written job descriptions or instructions. Whether a special obligation arises is often determined by the status of the employee (e.g. a managing director is more likely to be under such an obligation than a sales manager³) but there is no set rule.
6. "Employment" means employment under a contract of service or an apprenticeship⁴. A "contract of service" must be distinguished from a "contract for services" and, in general, it involves the provision of work for remuneration, where the employee agrees to be in the master's control and where the provisions of the relevant contract are consistent with it being a contract of service⁵.
7. Any invention falling outside the circumstances in paragraph [4] is owned by the inventor employee. Accordingly, there is scope for an inventor to hold ownership of an invention under the PA but for other intellectual property rights to vest in the employer. The PA expressly deals with this issue and states that an application for a patent or exploitation of the invention will not infringe any other intellectual property right vested by operation of law in the employer⁶.

Copyright – Copyright, Designs and Patents Act 1988 ("CDPA")

8. Copyright is essentially the exclusive right to copy a protected work. In the UK, the general rule is that an employer is prima facie entitled to the copyright in certain categories of work made by his employee. Section 11(2) CDPA states that:

"Where a literary, dramatic, musical or artistic work, or a film⁷, is made by an employee in the course of his employment, his employer is the first owner of any copyright in the work subject to any agreement to the contrary."

¹ s.39 PA

² s.42(2) PA

³ *Harris' Patent* [1985] RPC 19

⁴ s.178 CDPA

⁵ *Ready Mixed Concrete (South East) Ltd v Minister of Pensions and National Insurance* [1968] 2 Q.B. 497.

⁶ s.39(3) PA

⁷ Literary, dramatic, musical works and films are defined in ss.3, 4 and 5B CDPA.

9. With regards to “employment” and “contract of services”, please refer to paragraph [6] above.
10. To determine whether the work was created in “the course of employment”, a court will have regard to the scope of the employment contract e.g. what type of work and which hours are involved. Just because an author is under a contract of service at the time a work is created does not automatically mean it was created in the course of his employment.
11. The general rule is qualified by “any agreement to the contrary” and so the parties are free to contract out of the CDPA provisions. The agreement must have been made before the work came into existence⁸ (although any subsequent contract may equate to an assignment of the copyright). However, it need not be in writing and may be based on an oral agreement or long standing practice.
12. As such, for the general rule to apply, the following criteria must be satisfied.
- i) The author must be employed under a contract of service;
 - ii) The work must be created during the course of the author’s employment;
 - and
 - iii) There must be no relevant agreement to the contrary.

Moral Rights - CDPA

13. Under the CDPA, an author may have certain moral rights in his work, such as the right to be known as the author of the work and the right to object to its derogatory treatment⁹. These rights cannot be assigned and as such, the employee may hold them even if the employer owns the other intellectual property rights in the work. However, the employee may waive their moral rights in writing¹⁰ and this would usually be provided for in the employment contract.

Design Rights – Registered Designs Act 1949 (“RDA”) and Regulation on Community Designs ((EC) No 6/2002) (“RCD”)

14. A design right is a monopoly right over the design of a new product which has “individual character” (i.e. it leaves a different overall impression on an informed

⁸ *Noah v Shuba* [1991] F.S.R. 14

⁹ ss.77-85 CDPA

¹⁰ s.87(2) CDPA

users). It is registrable nationally or on a pan-European basis but is also enforceable without registration¹¹.

15. When an employee creates a new design in the course of his employment, the employer is treated as the original proprietor of the design¹². The same rule applies to unregistered design rights¹³.
16. With regards to “employment” and “contract of services”, please refer to paragraph [6] above.
17. If the designer is not an employee, the design right will still vest in the employer if he commissioned the work¹⁴. This is different to copyright (where the lack of an employment relationship would mean copyright belongs to the author) and may give rise to a situation where the design right belongs to the commissioner but the copyright in the underlying plans belongs to the designer. The CDPA states that any exploitation of design rights will not infringe copyright¹⁵ but the parties may deal with the situation by assigning the copyright to the commissioner.
18. This note relates to the employment relationship in national legal systems. However, it is worth noting that, under the RCD, where a design is developed in the execution of an employee's duties or following the instructions given by the employer, the right to the Community Design shall vest in the employer, unless otherwise agreed or specified under national law¹⁶. This applies to both registered and unregistered Community Designs.

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...)?

19. All the rights above depend on the existence of the employment relationship and the invention must be created during the course of the employment (see paragraphs [5] and [10] above). The relevant definitions are taken from the general jurisprudence on employment and there is no separate body of law confined to intellectual property rights. However, the issue has arisen in that context on a number of occasions e.g.:

¹¹ although the scope of an unregistered design right will be more limited and shorter in duration.

¹² s.2(1B) RDA

¹³ s.215(3) CDPA

¹⁴ s.2(1A) RDA and s.215(3) CDPA

¹⁵ ss.51 and 52 CDPA

¹⁶ Article 14, RCD

- An employer was found not to own copyright in the book of lectures written by an employed accountant as he was not employed specifically to give lectures¹⁷.
- A company was found not to own a design right as the sole director/shareholder who created it was not sufficiently under control to be an employee¹⁸.

20. The scope of an employer's rights is determined by statute.

- If an employer owns the copyright, he has, for its duration, the exclusive right¹⁹ to:
 - i. copy the work;
 - ii. issue copies of the work to the public;
 - iii. rent or lend the work to the public;
 - iv. perform, show or play the work in public;
 - v. communicate the work to the public (by electronic transmission²⁰);
 and
 - vi. make an adaptation of the work or do any of the above in relation to an adaptation.
- If an employer owns a patent or design right, he has, for its duration, a monopoly on its use and he can protect against unauthorised use and exploitation of the underlying invention.

21. All these rights are enforceable in that an employer could prevent infringement through an injunction and /or seek compensatory damages (including an account of profits) for any abuse.

22. If the employer does not hold the rights by operation of law, he may still obtain some rights under the employment contract e.g. if the employer does not automatically hold copyright, he may be entitled to equitable title or a licence according to the terms of the contract.

¹⁷ *Stephenson Jordan & Harrison v MacDonald & Evans* [1952] 69 RPC 10

¹⁸ *Ultraframe v Fielding* [2003] EWCA Civ 1805

¹⁹ These rights do not apply uniformly to all categories of work e.g. for artistic works, only the first, second and fifth right will apply.

²⁰ s.20 (2) CDPA

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)?

23. As set out above, copyright and design rights can be assigned to an employer if the right has vested in the employee. Moral rights (such as the paternity right) cannot be assigned but may be waived. An employee cannot assign his patent rights in advance (e.g. in his employment contract) but can make such an assignment after the invention is completed.

24. The PA makes provision for an inventor to claim compensation from an employer in two situations.

- Where the patent rights are owned by the employer, the employee may claim compensation if he can show that his invention is of outstanding benefit to the employer²¹. If the patent was applied for after 1 July 2005, the employee must also show that compensation would be “just”.
 - i. The "benefit" has to be something more than one would normally expect to arise from the duties for which the employee was paid²² and compensation is above and beyond the employee's normal remuneration.
 - ii. "Outstanding" means something special or out of the ordinary and more than significant or good.
- Where the patent rights are owned by the employee but assigned or licenced to the employer, the employee may claim compensation if the benefit derived from the assignment is inadequate in relation to the subsequent benefit derived by the employer²³.

The amount of compensation will represent a “fair share” of the patent or assignment²⁴.

25. The inventor can also claim compensation in respect of a benefit which would have been received by the employer had they not assigned the patent or invention to a connected person²⁵. The benefit will be judged in relation to the actual benefit which accrued to the assignee²⁶.

²¹ s.40(1) PA

²² *Kelly and Chiu v GE Healthcare Ltd* [2009] EWHC 181 (Pat)

²³ s.40(2) PA

²⁴ s.41 PA

²⁵ s. 41(2) PA

²⁶ *Unilever plc and others v Shanks* [2010] EWCA Civ 1283

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

26. If a person is employed specifically as an inventor, it is more likely that any inventions will be determined as being made “in the course of employment”. As such, the intellectual property rights are likely to vest in the employer.

COMPETITION

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

27. The employer/employee relationship will usually be encapsulated in an employment contract. There are a number of statutory rights or limitations which apply to this relationship, such as minimum notice periods under the Employment Rights Act 1996 or maximum working hours under the Working Time Regulations 1998. However, there are no statutory limitations in relation to an employee taking on additional activities.

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

28. There are a number of terms implied into an employment contract by law. These are not pursuant to statute but stem from the common law.

29. The primary duty is fidelity and it requires the employee to serve his employer with good faith and fidelity.

- This duty will have the effect of prohibiting activities which damage or compete with the employer's business. The scope of the duty must be consistent with the employment contract²⁷ and lasts for the duration of the contract. However, it will not prevent an employee other than a director from working for a third party in his spare time providing that work is not inconsistent with his first role²⁸ and it does not require the employee to subjugate his interests to those of the employer²⁹.
- It includes an obligation not to compete with the employer's business. If the employee does create any work which is subsequently used in competition with the employer, the employee may be in breach of his fiduciary duty by not disclosing the work to the employer and any rights or profits arising from the work may be held on constructive trust for the employer.
- Fidelity also imposes a duty of confidentiality upon the employee. As such, the employee must not disclose confidential information or trade secrets obtained through their employment³⁰ or use them for their own benefit³¹. This implied duty continues after the end of the employment relationship but

²⁷ *Ranson v Customer Systems plc* [2012] EWCA Civ 841

²⁸ *Hivac Limited v Park Royal Scientific Instruments Limited* [1946] 1CH 169

²⁹ *Ranson* (see fn 25)

³⁰ *Bents Brewery Co Ltd v Hogan* [1945] 2 All ER 570

³¹ *Cranleigh Precision Engineering v Bryant* [1964] 3 All ER 289

only to the extent required to protect trade secrets³². If the employee has copied, removed or deliberately memorised confidential information he may be restrained by injunction from making use of it³³.

- Fidelity also includes a duty not to solicit the employer's customers and a duty not to entice other employees to leave employment (although preparatory steps to do so at a later date after the end of the employment contract are permitted).
- The above highlights the most pertinent aspects of fidelity but is not an exhaustive list.

30. The parties may also agree further limitations on the employee, many of which are market practice. These include "whole time and attention" clauses for senior staff which prevent the employee from taking on additional roles outside their job.

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

31. Please see paragraph [29] which sets out the duty of confidentiality imposed on the employee.

32. There are four elements which identify material as confidential and worthy of court protection³⁴:

- the owner's belief that release of information would be injurious to him or advantageous to rivals;
- the owner's belief in confidentiality of the information;
- the reasonableness of these beliefs;
- the assessment of the information in the light of the usage and practices of the particular industry or trade³⁵.

33. The employer may obtain an injunction against the employee or third parties to restrain use of any confidential information and/or claim damages for such use. However, there are some exceptions to the duty of confidence such as when the material discloses fraud or misconduct. There are statutory protections for "whistle-blowers" in various statutes, including s.103A of the Employment Rights Act 1996, introduced by the Public Interest Disclosure Act 1988.

³² *Faccenda Chicken Ltd v Fowler & Sons* [1986] ICR 297

³³ *Roger Bullivant v Ellis* [1987] ICR 464

³⁴ *Thomas Marshall Ltd v Guinle* [1978] I.C.R. 905

³⁵ as set out in *Chitty on Contracts*, Ed. 30, Vol 2, Chpt 39, Section 5(a)

8. Once the employment relationship has ended:

Are there any remaining limitations of the employee's possibilities to compete with their former employer?

34. As set out above, the implied duty of fidelity only lasts for the duration of the contract (save for some elements of the duty of confidentiality). However, most employers negotiate express terms to restrict an employee's activities after the end of the contract. These are known as restraint of trade provisions and are a form of restrictive covenant.

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

35. Restrictive covenants which limit an employee's ability to compete with an employer are only enforceable if:

- they are reasonable (e.g. restricted to a certain period of time or geographical area); and
- the employer has a legitimate proprietary interest to protect (such as trade secrets or connections)³⁶.

36. In relation to trade secrets, there is an overlap between such expressly negotiated provisions and the implied duty of confidentiality discussed above (although the potential scope of the restrictive covenant is generally considered to be wider).

37. In relation to trade connections, each case will turn on its facts and the court will have regard to the confidential nature of the employment.

38. However, an employer is not entitled to protect himself against mere competition on the part of a former employee and cannot prevent the employee, in his future work, from using the skills he developed during that employment and if the contract is terminated by the employer's repudiatory conduct, restrictive covenants become unenforceable³⁷.

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³⁶ *Mason v Provident Clothing and Supply Ltd* [1913] AC 724; *Herbert Morris Ltd v Saxelby* [1916] AC 688

³⁷ *General Billposting Ltd v Atkinson* [1909] AC 118