

**WIPO-MOST**

**Intermediate Training Course  
on  
Practical Intellectual Property  
Issues in Business**

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# IP OWNERSHIP

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# This Presentation

- 1. What's the problem?**
- 2. IP created by employees**
- 3. IP created by independent contractors**
- 4. Practical guidelines for SMEs**



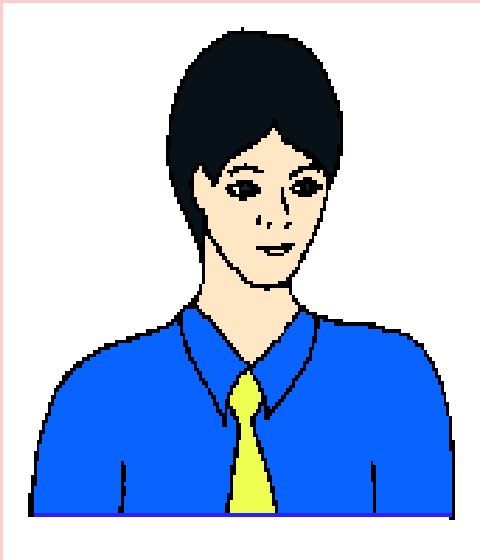
## The Problem ...

Businesses often rely on employees & independent consultants to develop their IP assets ...

and assume that they automatically own the rights on those assets ...

on the principle “I paid for it, therefore I own it”.

**This, however, is not always the case !**



# IP Created By Employees

# Case study nr. 1

- Employee invents system that brings dramatic advance in the capacity of DVDs. Allows to store up to 10 movies on a single DVD-disk.
- Company wants to apply for patent protection.

- Employment agreement provides no arrangement on IP ownership.
- National law states that ownership of an invention vests in the inventor (employee).
- Employee refuses to assign patent rights...



## Case study nr. 2

- Employee creates new technology. Employer patents the technology.
- Employer leaves the company. Seeks to have the issued patent corrected in order to list himself as the inventor, and succeeds.
- Former employee licenses the use of the technology to competitors ...

- Many employees create IP in the course of their employment :
  - software program
  - article
  - architect's plans and drawings
  - new logo
  - new product or process
  - product packaging
  - new product design
  - business plan
  - invention
  - etc.

- Who owns the rights to these works: the individual creator or the employer?
- The answer to this question is not always easy or clear :
  - it may vary from one **country** to another;
  - the facts and circumstances of a particular **employer-employee relationship**;
  - depending on the type of **creation**.

## (a) Inventions

- In many countries the **employer** owns an invention made by an employee if it is **related to the employer's business**, unless the employment contract stipulates otherwise.
- In some countries, the IPRs to inventions belong in principle to the **employee** inventor, unless otherwise agreed.

- In other countries (e.g. US)
  - the **employee** inventor may retain the right to exploit the invention,
  - but the **employer** is often given a non-exclusive right to use the invention for internal purposes.

(This is referred to as “*shop rights*”)

- Some countries grant the employee inventor the right to a fair and reasonable **remuneration** for his invention if the employer takes rights to the invention, whereas other countries do not grant any specific remuneration for the employee.

- Some laws impose on the employee a **duty to inform** the employer about the existence and the nature of the invention.

? The employee cannot apply for a patent without the knowledge of the employer, otherwise the employee could be dismissed.

## (b) Copyright

- In most countries, if an employee produces a literary or artistic work within the scope of his employment, then the **employer** automatically owns the copyright, unless otherwise agreed.
- But this is **not always the case**; under the copyright law of some countries the transfer of rights is not automatic.



- **Specific rules** may apply:
  - newspaper or magazine publisher
    - in some countries, the employee owns the copyright for some purposes, such as publication in a book, and the employer owns the copyright for other purposes.
  - software product
    - in some countries, the employee owns the copyright, unless otherwise agreed.
  - photos
    - in some countries, automatic transfer of copyright to the employer.

- **Specific rules** may apply:

- database

- in some countries, *sui generis* protection.

- collective works

- Made by several creators under the direction of an individual or body corporate.
- In some countries, the individual or corporation having directed the creation process is deemed to be the initial owner of copyright in the work incorporating the different contributions of the different creators.

- The **moral rights** are not assignable and will thus **remain with the author** even if the copyright ownership of the economic rights has been transferred to the employer.

? Employer will still need to consult its employee if a new type of exploitation is planned or if a modification to the work is desired.

## (c) Industrial designs

- Generally, when an employee is required to create a design, the design rights belong to the **employer**.
- In some countries, however, the right of ownership to industrial designs created by an **employee** during the course of an employment contract belongs to him, unless otherwise agreed.

- In some cases, the employer is required to pay the employee an **equitable reward**, taking into account the economic value of the industrial design and any benefit derived by the employer from the utilization of the industrial design.
- In other countries, such as the US, the creator (**employee**) of an industrial design is the proprietor **unless reward was paid** for the industrial design.

## (d) Trademarks

- Trademark law protects signs to **identify products or services** and distinguish them from others in the market place.
- So, the trademark holder will generally be the **employer**, i.e., the manufacturer or merchant of the products, or the provider of the services.

? At a first glance, the question of distribution of rights between employer/employee does not appear relevant.

- But: a sign must be “**available**” (not subject to third party’s rights).

? This means, for instance, that the copyright of an employee in an original logo must be transferred to the employer to allow the registration of the logo as its trademark.



# IP Created By Independent Contractors



# Case study nr. 1

- SME hires a web developer to create its website.
- Without a specific agreement to transfer the IPRs in the site, often the web developer owns most of the IPRs in the site.

- Consequences:

- SME is only entitled to use the website for the purposes for which it was created.
- SME cannot change the website without permission.
- Web developer can use text, artwork, graphics, source code, etc. for other sites.

## Case study nr. 2

- SME engages a freelance designer, on commission, to produce a specific design for its products (mice).
- In many cases, the IPRs will remain with the designer.



- Consequences:

- Design rights can only become the property of the SME against a special **remuneration**.
- If design rights remain with freelance designer ? he can grant **licenses** to competitors to use the same design.

## (a) Inventions

- In most countries, an **independent contractor** hired by a company to develop a new product or process owns all rights to the invention, unless specifically stated otherwise.

? This means that the company will have no ownership rights in what is developed, even if it paid for the development.

## (b) Copyright

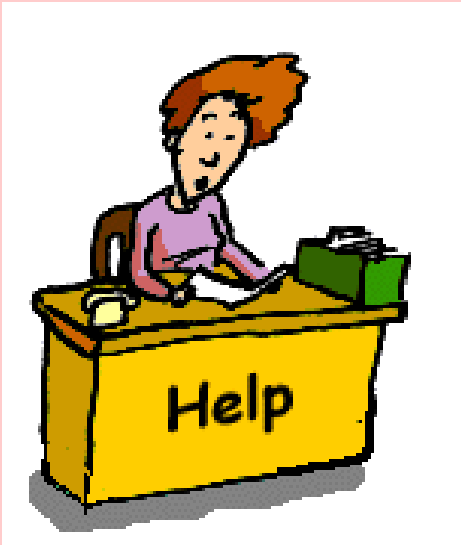
- In most countries, a **freelance creator** owns the copyright, unless he has signed a written agreement that this is a “work for hire”.

- **Specific rules** may apply:
  - commissioned photographs
  - commissioned films
  - commissioned sound recordings
  - other

## (c) Industrial designs

- If a freelance designer is brought in, on commission, to produce a specific design, in many cases the IPRs will not pass automatically to the commissioning party, but will remain with the **freelance designer**.
- In some countries, the commissioning party owns the rights in a design only if **reward** has been paid for that design.





# Practical Guidelines for SMEs

# 1. Obtain legal advice

- Ownership matters are **complicated** and **vary** from one country to another.
- As with most legal matters, it is essential to get skilled advice **before** entering into any agreement with employees or independent contractors.

## 2. Conclude a written agreement

- Regardless of the business situation, it is advisable to have an IP ownership agreement with all employees and contractors

⇒ **separate agreement**

⇒ **included in employment / consulting agreement**

- Agree on :
  - who **owns** the IPRs to any material created by an employee or independent contractor;
  - whether and when **transfer** of ownership will take place;
  - who has the right to **exploit** it;

- Agree on :
  - who is to **pay** for it;
  - whether **improvements or modifications** are allowed.
- Make sure that the agreement is **valid** under the applicable IP laws.

### 3. Draw up a contract before work is started

- Make sure that you deal with IP ownership issues at the beginning, **before the collaboration starts.**
- Even the earliest stages of work can give rise to important IPRs.

## 4. Include confidentiality clauses

- Include **confidentiality clauses** in contracts with employees or independent contractors.
- Include **non-compete clauses** as well in employee contracts, as today's employees may be tomorrow's competitors.

## 5. Adopt internal policies on employee inventions

- Should contain provisions on :
  - what **categories** of inventions fall within the field of the employer's business
  - employee's (inventor's) obligation to **notify** the employer of inventions
  - employer's procedures for handling such notifications



- Should contain provisions on :
  - confidentiality requirements
  - patent prosecution
  - remuneration for the inventor
  - etc.
- Such regulations should be in line with the applicable national IP laws.

## 6. Take special care while outsourcing R&D

- If other persons besides the employees of the company participate in such activities, ensure that all persons involved sign an **agreement** whereby they **give the company** sufficient **rights to the results** of their works.

- Companies should ensure that such persons transfer **any and all rights** to the results of the project to the company, including :
  - the right to retransfer the rights
  - the right to alter the works (if the R&D project produces results eligible for copyright protection).

- Apart from **inventions**, the R&D agreements should also contain provisions conferring the rights to :
  - **know-how**
  - **copyright** for the research reports & results
  - **rights over the physical material** involved in research activities, such as micro-organisms or other biological material
  - **IPRs over any background information** which is not within the public domain.

# Conclusion

- There are broad **variations amongst national laws** on the ownership of an IPR
  - both as to who is the first owner and
  - on how that ownership can pass to others.

- Furthermore, the ownership of some **types of IPRs** may **differ** from that of other types of rights even for the same work.

- To prevent misunderstandings, it is desirable for an SME to ensure that the issue of IP ownership is **clarified in the agreement** with the employee or independent contractor.
- It is preferable to do so with the help of an IP specialist or advisor.



# Case study

*International Herald Tribune, Sept 30, 2002*

*“An innovator in U.S., troublesome in Japan”*

- **Nakamura has been celebrated in the US as an innovative pioneer. But in Japan he is more controversial.**
- **Works at chemical company. After it was clear his inventions would make a lot of money, his bosses took them to market without additional compensation for him.**
- **Nakamura sued the company, saying that the patents were the result of his efforts and that he should receive royalties.**

- **This case points to striking differences in the ways the US and Japan treat their innovations.**
- **In **the US**, engineers and inventors often share the corporate rewards from innovation, through employment contracts that specify royalties or other incentives, such as stock options.**
- **But **in Japan**, engineers and scientists generally do not participate in corporate profits. Compensation for an invention is at the company's discretion and seldom amounts to more than US\$ 300.**

***Thank You***