Intellectual Property considerations and employment law

By Faizul Azman

3PB Barristers

Introduction

This article aims to provide both employers and employees with a general understanding of intellectual property rights in a copyright work created in the course of employment.

Intellectual property rights are often considered far too late and usually after the commencement of some form of employment claim relating to a breach of contract/confidentiality. The result tends to leave a claimant scrambling to seek late specialist legal advice, increases the risk of having to make a last-minute amendment to pleadings (with or without the need to make an application to the court), obtaining evidence, and the possibility of having to fend off or make an application to transfer the claim to a specialist court with the jurisdiction to determine both intellectual property and related contractual matters.

The importance of ownership of a copyright work created in the course of employment predominantly lies in the ability to control and exploit the work for commercial gain. For an employer, ownership of copyright in works created by employees can be important for several reasons. It may enable the employer to control the use of the work, prevent unauthorised use or infringement, and licence the work to others for profit. For an employee, ownership of copyright in works created in the course of employment may be important in terms of recognition, compensation, and career advancement. If any employee retains ownership of copyright in their work, they would be able to use it to showcase their skills and accomplishments, negotiate better terms of employment or compensation, or to establish themselves as independent creators or entrepreneurs.

What is Copyright and Copyright Works?

The main legislation for copyright is the Copyright, Designs and Patents Act 1988 ("**the 1988 Act**").

Copyright is a legal concept that gives the creator of an original work exclusive rights to control the use and distribution of that work for a certain period. Copyright works refer to any original works of authorship that are protected by the 1988 Act. This can include literary works such as books, articles and a poem, musical compositions and recordings, dramatic works such as plays and screenplays, artistic works such as paintings, sculptures and photographs, and other creative works such as software code and video games. In general, any original creative work that is 'fixed' in a tangible medium of expression is eligible for copyright protection. There is also no requirement to register the works for it to be protected.

The 1988 Act provides the owner of a copyright work the exclusive right to copy the whole or substantial part of their work and prevent others from doing so without a licence or authority. It prevents others from copying, distributing copies (whether free or for sale), renting or lending copies, performing, showing or playing the work in public, or making an adaptation of it unless a copyright exception applies. The 1988 Act provides various exceptions and limitations to the exclusive rights of the owner, such as fair use, which allows for limited use of copyrighted works for purposes such as criticism, commentary, news reporting, teaching or research.

Who 'owns' the copyright work?

Section 11(2) of the 1988 Act sets out a default rule that works created in the course of employment are owned by the employer unless there is an agreement to the contrary. However, there are certain exceptions and nuances to this rule. For example, if an individual working for a company is an independent contractor rather than an employee, the work may not be considered work created in the course of employment unless the contractor and company have a written agreement stating otherwise. Additionally, if the work is not created in the course of employment and created by the employee in their own time using their own resources, the employee will generally own the copyright.

It is also worth noting that different countries may have different laws and rules around ownership of copyright in works created in the course of employment. Ultimately, the specifics of copyright ownership in a particular case will depend on a range of factors.

What factors are likely to be considered to determine ownership?

Determining ownership of copyright in works created during employment can be a complex and fact specific process but will mainly consist of two steps. The first is to assess whether the employee is an employee, and the second is to assess whether the work in dispute was created in the course of employment.

Employment Status

Employment specialists will recognise that assessing employment status usually brings its own level of difficulties and may not always be as clear cut as first thought. Section 178 of the 1998 Act defines an employee as someone employed under a contract of employment or apprenticeship (which is broadly the same as section 230(2) of the Employment Rights Act 1996).

Assessing employment status involves examining the nature of the working relationship between the individual and the person/organisation they work for. This can be a complex process because determining employment status will be fact specific and may vary depending on the context of the working relationship.

Employment specialists will be familiar with cases setting out the general factors that may be considered when assessing employment status. For example, the level of control exerted over the individual, the obligation of the individual to provide work, and the obligation of the employer to provide payment in exchange for that work, the obligation of the individual to personally perform the work, and other various factors that has been summarised over the years and also considered by the Supreme Court in *Pimlico Plumbers Ltd v Smith [2018] UKSC 29*.

Further complexities may arise where a copyright work is created by a director of a company and where there is no contract between the two. In the absence of a contract regarding ownership, it may be argued that the director owns the copyright in the work. However, this will require analysis of the specific facts. It could also be argued that a director has fiduciary duties which they owe to the company as a director and officer, which may mean they hold the work on trust for the company because it was created for the company's business (*Vitof Limited v Antonu John Altoft [2006] EWHC 1678 (Ch)*).

Was the work created in the course of employment?

If an employer/employee relationship can be established, a multi-factorial assessment should be considered to determine whether the work was created in the course of employment. There is no single test to be applied and each case will turn on its facts. A non-exhaustive list of factors has been set out in previous cases, such as the case of *Mei Fields Designs Ltd v Saffron Cards and Gifts Ltd [2018] EWHC 1332 (IPEC)* and more recently *Penhallurick v MD5 Ltd [2021] EWHC 293 (IPEC)*. Briefly, the factors that are likely to be considered are:

- The terms of the contract of employment;

- Where the work was created;
- Whether the work was created during normal office hours or while they were engaged in work related activities;
- Who provided the materials for the work to be created/whether the work was created using the employees own resources, such as equipment, software or materials;
- The level of direction provided by the author/whether the work created with the knowledge and approval of the employer;
- Whether the author can refuse to create the work(s); and
- Whether the work is 'integral'/closely related to the business or industry of the employer.

Given the post Pandemic way some organisations now work (such as flexible working hours and working from home), some of the factors above are likely to carry less weight than others, and types of works created will vary in levels of complexity. For example, marketing material is likely to be less complex than software code.

The recent case of *Penhallurick* is a case around ownership of computer software and manuals. This case highlighted some key issues for any business which relies on software being developed by employees. There was no question that Mr Penhallurick had developed the software, but he had claimed that he owned certain aspects of the software because he developed them before he joined his employer, or that it was developed in his own time whilst employed. In summary, the judge at first instance considered the specific facts and made clear that work done at home or on a home computer was not a determinative factor, but it was rather the nature of that work and whether it fell within the scope of his duties. The judge also held that in any event, copyright had been assigned to his employer. The Court of Appeal upheld the decision.

As can be seen, assessing ownership of works comes with a varying degree of difficulty which, like determining employment status, will turn on the specific facts of the case.

Commentary

Overall, the issue of ownership of copyright in works created in the course of employment can have significant legal and commercial implications for both employers and employees. It is important for both parties to understand their rights and obligations in this regard to avoid a costly dispute. This article hopefully highlights the importance of obtaining specialist legal

advice before the commencement of proceedings and the reasons why intellectual property claims shouldn't be left until last minute unless there's a need for an urgent injunction.

As a final thought to employers: where it's important to own such intellectual property, an express assignment should be included in the employment contract and further consideration should be given to whether intellectual property rights should cover future copyright works not yet created.

March 2023

Faizul Azman

Barrister
3PB Barristers

faizul.azman@3pb.co.uk

3pb.co.uk