

Do you actually own the IP generated by your Canadian employees?



Employees are the source of some of their employer's most valuable intangible assets, that is, intellectual property assets. For this reason, it is usually in a business's best interest to ensure their ownership of intellectual property assets generated by their employees. The rules that apply to employer-employee relationships vary greatly between copyright, patents and industrial designs. Any business with employees should be aware of these unique rules and, to avoid any uncertainty, put in place contracts which include appropriate clauses that address the transfer of intellectual property rights.

Copyright

While copyright is often mistakenly perceived as being limited to "artistic" works, such as paintings, music and film, copyright protection can extend to a much broader scope of works which can be extremely valuable for businesses, including logos, catalogs, software source code, the content of websites, graphic user interfaces, architectural works, etc.

The general rule is that the author is the first owner of the copyright in their work. However, section 13(3) of the *Copyright Act* provides for an important exception: if the work is created in the course of employment under a contract of service, and absent any agreement to the contrary, the employer will be the owner of the copyright in the work created by the employee without the need for a formal assignment. Businesses should therefore be mindful of the three conditions that must be met in order to trigger that exception.

3 Conditions for an employer to own the copyright of employee created work:

1. An employment relationship must exist in the form of a contract of services, as opposed to a contract for services

A more "traditional" employer-employee relationship will usually indicate that the author is bound by a contract *of* services as required by section 13(3). On the other hand, courts will find that there is a contract *for* services, which does not meet the requirement of section 13(3), where the author's status is more akin to that of an independent consultant. Factors that may be considered in determining whether the author of a work is an employee or an independent

contractor include the level of control the employer has over the author's activities, whether the author provides their own equipment, whether the author hires their own helpers, and the degree of financial risk taken by the author.

2. The author must have created the work during the course of their employment

This is relatively straightforward to assess and, while the courts will consider various factors, the central question involves determining whether the work was created under the employer's instructions and using its resources (e.g., equipment, confidential information, etc.) or during the author's own free time by using their own resources. It is important to note that even if a work is created during the author's free time and at their own initiative, ownership of copyright in the work could still vest in the employer if it was part of the employee's duties to use their creative skills to create that type of work for the benefit of their employer.

3. There must be no agreement providing that the employee retains ownership of copyright in the works created in the course of their employment

Unlike assignments, which under Canadian copyright law must be in writing, such an "agreement to the contrary" does not need to be in writing and in certain circumstances could even be presumed, such as in the academic context where professors will usually retain ownership of the copyright in their work despite their employment relationship.

A final concern relates to the author's moral rights, which is an important yet somewhat unique consideration in copyright law. Moral rights are granted exclusively to the author and include the author's right to maintain the integrity of the work and the right to be cited as its author. Since moral rights cannot be assigned, even if the employer is to be the owner of the copyright in its employee's work pursuant to the employment exception or by contract, it is important for an employment contract to provide for a waiver of the author's moral rights.

Patents

Unlike the *Copyright Act*, the *Patent Act* does not include specific provisions addressing the ownership of patent rights in inventions made during the course of employment. The applicable principles were therefore developed by the courts and the general rule is essentially the opposite of that applicable to copyright. The employee will, as a general rule, retain ownership of the patent rights in their inventions. The employer can nevertheless benefit from two exceptions to that rule: the employer will be entitled to the patent rights in the invention of an employee if the employer has an express agreement to that effect with the employee, or if the employee was "hired to invent".

In order to determine if an employee was "hired to invent", the Federal Court will consider eight factors.

8 factors to determine if an employee was "hired to invent"¹:

1. the employee was hired expressly for the purpose of inventing;
2. the employee had previously made inventions;
3. the employer put in place incentive plans to encourage inventions;

4. the conduct of the employee following the invention's creation suggests that the employer is the owner;
5. the invention is the product of the employee being instructed to solve a specific problem;
6. the employee sought help from the employer in the making of the invention;
7. the employee was dealing with confidential information; and
8. it was a term of the employee's employment that he could not use, to their advantage, ideas which he developed.

On the other hand, provincial courts, who also have jurisdiction over patent ownership cases, will not always apply the above factors and will instead follow the more general approach of determining what the employee was hired to do and whether the invention was created while performing that task, in which case the patent rights in the invention will belong to the employer.

Given the uncertainty that is inherent to applying these different and evolving factors arising from case law, there is a strong incentive for employers to enter into a formal agreement with their employees providing that all of their inventions will belong to the employer, regardless of whether or not they were hired to invent. This approach not only clarifies the situation of employees directly or indirectly working in research and development, but also ensures that the employer owns the rights in inventions that could eventually, and sometimes unexpectedly, originate from other employees.

Industrial Designs

Much like the *Copyright Act*, Section 12(1) of the *Industrial Design Act* provides that the first owner of a design is its author, unless the design was executed for another person in exchange for good and valuable consideration, in which case that person becomes the first owner. It should be noted that unlike the *Copyright Act*, the *Industrial Design Act* does not specifically require an employment relationship for this exception to apply.

Given that very few industrial design cases are litigated in court, there is only limited case law on this issue. Nevertheless, jurisprudence suggests that an employee's salary will qualify as good and valuable consideration such that industrial designs developed in the course of employment will be owned by the employer. It remains unclear whether the creation of industrial designs needs to be part of the employee's duties for this rule to apply (i.e. whether the salary has to be linked to the creation of the design for it to qualify as good and valuable consideration). This rule applies equally to employees and freelancers, but as with other types of intellectual property, a formal agreement that industrial designs developed by the employee are owned by the employer is recommended to avoid uncertainty.

Conclusion

Considering that the rules vary greatly depending on the type of intellectual property right involved, the fact that the tests are often imprecise and can give rise to protracted debates (e.g., What does "hired to invent" mean exactly? Where does the course of employment begin and end?) and that in some fields the same employees can create different types of intellectual property assets, it is strongly in the interest of businesses in Canada to have a formal written

agreement with their employees.

The exact content and form of such an agreement will depend on the specific circumstances of each case. However, it will usually provide that the business, as employer, owns the rights in any work, invention or design created by its Canadian employees; that said employees will cooperate with employers to protect or register those rights; and that the employees waive their moral rights in their works, if applicable.

For further information, please contact a member of Smart & Biggar's IP Strategic Advisory group.

References

1. *Comstock Canada v Elected Ltd*, [1991] FCJ No 987.

The preceding is intended as a timely update on Canadian intellectual property and technology law. The content is informational only and does not constitute legal or professional advice. To obtain such advice, please communicate with our offices directly.



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