

Employee Ownership Of Inventions

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In Germany, the law governing ownership of inventions is unique, but situations are changing.

While in many if not most other countries, employer and employee can determine by employment contract whether inventions made by any employee under certain provisions, usually to be freely agreed, become the property of the employer — in most instances even without specific remuneration of considerable height for the employee — the legal situation in Germany is totally different. German law, particularly the "Law Relating to Inventions Made by Employees," unambiguously and bindingly determines that inventions made by employees first of all belong to them, and only by a special act and against a special remuneration can they become the property of the employer.

In 1918, the German Patent Law introduced the principle that the right and title to an invention belongs to the inventor, while laid down in case of inventions created in companies one had assumed that inventions could be created by legal entities by themselves, e.g. in cases where whole departments, consisting of many individuals, had contributed to the invention. What the law did not say was how the property of the invention could move from the employer to the employee. Thus, in 1942, the famous "Goring-Speer-Verordnung" issued, named after Hermann Goring and Albert Speer, two ministers of the German government responsible for increasing the output of German industry in relation to materials important for World War II pending, as much as possible.

The purpose of the Goring-Speer-

Verordnung was to encourage inventors not only to make inventions, but also to notify these inventions to the employer as soon as possible, so that the employing company could make use of the inventions, possibly in a sense favorable for the interest of the German government in winning the war. In order to stipulate the interest of the inventor, the principle of a specific remuneration for inventions made by employees was introduced.

Based on the principles of the Goring-Speer-Verordnung in 1953 a more detailed and sophisticated act issued, namely the law discussed above. It retained the principles as outlined in the Goring-Speer-Verordnung as its base, namely initial private ownership of any invention made by employees with the respective employer, transfer of the property to the employer by specific, individual assignment act, and specific remuneration for the invention.

EMPLOYER INVENTIONS

The law has to do with inventions made by employees. One has to determine what is an invention, what is an employee, and finally, what kind of inventions made by employees are subject of the provisions of the law.

Definition of Invention

Inventions according to the law are only technical inventions that in principle can be protected under German Law by a patent or by a utility model. The latter in this sense and for the purpose of this paper are considered as a kind of a patent (for small inventions). The law is not related to other creations of employees, which may be protected by design, copyright, etc.

Creations of the aforementioned kind are not subject to the binding regulations of the law. This means that by employment contract in advance employee and employer can agree that the rights in relation to all such creations made by the employee during the course of his or her employment belong to the employer, without any specific considerations etc. Such agreements can only not be made, as already mentioned, in relation to technical inventions protectable, in a strict sense, by either patent or utility model.

Definition of Employee

Only inventions that are made by employees, are controlled by the law. Employees are persons employed with an employer in the sense of German Labor Law and jurisdiction. It is, in view of the summarizing character of this paper, difficult to positively define what an employee is under German Law, but negatively one can say the following are not employees: representatives of legal entities, the managing directors of companies, and all persons who have an employee-like position. The law does not apply to inventions made by such persons. The consequence is that in the appointment agreement for a managing director of a certain company it can be agreed between the company and the managing director, totally different from inventions made by employees, that inventions made by the managing director belong to the company with normal effort from the time of their creation. Even the remuneration question can be fully anticipated, e.g. by agreeing that no specific remuneration should be paid.

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Also, if the employment is not under German law, particularly in all instances where one party, namely either the employee or the employer, are not of German nationality and residence, by employment contract it can be regulated that the legal provisions, as far as inventions made by the employee are concerned, of the respective foreign country are used. In case of carefully drafted employment contracts in such instances of foreign-related employment contracts the consequences of the law, which sometimes particularly foreign companies do not consider as particularly advantageous in Germany, can be circumvented.

Service Inventions and Free Inventions

Not all inventions made by employees are subject of the law. The law makes a distinction between so-called service inventions, namely a kind of inventions that are bindingly regulated by the law, and free inventions.

Service inventions are such inventions that either originate from the regular work of the employee or in doing so a company because of its employment contract, e.g. when a chemist working in research and development of a pharmaceutical company invents a new pharmaceutical, or which essentially are based on imperatives of the company. All other inventions are free inventions, e.g. in a case when the aforementioned research chemist of the pharmaceutical company invents a new music instrument, it does not matter, however, to give another example, whether the aforementioned research chemist makes the invention during working hours in the company or staying at home during the weekend, as long as the aforementioned conditions, namely either originating from the work of the inventor or essentially based on the imperatives of the company, are fulfilled.

When talking about "inventions" in the following, in connection with the law, usually "service inventions" are meant, if not otherwise stated.

OBLIGATIONS OF EMPLOYEE AFTER INVENTION

When an employee has made an

invention, certain duties must be fulfilled in relation to the employer, depending on the character of the invention.

In case of service inventions, the employee has the duty to immediately and completely notify any such invention made by it to the employer in writing. At that time, the invention must be the property of the employee, and also by the notification to the employer the property and title in the invention do not change. The notification must be complete, i.e. must enable the employer to get knowledge of the invention, including the state of the art the invention is based on, the problem that is solved by the invention, the solution proposed by the invention, the contribution of the internal knowledge inside the company to the creation of the invention, and also the contribution of possible co-inventors.

In case of free inventions, or of inventions from which the inventor believes that they are free inventions, the employee has to inform the employer in a manner that enables the employer to make up its own mind whether the respective invention is a free or a service invention. Such information is only not necessary if it is obvious that the invention is of no interest to the employer, an example being the music instrument mentioned above.

ACQUISITION OF OWNERSHIP BY EMPLOYER

After receipt of a notification of a service invention or an information of a free invention, such information of the employer by the employee having to be in writing, the employer has a term of two months in order to file the notification because of incompleteness. An example is when the employer cannot see, in case of several co-inventions, what the personal contributions, in percentages, of the various inventors are, and of three months in the case of an information relating to a free invention to object the character of the invention as being "free," unless it considers it as service invention.

If the employer within three

months does not object to the declaration of the invention that the respective invention is a free invention, the employer becomes possibly in full hold of the invention. The employer can dispose of it freely, e.g. sell it to a third party, etc.

If the employer gives a declaration of incompleteness to the inventor in case of the notification of a service invention, the employer for the time being has not to observe any further terms, rather to wait until a completed notification of invention is made by the respective employee. In that case the aforementioned term of two months for objecting, completeness begins again, giving the employer again the opportunity to object to the completeness of the invention should the now, revised notification not yet be complete.

As soon as the employer does not notify the employee, in case of a service invention, within the aforementioned two-month term of any incompleteness of the notification of invention, retroactively from the date of receipt of the notification of invention or its late completion, a four-month term begins during which the employer may get certain rights in the invention, or to lose them finally.

One of the possibilities the employer has during the aforementioned binding four-month term is to declare an unrestricted claim of the invention to the employee. By this unilateral act of the employer with factual effect the property of the invention goes to the employer, and from that moment onward the invention does no longer belong to the employee, but to the employer.

Usually, most service inventions are handled in this manner, because the aforementioned unrestricted claim is the only possibility of the employer to get full hold of an invention and to prevent that the inventor is left with any right giving it the possibility to independently make use of the invention, e.g. by licensing out to third parties, etc.

Another possibility, often used by employers when they believe that the respective invention is not important enough for the company

to be exclusively claimed, is that the employer declares a limited claim on the invention. This limited claim has the effect that the property of the invention remains with the employee, that the employee has, however, the right to protect the invention, e.g. by a patent application at its own cost and in its own name. The employee may make use of the invention by licensing it out to a third party. In such cases, however, the employer by its limited claim on the invention has the right conclusively to use the invention should the employer decide that such use for the employer's company would be useful. The advantage of such limited claiming is, as far as the employer is concerned, that no costs for patent protection, etc., must be borne by the employee. The negative effect is, of course, that the employee, because of lack of full ownership of the invention, cannot prevent third parties, like competitors, from using the invention, should its employee decide to make use of the invention in such a sense.

If, finally, the employee does not react within the above-mentioned four month term, the invention becomes free, and this has the same effect as if the employer within the four month-term would explicitly declare to the employee that the invention should be free, such a released invention, whether by explicit declaration by the employer or factually, remains the sole property of the employee. The employee can sell the invention or license it out. There are no remaining rights of the employer. Obviously, the employer will make use of this possibility only in cases where it is absolutely sure that either the invention is not patentable at all or the invention is totally useless for the employer.

It should be noted, in this regard, that the employer cannot avoid making a choice between unrestricted claiming, limited claiming, and instead to explicit release by stating to the employee that it does not consider the invention as being patentable. In such a case, the employer only has the possibility to react by the act of release, as mentioned above.

OBIGATIONS OF EMPLOYER AFTER ACQUISITION OF OWNERSHIP

Protection of Invention

After acquiring full ownership of an employee's invention, the employer has the duty immediately to file a respective patent or utility model application in Germany. According to recent jurisprudence, such application in Germany can be replaced by a European patent application designating Germany or by a PCT (Patent Cooperation Treaty) application designating Germany either directly or via the EPC (European Patent Convention). The employer is obliged to inform the inventor of any details of such application, and to keep the inventor informed of its further fate.

The employer is obliged well before the end of the priority year, according to the Paris Convention, to inform the inventor in which countries the employer wishes to file foreign applications. It gives the inventor the possibility to file, at the inventor's own cost and in the inventor's own name, foreign applications within the priority term. In such case, the employer is obliged, simultaneously to give the respective information to the employee, to retain a right of non-exclusive use of the invention in such foreign countries where the inventor may file a patent application in its own name. Only in instances where the inventor can prove that the non-exclusive right of use retained by its employer would be an undue burden, and prevent the inventor from satisfactorily using the invention in the respective foreign country by licensing, the employee can force the employer to renounce the aforementioned retained right.

Should the employer intend at any time to give up a domestic or foreign application for the invention, before finally going up the respective application or patent, the employer must give the employed inventor the opportunity to take over the application and patent, respectively, by assignment, for further prosecution in the own name of the invention. Also, the employer may retain a right of non-exclusive use, with similar provisions,

as discussed in relation to foreign applications, in case the retained right of non-exclusive use of the employer may be considered as an undue burden to the employee.

In cases in which the employer does not wish to file a patent application for an invention duly unrestrictedly claimed, the employer may make, at its sole discretion, the decision to keep the respective invention company secret. The employer has a duty to notify the employee in this case. The decision of the employer is only possible, however, if simultaneously with the notification to the inventor that the invention is considered a company secret the employer declares that principally it does not deny the patentability of subject matter involved, with the consequence that remuneration will have to be paid as if the invention would be protected by a patent.

If the employer wishes to keep the invention as a company secret, but does not consider it as patentable, the employer may ask for an opinion of the Arbitration Committee for employees' inventions at the German Patent Office as to whether the respective invention is patentable.

In such instances, the Arbitration Committee examines the invention in a secret manner, i.e., without publication, etc., in relation to patentability. If the Arbitration Committee comes to the conclusion that the invention is not patentable, and the employee does not object to that opinion, the employer is entitled to keep the invention company secret without the remuneration consequences resulting otherwise for patentable inventions, so that, depending on the rules of remuneration for non-patentable proposals in the respective company, the invention remains the property of the employer, possibly against some kind of mere remuneration.

It should be duly noted that all the above obligations for employer has after acquisition of ownership of an invention, as well as the remuneration provisions to be discussed in the following, can be modified and even restricted by individual agreement between employer and employee once the in-

tain, individual invention was notified to the employee. The broad provisions of the law are only applicable in an "absolute" manner, i.e., cannot be pre-modified by agreement, and notification of a certain invention to the employee.

Remuneration for Invention

The second duty that the employer has after acquiring ownership of an invention by unrestricted claiming, is addition to protecting it or considering it in principle as protectable and handling it as a company secret, is that the inventor is entitled to specific remunerations for the respective invention.

The principle, as expressed in the law, is, insofar that the inventor is entitled in the justified participation in the specific advantages the employee gets from the specific invention.

Methods of Determining Remuneration — Principally, the law provides for three methods to calculate remuneration.

One is the so-called license analogy. The inventor gets a certain percentage, based on the net sales made by the employer, of a reasonable royalty, which the employer in a case where a license would have been taken from a third party, would voluntarily pay. This method is by far the one most used in Germany. It is discussed below.

Another possibility, used when an invention is related, for example, to a certain kind of manufacturing that does not modify the products finally sold by the employer, but relates to improvements inside the company, is that the employee gets a certain percentage of the internal cost savings the employer achieves by using the invention.

A third possibility is a free estimate of the value of the invention, in which the inventor has the right to participate. Such method is used, e.g., in case of cross-licensing without net royalty income or purchase price income to the employee.

The first step to determine an appropriate remuneration is always to find the value of the invention, either by license analogy, based on internal advantages or savings, or by free estimation. Then, a personal percentage for the respective inven-

tor is determined, such percentage, for so-called "share factors." This means that a research chemist who is actually paid to make inventions gets very little remuneration, practically nothing, while a person not being paid to do that, e.g., an ordinary worker in a chemical factory making the same invention, nearly gets as much remuneration, e.g. royalty, as an independent third party giving the respective invention to the employer.

License Analogy in Practice The aforementioned principles shall be further discussed in relation to license analogy.

The first step in such an instance is to find out what the reasonable royalty in the respective field of industry would be. A typical example would be that in machinery industry reasonable royalty rates of 4%, based on net sales, are not uncommon.

As a second step, the personal share factor of the inventor is determined. This share factor does not mean the personal percentage of the ownership in an invention for a certain inventor where there are co-inventors, in which case the considerations of this paragraph have simply to be fully concentrated onto the personal percentage of the respective inventor, rather what is meant is that even in case where there is a sole inventor in view of the fact that this inventor is an employee it will not get the full remuneration as a third party licensor would usually get from the employer.

The aforementioned share factor is determined by taking into consideration three matters:

1. The contribution of the company/employer in creating the problem to be solved by the invention.
2. The contribution of the company/employer in creating the solution of the problem.
3. The position and duties of the employee with the company/employer.

Without going into detail, according to the rules attached to the law, the aforementioned three solutions lead usually in case of a chief chemist in a research department to a share factor of 10%. This means the employee gets 30% of the aver-

mentioned reasonable royalty of 4%, i.e., 0.4% of the net turnover of the employer.

The increase achieved by the employer before applying the above mentioned share-factor-reduced royalty rate is aggressively eliminated in case of high turnovers, with the effect that (beyond a turnover of 1,000,000) — D14 a reduction of 10% takes place, further reductions with increasing sales, until beyond 100,000,000, — D14 reduces the royalty is reduced by 60%. In other words, the inventor for turnovers beyond 100,000,000, — D14, in this example, does no longer get a remuneration of 0.4%, rather only of 0.012 of the employer's turnover.

It is to be noted that the above mentioned turnover based decrease takes into consideration not the annual, but the accumulated turnover achieved starting from the beginning of using the invention by the employer.

It should be stressed again that after notification of an invention an individual agreement between employer and employee can even provide for a full renouncing of any remuneration by the employee. It should be noted, however, that until six months after termination of any employment agreement the employee may object to any remuneration agreement he concluded earlier because of being considerably unjustified. Certainly, such circumstances will be assessed by courts, e.g., in the instance of renouncing, where otherwise a rather considerable remuneration to the employee would have to be paid. Accordingly, it is very recommendable that agreements are made that under the justification and good faith viewpoint do not bear the risk that later, when normally disputes between employer and employee begin, namely after termination of the employment, the possibility of later revision of any remuneration agreement is hardly provided in the law and can be renounced by neither employee nor employer.

SOLUTION OF DISPUTES

The law provides for a unique possibility of solving disputes be-

between employee and employer in case of inventions made by employees.

For this purpose, at the German Patent Office there exists a so-called Arbitration Committee, consisting of a legal member (judge-like) as chairman and two members with technical experience. These technical members are members of the Patent Office chosen for the specific case according to the subject matter in question.

When an employer and an employee, during a still pending employment agreement, have disputes in relation to claims based on the law, they are obliged, before going to court, to present the case to the Arbitration Committee. The Arbitration Committee makes a proposal in relation to a justified remuneration. If the parties do not object to that proposal within one month after notification, the proposal becomes binding. Otherwise, the proposal is null and void, and the parties can go to court.

After termination of an employment agreement the parties still have the possibility of going to the Arbitration Committee, but are no longer bound to do so. They can go directly to court.

The Arbitration Committee plays an important role also in the case of determining whether certain inventions to be considered by the employer as company secrets are patentable, as discussed above.

THE EUROPEAN FUTURE

The provisions of the law as discussed above are unique for Germany, for the time being. Most European countries, however, during the harmonization of, among other provisions, social and labor law provisions in Europe are harmonizing their laws with the result of coming to similar provisions as they now exist in Germany.

It is difficult to foresee what the final outcome of the harmonization efforts will be. In view of the fact,

however, that the provisions of the law in Germany are considered as suitable assets not only by the trade unions, but also by the government, it is difficult to imagine that these rules completely would be given up.

According to the general status of discussion between the various member countries of the European Union, it is rather to be expected that some middle ground will be found by Germany going up the necessity of an individual acquisition act by employer to get ownership of an invention, namely by unrestricted claiming, in which instance already by employment agreement a provision could be made that inventions made by the employee automatically belong to the employer. While other countries that do not have such provisions (like Austria), will accept the leading German rule-of-specific remuneration for inventions, following instead the suggestions of the law as discussed above.