

## German Law On Employees' Inventions Regarding University Employees

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### 1. Status of Legislation and History

The legal background concerning inventions made by university professors or other university staff is primarily governed by Sec. 42 German Employees Invention Act (*Arbeitnehmererfindergesetz*). This Act has been subject to some major changes in recent legislation. Because of some transitional provisions concerning inventions made by university staff before February 7th 2002, it is important to know the former legal provisions.

The general structure of employees' inventions is as follows: According to the general rule in Sec. 4—7 of the German Employees Invention Act, inventions made by an employee in connection with his employment are allocated to his employer. The employer can claim the invention (so called *Inanspruchnahme*) by stating so to the employee (Sec. 6 sub-section 1 German Employees Invention Act). The invention is deemed to be claimed if the employer does not release the invention to the employee within four months (Sec. 6 sub-section 2 German Employees Invention Act). In any case the respective inventor has to give notice (*Erfindungsmeldung*) to his employer about the invention (Sec. 5 German Employees Invention Act). An exemption is only made for such inventions that have not been made within business operations and do not build up on the experiences or results achieved in connection with the employment (free inventions) or such inventions for which the employer doesn't want to file a patent. These free inventions are assigned to the inventing employee himself. If an invention is assigned to the employer, the inventing employee has to be adequately compensated for his invention according to Sec. 9, 10 German Employees Invention Act.

#### a. Legislative Background Before 2002

Before 2002, Sec. 42 sec. 1 German Employees Invention Act included a special provision for scientific university staff, such as professors, lecturers and scientific assistants, also known as the "professors' privilege." According to this rule, inventions made by scientific staff within their scientific function were always considered as free inventions. As a result the inventions were assigned to the respective inventor himself and not to the university as his employer. The only compensation given to the universities was that

Sec. 42 sec. 2 German Employees Invention Act gave them the right to claim an adequate interest in the benefits arising from the exploitation of the invention if the invention was based on investments made by the university.

The reasoning behind this exemption was that on the one hand scientific work in universities should be encouraged and on the other hand the constitutionally guaranteed Freedom of Science (Art. 5 para. 3 of the German Basic Law; (*Grundgesetz*)) should be emphasized. The personal scope of the professors' privilege has always been controversial. According to the predominant opinion it only included professors, lecturers and scientific assistants—as defined by national (regional) law—working for a university. While it shouldn't matter if the respective scientist was formally employed by the state or the university itself, employees of other educational institutions, such as universities of applied science (*Fachhochschulen*), were not included in the privileged circle. The latter, however, might have changed since the Federal Constitutional Court (*Bundesverfassungsgericht*, *BVerfG*) recently decided that the constitutionally guaranteed freedom of science applies to professors at universities of applied science as well as to university professors.<sup>1</sup> Guest lecturers, technical staff, Ph. D. students or regular students didn't take part in the professors' privilege, however.

The professors' privilege included all inventions made in connection with the scientific function of the employee. As the professors' privilege arises from the Freedom of Science, however, this requirement has been interpreted in an exceptionally broad way. As a result almost all inventions made by scientific employees at universities have been considered privileged, no matter if it was a result of contractual, industrial or free academic research.

#### b. Legislative Background Since 2002

Since 2002 the legal background has more or less been inverted. Sec. 42 German Employees Invention Act was revised. The professors' privilege in its

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1. Federal Constitutional Court (BVerfG) Decision of April 13, 2010—1 BvR 216/07.

former implementation was removed from the Act. The general rules of Sec 42 sub-section 1, German Employees Invention Act and Sec 4—7 German Employees Invention Act apply to all inventions made by a scientific employee at a university. This means that all inventions made by employees at a university in their function as such are allocated to the university. The university can call upon the invention by stating so to the employee (Sec. 6 sub-section 1 German Employees Invention Act). The claim is deemed to be made if the employer does not release the invention to the employee within four months (Sec. 6 sub-section 2 German Employees Invention Act). However, the legislative had to take the constitutionally guaranteed Freedom of Science into account. Therefore, Sec. 42 No. 1—No. 4 German Employees Invention Act (Art. 5 para. 3 of the Common Basic Law) maintains a few scientific privileges including the right of positive (No. 1) and negative (No.2) publication (see later 3. a) and 3. b)), the right to use the invention in connection with ongoing scientific research and teaching (No. 3) and the right to claim an interest of 30 percent of the benefits arising from the exploitation of the invention (No. 4).<sup>2</sup>

The revision of the professors' privilege in Sec. 42 German Employees Invention Act is mainly based on the legislative decision that universities should have the opportunity to exploit such inventions made by their employees to strengthen the financial position of German universities. Additionally, the administration of patents through the universities is supposed to increase the transfer of knowledge and technology and therefore guarantee an effective flow of information within universities. However, there are not only rights allocated to the universities with the new legislation, but also duties imposed on the universities. Most important, Sec. 13 German Employees Invention Act constitutes the duty of the university to file a patent application. Such application has to be filed without undue delay, In the words of the Act, "within a reasonable period of time." This can cause trouble for the universities in terms of organisation as well as in terms of costs. The university employee cannot waive this right in advance of the notification (*Erfindungsmeldung*) and afterwards only by an individual agreement with the university.

The personal scope of the revised regulation is

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2. Sec. 42 was challenged as to be in breach of the Federal Constitution (Grundgesetz), but Federal Constitutional Court (BVerfG) Decision of March 12, 2004—1 BvL 7/03 has not accepted this and left the question open for formal reasons.

wider than before 2002. Sec. 42 German Employees Invention Act applies to all employees at universities or at a university of applied science regardless of whether they are employed as scientific, technical or other personnel and regardless of whether they are formally employed by the state or the university itself. The privileges in Sec. 42 No. 1-3 German Employees Invention Act, however, only apply to scientific employees. Sec. 42 German Employees Invention Act still does not apply to guest lecturers, Ph.D. students and regular students, as they are not employed at the university/ universities of applied science.

### c. Transitional Provision Sec. 43 German Employees Invention Act

To maintain clarity in the assignment of intellectual property rights a transitional provision was included in Sec. 43 German Employees Invention Act. According to that the revised Version of Sec. 42 German Employees Invention Act applies to all inventions made after February 6th 2002.

## 2. Common Practice Regarding Contractual Arrangements Up to Now and Henceforth

### a. Contractual Arrangements Under the Old Legislative Situation

As mentioned above, until 2002 inventions made by scientific staff within their scientific function (*Diensterfindungen*) were allocated to the specific employees. Accordingly Research and Development Agreements (R&D Agreements) were concluded directly between industry partners and the scientific staff that was supposed to conduct the research and therefore enjoyed the confidence of the industry. In the practical application these contracts were "Counseling or Collaborator Agreements" between the industry and the professor. The core of these contracts usually consisted in the professor granting option rights to possible economically interesting R&D results while he was rewarded a certain monthly payment. Once an interesting result was found, the contractual partners often agreed upon a separate reward for it. Such arrangements provided the industry with a direct access to the competence of university experts. The university was often (not always, as the industry partner sometimes also col-

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lected the rights of university employees not subject to Sec. 42 German Employees Invention Act from the university directly) left out of this kind of contractual arrangement, since there was no legal necessity to integrate it. In any case, it was the professors and more specifically their scientific knowledge, know-how and technical developments which in practice were of interest to the industry.

## b. Contractual Arrangements Henceforth

After the amendment of Sec. 42 German Employees Invention Act, which included the abolition of the “professor’s privilege,” the university can call upon all service inventions made by their scientific staff. Since service inventions are now allocated to the university, they are primary partners for R&D agreements.

Nevertheless, it is still of major interest to the industry to collaborate with certain professors. Though there is the possibility to oblige the university in the contract to consider the designated professor as a partner in the R&D project, the constitutional Freedom of Science (Sec. 5, subsection 3 German Basic Law) enjoins the university from pressuring the professor into cooperation. The professor’s consent must be given in any case before the realization of the R&D project. The latter can be reached through a contract with the professor directly, or by contractual integration of the professor in an agreement between the university and the industry partner.

The professor as primary cooperation partner remains only in cases where the university cedes the implementation of the R&D project to the professor and permits the necessary sideline employment. Solely by this ancillary activity of the professor, which has to be allowed by the university, the possibility remains to allocate the invention to the professor personally for him to exploit. The university relinquishes in advance to call upon the possible inventions arising in the course of the R&D project. Nonetheless, in this constellation a contractual integration of the university seems to be important as well since inventions made during the realization of the R&D project might be based upon experiences or results achieved in connection with the employment (experience inventions; *Erfahrungserfindungen*). These experience inventions are again allocated to the university (Sec. 4, subsection 2 No. 2 German Employees Invention Act).

Since service inventions are now allocated to the universities, the latter are the primary cooperation partners. Anyhow, a contractual integration of the professor remains reasonable. First and foremost this is true because of the major interest of the industry in a certain professor as head of the project. Also,

the industry partner often passes know-how to the university and its staff for purposes of the execution of the R&D project. The important confidentiality can be effectively secured by contractual obligations of the staff. Last but not least the professor can effectually waive his so called Negative Right of Publication (Sec. 42, subsection 2 German Employees Invention Act) only in a contract with the industry partner, in which he also obliges himself to give notice to the university of every invention he makes. Without this notice (*Erfindungsmeldung*) an exploitation of the invention is precluded. Concerning the so called Positive Right of Publication (Sec. 42, subsection 1 German Employees Invention Act) the same is true. The professor can waive this right only in a contract with the industry partner. By reason of the regulation in Sec. 22, German Employees Invention Act, the professor cannot waive these rights towards the university, whereas, towards the industry partner, he can waive his right of publication. If such waiver is not made, a notice of the intention to publish by the professor to the university launches a two month time period within which the filing of the patent application for the invention has to be accomplished, since afterwards the professor is allowed to publish his invention, destroying its novelty and therefore precluding its patent protection. The contractual waiver of the rights of Sec. 42, subsection 1 and 2 German Employees Invention Act towards the industry partner does not constitute a circumvention of the mentioned Sec. 22 German Employees Invention Act and is therefore effective.

According to the prevailing opinion the contractual integration of the professor is put into practice by a three-party-contract between industry partner, university and the professor as head of the project. However, two separate contracts between industry partner and university on the one hand and industry partner and professor on the other, is possible.<sup>3</sup>

Several model contracts have been established for the above-mentioned contractual arrangements.<sup>4</sup>

## 3. Specific Issues in R&D Agreements with Universities

University realities will influence the content of

3. Recommended by Rosenberger, F&E-Verträge, 2nd Edition 2010, Section 8 marginal note 107 ff.

4. See Beyerlein Mitt 11/2008, 498 (Berlin Contract and comparison); Rosenberger, F&E-Verträge, 2nd Edition 2010, Section 8 marginal note 78 (Hamburg Contract), marginal note 85 (Berlin-and Düsseldorf Contract) with further references; Trimborn, Mitt. 8/2006, 352, 357 (Hamburg Contract).

the agreement. As mentioned before, a broad patent portfolio is often more important to universities than actual commercial success. However, with increasing financial pressure, commercialization becomes more and more important as well.

As universities are most often complex entities, there is rarely a central bundling of knowledge. The faculty, the department or the individual project director involved in a project might not be aware of pre-existing rights and know-how in other institutes or departments. These pre-existing rights might influence the implementation of the process as well as the exploitation of results. While this may apply to large industrial enterprises as well, the level of centralization is often much lower in universities. The solution may be a duty to furnish as much information as possible.

Other universities have formed patent commercialization agencies which are comparable to the so called Technology Transfer Offices (TTO's) established at most U.S. universities as a result of the Bayh Dole Act. These agencies may, on the one hand, help to determine pre-existing rights. On the other hand, these agencies might be involved in the drafting of the agreements, as there is substantial IP knowledge. Furthermore, the existence of such agencies may increase the university's willingness to participate in the exploitation of results.

The most important issue is, however, the publication right that is derived from the constitutional academic freedom (Art. 5, para. 3 of the German Basic Law). It includes a "positive publication right." *i.e.* that scientists are entitled and partly mandated to publish research results as they wish. On the other hand, no academic scientist can be forced to disclose and invention to the university. This right is referred to as the so called "negative publication right."

## **a. "Negative Publication Right"**

The negative publication right is more difficult to deal with. As opposed to normal employees who have to notify their employer of any inventions made during working time (Sec. 5 para. 1 of the Employees Inventions Act), university employees may decide not to reveal inventions (Sec. 42 No. 2). In this case, the employee may not publish or exploit this invention, or file a patent application on his or her behalf.

While the lawmakers first and foremost thought of ethical reasons, there might be different motivations in each case. Some scientists keep their results confidential because of ongoing studies; others may have personal reasons not to publish. It goes without saying that, within an R&D project with an industry

partner, this right not to reveal inventions can create an enormous risk.

A contractual solution is recommended. So far, there has been no decision by a Court of Appeals or the Federal Supreme Court as to whether academic scientists may forfeit the right not to disclose inventions in contracts with an industrial partner. However, there are no signs why this should unduly constrict the scientist's freedom of publication. He or she is still free to sign the contract or not.

Such an additional contract, signed by each employee involved in the implementation of the project and the industry partner, may also contain other provisions regarding the transfer or licensing of rights, the publication of results, confidentiality and the support in patent prosecution and litigation.

## **b. "Positive Publication Right"**

Academics have the freedom to publish their results. Most scientists also have a genuine interest in publishing. This increases their reputation and provides further research work with input and ideas from others. Also, legal provisions call for the publication by the scientist (see Sec. 25 para. 2 of the Framework University Act). This desire for publication is opposed to the economic need to keep the results secret until an economic exploitation is ensured. A publication of results will destroy a subsequent patent application.

The R&D Agreement will have to bring both interests into balance. It may provide that the university will have to indicate at an early stage, which of the results it plans to publish. The industrial partner should reserve the right to review the manuscript and, in case of sensitive results, enforce the confidentiality clause. For each of these processes, the agreement should include deadlines until each partner has to execute his rights. In all cases, results should only be revealed after the necessary measures for protection have been taken.

## **c. Sample Agreements of the German Federal Government**

Given the practical difficulties with R&D Agreements between universities and companies the German government has tried to tackle these difficulties and called for an expert group to draft sample agreements that cover the special situation in the triangle between professors as the researchers, re-

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5. The model contracts can be downloaded at: <http://www.patentserver.de/Patentserver/Navigation/Service/suche,did=224784.html>; an English version will follow within this year.

search organisations or universities and on the other hand private companies. The results are the so-called sample agreement of the Federal Ministry of Economy ("BMWi-Contract"),<sup>5</sup> which have just been adjusted to recent changes in German law and employee's invention and therefore have been published in the second edition, as they are widely used and quite well regarded in Germany.

#### 4. Specific Problems with Regard to EU Rules on Subsidies

Effective as of January 1, 2009, the new Community Framework for State Aid for Research and Development and Innovation<sup>6</sup> came into force. Said framework constitutes an administrative directive for the interpretation of Article 107 of the Treaty of the Functioning of the European Union (EC Treaty), which prohibits state aid suitable to negatively influence the competition in the common market of the EU.

The new framework abandons the previous general privilege of publicly funded research institutions in this regard and thus constitutes a significant change affecting the rules and conditions under which co-operations with industrial partners are possible and allowed.

For Universities, as typical examples of publicly funded research institutions, there are a number of consequences requiring significant changes in structure.

Contrary to the situation in the past, public funding of R&D&I activities at research organisations will qualify as state aid if the conditions of Article 107(1) EC Treaty (formerly Article 87(1)) are fulfilled. What is decisive for its qualification of the research organisation as an undertaking is whether the research organisation carries out an economic activity, which is an activity consisting of offering goods and/or services on a given market. Accordingly, any public funding of economic activities falls under Article 107(1) of the EC Treaty, should all other conditions be fulfilled.

Thus, Universities have to clearly distinguish between economic (commercial) and non-economic (non-commercial) activities. If the same entity carries out activities of both economic and non-economic nature, in order to avoid cross-subsidization of the economic activity, the public funding of the non-economic activities will not fall under Article 107(1) EC Treaty if the two kinds of activities and their costs and funding can be clearly separated.

Non-commercial activities are not affected by the prohibition of Article 107(1) EC Treaty and thus the University has to strictly separate those activities from commercial activities, for which state aid is prohibited according to Article 107 EC Treaty. The framework lists a number of activities which are generally regarded as non-commercial in nature:

- Education for more and better skilled human resources.
- The conduct of independent R&D for more knowledge and better understanding, including collaborative R&D.
- Dissemination of research results.
- Technology transfer activities are deemed to be of non-commercial character if they are of an internal nature and if all income of these activities is reinvested in the primary activities of the research organisations.

For activities of this type, Article 107 (1) EC Treaty does not apply and the universities may continue as in the past.

On the other hand, the Commission considers the following activities as to be of commercial nature:

- Renting out infrastructure.
- Supplying services to business undertakings.
- Contract research.

Thus, when a university tries to commercialize the inventions of its employees with an industrial partner, a number of items have to be carefully checked.

In the case of contract research, *i.e.* where the research organisation carries out a research project on behalf of an undertaking, there will normally be no state aid through the research organisation to the undertaking, if the research organisation provides its service at market price. If there is no market price, the research organisation has to provide its service at a price reflecting its full costs (*i.e.* the entire direct and indirect costs) plus a reasonable margin (Sec. 3.2.1. of the framework).

In the case of collaborations with industrial partners, where at least two partners collaborate in the design of the project, contribute to its implementation and share the risk and the output of the project, the Commission considers that no indirect State aid is granted to the industrial partner through the research organisation due to the favourable conditions of the collaboration if one of the following conditions is fulfilled:

- (1) the participating industry partners bear the full cost of the project;

6. 2006/C323/01, *Official Journal of the European Union* C 323/pp.1-26, December 30, 2006.

(2) the results which do not give rise to intellectual property rights may be widely disseminated and any intellectual property rights which result from the activity of the research organisation are fully allocated to the research organisation;

(3) the research organization receives from the participating industry partners compensation equivalent to the market price for the intellectual property rights which result from the activity of the research organization carried out in the project and which are transferred to the participating industry partners. Any contribution of the participating industry partners to the costs of the research organization shall be deducted from such compensation.

University and industrial partner should accordingly thoroughly check whether the contractual arrangements they intend to conclude fulfill these requirements to avoid an indirect subsidy issue for the industry partner. The industry partner should not negotiate conditions which might violate these requirements and thus create an issue of illegal state aid for the industrial partner.

The future has to show how clear and unambiguous guidelines may be developed enabling the parties to make a reasoned judgment whether or not the overall compensation agreed upon fulfills the requirement of a "compensation equivalent to the market price."

Footnote 19 of the text of the framework recognizes

this problem, but does not really provide a solution:

*"Compensation equivalent to the market price for the intellectual property rights' refers to compensation for the full economic benefit of those rights. In line with general State aid principles and given the inherent difficulty to establish objectively the market price for intellectual property rights, the Commission will consider this condition fulfilled if the research organisation as seller negotiates in order to obtain the maximum benefit at the moment when the contract is concluded"*

Last, but not least, the Universities have to set-up a respective accounting system providing for the necessary separation of economic and non-economic activities—otherwise the Universities run the risk to have to repay public funding received as in this case cross-subsidisation is assumed (Sec. 3.1.1. of the framework).

Overall, the increased possibilities for universities to exploit the results of the R&D work of its employees with industrial partners by virtue of the modified Sec. 42 of the German Employees Inventions Act and the rights acquired thereby are accompanied by an increased responsibility of the universities to be subjected to the rules of competition in the economic market. As the university in its co-operations with industrial partners acts as a competitor to commercial contract research providers, this appears to be appropriate. ■