

Employee inventions in Germany

Employees whose work leads to the creation of patents in Germany are entitled to receive remuneration. And although the process through which this is done is complicated, no company can afford to ignore it

By **Markus Deck** and **Jens Matthes**,
Linklaters Oppenhoff & Rädler, Cologne

The German market is not exempt from the global trend whereby increasing importance is being placed on intellectual property in many business sectors. IP cannot be harvested or mined like a natural resource and is not produced by machines. Human beings, who are employees in most cases, create the intangible assets that make up IP.

From a German company's perspective this is unproblematic with most kinds of IP because under German law most of the intangible assets created by employees regularly vest with the employer without any need to take specific actions or to make particular arrangements.

Although it often makes sense to include a standard clause on IP ownership in labour or service agreements for the purpose of clarification, in most cases such clauses only reflect what German law says anyway. While cooperation with third parties, such as R&D or contract research agreements, may require express contractual provisions on the assignment of IP rights, this is far less important for employment agreements. As a rule of thumb, under German law, copyrights, designs, trademarks and other IP rights regularly vest with the employer as long as the creation of the respective items is related to, and can be considered as part of, the work done by the employee under his employment agreement.

However, there is an important exception to this rule, and this exception applies to the kind of IP that is often the most important for the business: inventions or, in other words, new or improved technology that could become subject to a patent. Whenever an

employee who is employed under German law makes an invention in the course of his employment, this invention falls within the scope of the German Employees' Inventions Act (*Arbeitnehmererfindungsgesetz* or AEG), which obliges both the employer and the employee to inform and notify each other about the invention and its exploitation. The AEG provides for strict deadlines that have to be met and that are crucial to establish ownership and the right of exploitation. The most important elements of this process are illustrated in the flowchart on page 64.

The notification and claiming process

After an invention has been made, all employees who have contributed to the invention are obliged to notify the employer of the invention in writing without undue delay. The notification has to describe the technical problem, the solution and the process that led to the invention. It is recommended that standard form sheets be provided for such notifications to reduce the risk of mistakes creating problems during the process that follows on from the notification.

Within a term of four months after the receipt of the notification, the employer has the right to claim the invention. The claim can be unlimited (ie, exclusive) or limited (ie, non-exclusive) and has to be done in writing. By way of an unlimited claim, the employer acquires the sole right in and to the invention. By way of a limited claim, the employer acquires a mere right to use the invention non-exclusively.

After receiving the notification, the employer is obliged to apply for patent protection (or a corresponding protective right) in Germany without undue delay, unless the invention is related to business secrets. After having exclusively claimed the invention, the

employer may also apply for protective rights in foreign jurisdictions. If the employer decides to abandon a patent right on an employee invention, he has to offer the free transfer of that patent right to the employee unless the employee has already been duly and fully remunerated (remuneration to be explained below). If the employee does not request the transfer within a period of three months after the employer's offer, the employer may abandon the patent right. Neither the offer nor the request have to be made in writing, although at least the employer's offer should be documented in writing in order to determine when the three-month period lapsed.

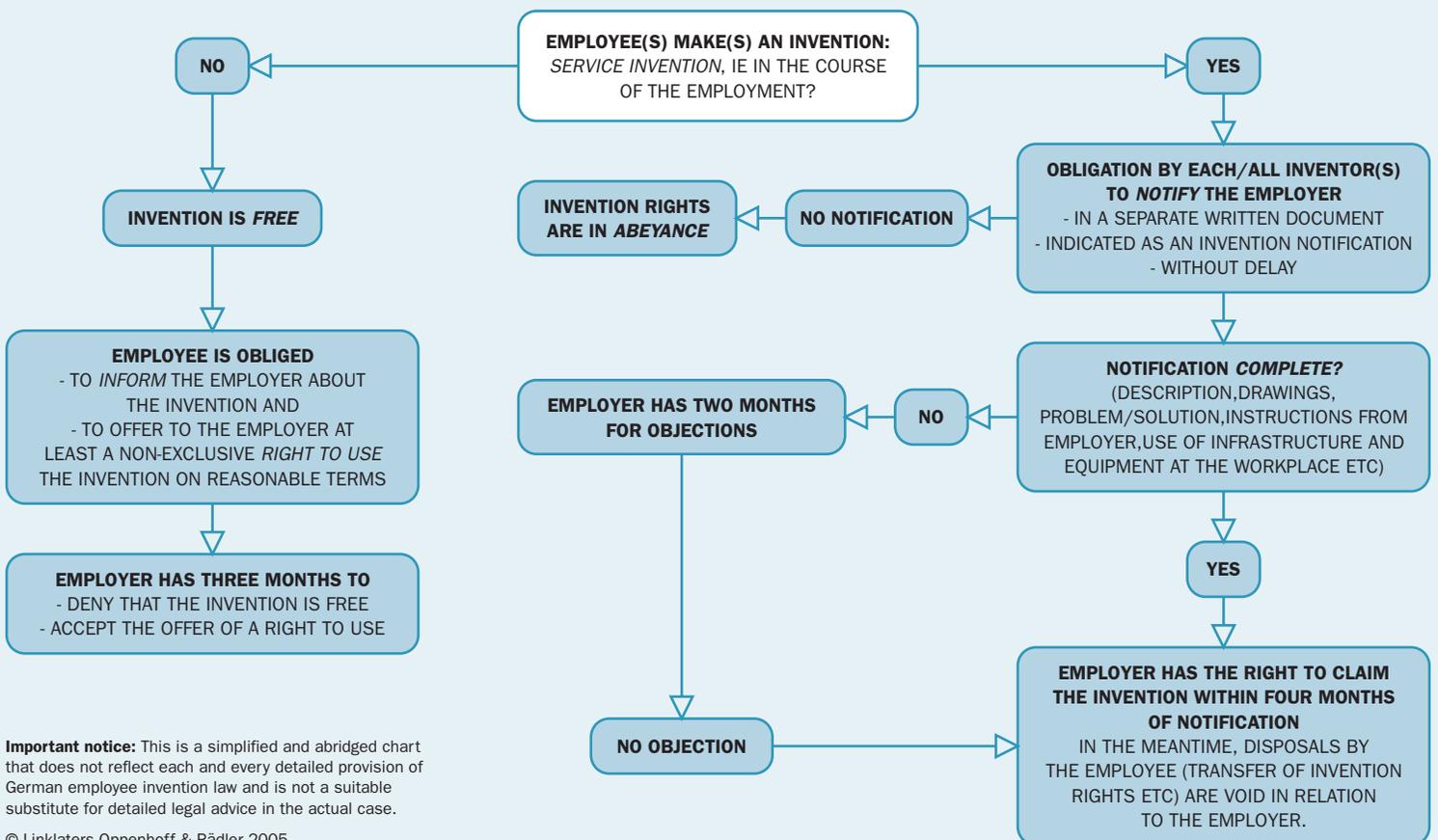
If the employer fails to claim the invention within the four-month period, the invention is considered to be free, ie, the invention is the sole property of the employee (but, where applicable, cumbered with the employer's non-exclusive right to use if the invention was claimed limitedly).

Often the legal requirements of a written notification or a written claim form are not fully met. Basically, the invention rights are in

abeyance as long as there is no written notification or claim form (no time limits apply). The employer may claim the invention even if there is no written notification. But in practice there are often factual circumstances that lead to the assumption that some written communications between employee and employer should be considered as notifications (for example, project group reports, improvement proposals) or that employer and employee impliedly agreed to abandon some of the formal requirements of the statutory law. In such cases, it is almost impossible to come to a definite legal assessment as to the legal situation of the invention rights, and negotiations on a mutual agreement between employee and employer are often inevitable.

In cases where there is a notification but no clear documentation of a written claim made by the employer within the four-month period, the employee's consent is absolutely necessary to make sure that the employer has the rights to use the invention. For this purpose, a written agreement or confirmation

German Employee Invention Law: The process of notifying and claiming.



Important notice: This is a simplified and abridged chart that does not reflect each and every detailed provision of German employee invention law and is not a suitable substitute for detailed legal advice in the actual case.

© Linklaters Oppenhoff & Rädler 2005

by the employee should be obtained, according to which the employee either transfers his/her rights to the invention to the employer or confirms that all rights lie with the employer. Such an agreement can provide for a consideration, in most cases a payment to the employee. One has to bear in mind, though, that a mere payment from the employer to the employee, whatever the amount, will not cause a transfer of invention rights to the employer unless the employee agrees. The consent or agreement should always be in writing not only for reasons of documentation and evidence, but also because under the laws of some jurisdictions the transfer of patent or invention rights can be subject to a written form requirement, so an oral agreement on transfer might be void.

Determining remuneration

If the employer claims the invention, be it limitedly or unlimitedly, the employee is entitled to remuneration, the amount of which is determined by “the economic usability of the invention, the employee’s tasks and position within the firm, and the firm’s share in the emergence of the invention” (Section 9 AEG). For example, the head of an R&D department will receive less remuneration than a commercial apprentice. Detailed provisions of the so-called Compensation Directive, which is not legally binding, but nonetheless widely accepted, fill this very general and abstract concept.

The remuneration will often be a running, annual payment. However, the Compensation Directive recommends a one-off payment if the invention is of a minor value that does not justify the efforts of a running, annual calculation. If this is the case, the value of the invention may be assessed by way of analogy with a (hypothetical) purchase price instead of a licence fee.

A one-off payment can also be the necessary alternative if the invention is not actually used, for instance if the rights to the invention are held for potential future use (so-called stock patent or *Vorratspatent*).

The Compensation Directive also recommends a one-off payment in those cases where the employee who made the invention has a professional position within the firm that allows him to influence the firm’s use of the invention and/or the firm’s efforts to make further inventions in the same field. If such an employee received a running payment, he would face a conflict of interests since his monetary benefit depends upon the use of the invention although the economic interests of the firm might demand that its use cease.

Calculating the amount

Apart from these exceptional cases, according to the Compensation Directive, an employee inventor’s remuneration is calculated on the basis of the following formula: $R = V \times S$.

In this formula, R stands for the remuneration to be paid, V stands for value of the invention and S stands for the employee’s share in the invention, the so-called share factor. If an employee is not the sole inventor, his percentage in the invention will be added to the formula so that the formula then is: $R = V \times S \times P$ (inventor’s part of the invention).

The value of the invention (V) is assessed by using one of the following methods:

- By analogy with royalties that would have to be paid for a licence to use the invention and/or the manufacturing of products which incorporate the invention; the hypothetical royalty is laid down as a fixed amount of money per product unit or per unit of weight and is then related to the relevant total turnover or the total production.
- By determining the ascertainable benefit which the employer realises by using the invention.
- By estimation, if neither a hypothetical royalty nor an ascertainable benefit can be determined.

As to the estimation, the Compensation Directive suggests that this be based on the purchase price that the employer would have to pay if it had to obtain the right to the invention from a free inventor instead of an employee. Certain reductions would apply to reflect the employer’s investment in the invention and its marketing.

The ascertainable benefit means the difference between the employer’s actual costs and the earnings which are derived from the use of the invention and that are calculated according to acknowledged economic standards. If the employer exploits the invention by way of sub-licences only, the royalties deriving from these sub-licences can be considered as the ascertainable benefit. However, this method is rarely used since the correct evaluation of all relevant imputed costs and related earnings is very time consuming and cost-intensive.

The analogy with royalties, the so-called licence analogy, is the most common way to calculate the remuneration. The hypothetical licence fee is determined by the same elements that are taken into consideration where a licence is granted by a free inventor to a company. Among these there are, in particular, the contribution of the invention to

the improvement of the following aspects of the product and its manufacturing process: mode of operation, construction, weight and space required, accuracy, safety, costs (especially the necessary input of raw material and manpower), etc. Furthermore, one has to consider whether the invention can be integrated into the current production without additional effort or whether the use of the invention requires modifications of the manufacturing processes and/or machines (or, for example, modifications of the construction of the current product itself). Other relevant aspects are whether it is possible to use the invention in a serial production or to improve the firm's marketing and, last but not least, the presumptive turnover.

For the purpose of determining the value of the invention, the AEG and the Compensation Directive, corresponding to their nature as national legal provisions, basically refer to the use or exploitation of the invention in Germany. However, profits or benefits due to the exploitation of the invention in foreign countries have to be evaluated and calculated accordingly and contribute to the amount that is considered an appropriate remuneration.

The employer and the employee may agree on remuneration that is related to the total figures of production (output) or of sales (turnover). It depends on the circumstances of the invention at issue and, if applicable, on the details of the parties' agreement whether the remuneration might depend on the increase of production or sales caused by the invention instead of the total figures. However, the total figures are the usual standard, since it is easier to ascertain them than to assess which part of an increase (or avoided decrease) is due to the use of the invention. There is no strict provision on whether the value of the invention must be assessed with regard to the final product or with regard to the semi-finished products or product parts. Again, this depends on the individual characteristics of the invention and of the field it is used in, as well as on whether the invention increases the value of the final product only or of the semi-finished product, too. If the employer exploits the invention only by way of sub-licences, the generated income of royalties from sub-licences can be considered as the turnover generated by direct use of the invention. However, internal costs for further improvements, marketing, administration, taxes, etc can be deducted.

The value of the invention (V) is reduced by the share factor (S) in order to reflect the fact that each employee fulfils a contractual

duty by working for the employer: since employees normally use equipment of the employer, for example, they cannot be treated the same as free inventors who work with their own equipment and at their own economic risk. Hence, the remuneration for an employee's invention must be lower than the amount a free inventor would receive.

The employee's share in the development of the invention has to be assessed. This depends on how the employee identified or found the technical problem, on how he or she arrived at the solution, and on the employee's position and everyday tasks within his or her employment: generally speaking, the more surprising, creative and thoughtful the employee's contribution to the invention, the higher the employee's share. For example, the employee's share is rather small if the employer himself indicated the relevant technical problem and even gave first hints at a possible solution. On the other hand, the employee's share is high if he or she spotted the problem alone and found the solution without the assistance of the employer. Further, the share is even higher if the relevant problem does not lie within the field of the employee's everyday work.

The Compensation Directive gives a detailed list of groups of employees and circumstances of the invention and assigns a value number to each group. The sum of these value numbers is then assigned to a percentage number that expresses the employee's share factor for the invention.

Payment of remuneration

Usually, the employer has to pay the remuneration as long as it holds a patent or utility model that covers the invention. However, remuneration even beyond such a deadline could be due if the benefits from the invention are realised only towards the end of a protection term. Similarly, a payment beyond the legal protection term can be appropriate if the employer realises economic benefits from the invention even after the protection right has expired because the invention and its exploitation throughout the protection term lead to special know-how and experience that cannot be taken from the patent itself. In this case, a longer obligation to remuneration is justified by the fact that the employer still has advantages over its competitors that are caused by the invention.

The nullification of a patent or utility model has no effect on the employer's duty to pay remuneration during the period of formal registration. Correspondingly, the employer cannot demand the repayment of


Linklaters Oppenhoff & Rädler

Börsenplatz 1,
Cologne 50667, Germany
Tel: +49 221 2091 0
Fax: +49 221 2091 435

www.linklaters.com

Markus Deck

Partner
markus.deck@linklaters.com

Markus has been working in the Intellectual Property Department of Oppenhoff and Rädler since 1989. He qualified in 1992 and built his IP portfolio with unfair competition, trademark and patent litigation. He is also experienced in corporate work, especially licensing and industrial property transactions, as well as the handling of employee inventor issues in large patent portfolios. He has litigated a large number of interlocutory proceedings, as well as larger litigations concerning unfair competition, trademarks, copyright, trade secrets and patents. He regularly deals with IP issues in the context of mergers and acquisitions and other transactions.


Linklaters Oppenhoff & Rädler

continued

Dr Jens Matthes

Managing Associate
jens.matthes@linklaters.com

Jens specialises in litigation, drafting and negotiating of contracts and consulting on intellectual property matters, including unfair competition law, R&D, trademarks, licensing, protection of designs, product piracy and promotional campaigns. He has expertise in patent law, including litigation and licensing, as well as protection and transfer of technologies and industrial know-how, and in IP-related transactions. Jens has particular expertise in the healthcare, engineering and automotive sectors.

remuneration that has been made prior to a nullification of the right.

The employer and the employee have to enter into an agreement on the remuneration. If they fail to conclude such an agreement within an appropriate period of time (three months after issue of a patent at the latest), the employer must lay down a well-founded calculation of remuneration and make payment accordingly. The employee can oppose the employer's calculation within a period of two months. The parties then have to negotiate a mutual agreement, during which time the employer must comply with his own calculation and properly effect the payment. At all stages of the dispute, the parties can file their case with the Arbitration Board at the German Patent Office. Such arbitration is compulsory as long as the employment continues. If negotiations and arbitration fail, each party has the right to file an action with the specialised patent chamber at the competent German court. The law provides for both parties' right to demand the adjustment of a remuneration agreement if the relevant facts or circumstances that were the grounds for the agreement substantially changed.

Simplification in the pipeline

Legislative reforms are underway that aim at the simplification of the calculation of the remuneration and at the abandonment of the requirement that the employer needs to claim

the invention formally. However, political discussions are continuing and such reforms are not expected before 2008. Hence, wherever technology and invention rights are of any importance to a business where employment is governed by German law, a standing system of notification and claiming of employee inventions is required to avoid doubts in the substantial ownership of what might be considered the most important asset of the business.