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THE LEGAL SITUATION OF EMPLOYED INVENTORS
"LEGAL FRAMEWORK OF THE RELATIONSHIP BETWEEN EMPLOYED
INVENTORS AND EMPLOYERS. INCENTIVE SYSTEMS ENCOURAGING
CREATIVITY"

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I. OWNERSHIP OF EMPLOYEES' INVENTIONS IN GERMANY

A. Principles and Historical Background

1. Before licensing any intellectual property rights, obviously it must be made sure that the respective inventions really are owned by the party wishing to grant rights resulting therefrom. Of specific importance is of course that in Germany very peculiar rules exist, binding and not being able to be excluded by employment agreements, which employers must follow in order to get only ownership of inventions.

2. Whilst in many – if not most – other countries, worldwide as well as in Europe, employers and employees can determine by employment contract whether inventions made by the employee in the course of his employment under certain provisions, usually to be freely agreed, become the property of the employer – in most instances even without any specific remuneration of considerable height for the employee –, the legal situation in Germany is totally different. German Law, particularly the so-called “Law relating to Inventions made by Employees,” in the following designated as “The Law,” unavoidably 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 become the property of the employer.

3. To understand this, the historical background is of assistance. In 1936, the German Patent Law introduced the principle that the right and title to an invention first of all belongs to the inventor, whilst until then 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 etc., consisting of many individuals, had contributed to the invention. What the Law, at that time, did not say was how the property of the invention could go over from the employee to the employer. Then, in 1942, the famous “Göring-Speer-Verordnung” issued, named after Hermann Göring 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 Göring-Speer-Verordnung was to encourage inventors not only to make inventions, but also to notify those 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 inventors, the principle of a specific remuneration for inventions made by employees was introduced.

4. Based on the principles of the Göring-Speer-Verordnung in 1957 a more detailed and sophisticated Act issued, namely The Law discussed above, which retained the principles as outlined in the Göring-Speer-Verordnung as its base, i.e. initial private ownership of any invention made by employees with the respective employee, transfer of the property to the employer by specific, individual assignment, and a specific remuneration for the inventor.

B. Employees' Inventions

5. The Law has to do with inventions made by employees. Accordingly, one has to determine first what, in the sense of The Law, is an invention, furthermore, what is an employee, and finally, what kind of inventions made by employees are subject of the provisions of The Law.

a) Definition of Invention

6. Inventions in the sense of The Law are only technical inventions which 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 being 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., and accordingly creations of the aforementioned kind are not subject of the binding regulations of The Law. This has the consequence that, as far as e.g. copyright creations are concerned, 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 its employment with factualeffect belong to the employer, without any specific remuneration, etc. Such agreements can only not be made, as already mentioned under A., in relation to technical inventions protectable, in a strict sense, by either patent or utility model.

b) Definition of Employee

7. Only such inventions are ruled by The Law which are made by employees. Employees are persons employed with an employer in the sense of German Labour Law and jurisdiction. It is, in view of the summarizing character of this paper, difficult to positively define what an employee in this sense is under German Law, but negatively one can say that e.g. representatives of legal entities, like managing directors of companies, i.e. all persons which have an employer-like position, are not employees, so that The Law does not apply to inventions made by such persons. The consequence is that e.g. by 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 factualeffect from the time of their creation; even the remuneration question can be fully anticipated, e.g. by agreeing that no specific remunerations should be paid.

8. 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, respectively, 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 specifically advantageous in Germany, can be circumvented.

c) Service Inventions and Free Inventions

9. Not all inventions made by employees are subject of The Law. Rather The Law makes a distinction between so-called service inventions, namely a kind of inventions which are bindingly regulated by The Law, and free inventions.

10. Service Inventions are such inventions which either originate from the regular work of the employee he is doing in 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 experiences 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 its 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 experiences of the company, are fulfilled.

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

C. Obligations of Employee after Invention

12. Whenever an employee has made an invention, certain duties must be fulfilled in relation to the employer, depending on the character of the invention.

13. 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 is still 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 of the state of the art the invention is based on, the problem which 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.

14. 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 which 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.

D. Acquisition of Ownership by Employer

15. After receipt of a notification of a Service Invention or an information of a free invention in accordance with part C. above, such information of the employer by the employee having to be in writing, the employer has a term of two months to object to the notification because of incompleteness - for instance when the employer cannot see, in case of several co-inventors, what the personal contributions - in percentages - of the various inventors are - and of three months in case of an information relating to a free invention to object the character of the invention as being "free," rather to consider it a service invention.

16. If the employer, within the aforementioned term of three months, does not object to the declaration of the inventor that the respective invention is a free invention, the employer has no possibility any more to get hold of the invention, rather the employee can dispose of it freely, e.g. sell it to third parties, etc.

17. 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 which case the aforementioned term of two months for objecting completeness begins again, giving the employer again the opportunity to object the completeness of the inventions should the new, revised notification not yet be complete.

18. As soon as the employer for the first time 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 last completion, respectively, a four month term begins during which the employer has the possibility to get certain rights in the invention - or to lose them finally, as explained in the following.

19. One of the possibilities the employer has during the aforementioned binding four month term is to declare unrestricted claiming 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.

20. 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.

21. Another possibility, often used by employers when they believe that the respective invention is not important enough for the company to be unrestrictedly claimed, is that the employer declares a limited claiming of the invention. This limited claiming has the effect that the property of the invention remains with the employee, that the employee has the right to protect the invention e.g. by a patent application at its own cost and in its own name, and that the employee is entitled to make use of the invention by e.g. licensing it out to a third party. In any such cases, however, the employer by its limited claiming of the invention has the right non-exclusively to use the invention should in future the employer come to the decision 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 employer; the negative effect is, of course, that the employer, because of lack of full ownership of the invention, cannot prevent third parties, like competitors, from using the invention, should it seem to the employee to make use of the invention in such a sense.

22. If, finally, the employer 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, in fact, remains in the sole property of the employee, the employee can sell the invention, license it out, and there are no remaining rights of the employer in relation to such an invention. 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.

23. It should be noted, in this regard, that the employer cannot avoid to make a choice between unrestricted claiming, limited claiming, and factual or 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 run the risk of release, as mentioned above.

E. Obligations of Employer after Acquisition of Ownership

a) Protection of Invention

24. 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 jurisdiction, 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 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.

25. 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, simultaneously giving 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 entitled, simultaneously with giving 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 aforementioned non-exclusive right of use retained by its employer would be an undue burden and prevent the inventor from satisfyingly using the invention in the respective foreign country by e.g. licensing, the employee can force the employer to renounce the aforementioned retained right.

26. Should the employer intend at any time to give up a domestic or foreign application for the invention, before finally giving up the respective application or patent the employer must give the employed inventor the possibility to take over the application and patent, respectively, by assignment, for further prosecution in the own name of the inventor. Also in such case, the employer may retain a right of non-exclusive use, with similar provisions, as discussed in relation to foreign applications, in case that the retained right of non-exclusive use of the employer may be considered as an undue burden to the employee.

27. In cases where 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 aforementioned 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 to be discussed later on 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 has the possibility to ask for an opinion of the Arbitration Committee for employees' inventions at the German Patent Office, to be discussed under F. below, as to whether the respective invention is patentable or not. In such instances, the Arbitration Committee examines the invention in a secret manner, i.e. without publication etc., in relation to patentability. If in such an instance 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 very little or even no remuneration.

28. It should be duly noted, at this time, that all the above obligations the employer has after acquisition of ownership of an invention, as well as the remuneration provision to be discussed in the following, can be modified and even renounced by individual agreement between employee and employer on the certain, in individual invention was notified to the employer. The binding provisions of The Law are only applicable in an "absolute" manner, i.e. cannot be pre-modified by agreement, until notification of a certain invention to the employer.

b) Remuneration for Invention

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

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

(i) Methods of Determining Remuneration

31. Principally, The Law provides for three methods in which a remuneration can be calculated.

32. One of these methods consists in the so-called license analogy, in which case 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 ordinarily pay. This method is by far the most one used in Germany and will be discussed under E.b)(ii) in some more detail.

33. Another possibility, specifically used when an invention is related to e.g. a certain kind of manufacturing which 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 which the employer achieves by using the invention.

34. A third possibility, finally, is a free estimation of the value of the invention, in which the inventor has the right to participate. Such method is used e.g. in cases of cross-licensing without real royalty income or purchase price income to the employer.

35. Altogether, 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 inventor is determined, such percentage, the so-called "share factor," meaning that e.g. a research chemist who is factually paid to make inventions gets very little remuneration, practically nothing, whilst 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.

(ii) License Analogy in Practice

36. The aforementioned principles shall be further discussed in relation to license analogy.

37. 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, e.g., that in machinery industry reasonable royalties of 4%, based on net sales, are not uncommon.
38. 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 do exist 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.
39. The aforementioned share factor is determined by taking into consideration three sub-factors, namely a) the contribution of the company/employer in creating the problem to be solved by the invention, b) the contribution of the company/employer in creating the solution of the problem, and c) 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 sub-factors lead usually in case of a chief chemist in a research department to a share factor of e.g. 10%, which means that the employee gets 10% of the aforementioned reasonable royalty of 4%, i.e. 0,4% of the net turnover of the employer.
40. The turnover achieved by the employer before applying the aforementioned share factor-reduced royalty rate is degressively devaluated in case of high turnovers, with the effect that beyond a turnover of about 1.500.000,00 € a reduction of 10% takes place, further reductions with increasing effect, until beyond 50.000.000,00 € turnover the royalty is reduced by 80%. In other words, the inventor for turnovers beyond 50.000.000,00 €, in this example, does not longer get a remuneration of 0,4%, rather only of 0,032 of the employer's turnover.
41. It is to be noted that the aforementioned 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.
42. 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 has the possibility to object to any remuneration agreement concluded earlier because of being considerably unjustified, and certainly such circumstances will be assumed by court. 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 which under the justification and good faith viewpoint do not bear the risk that later on, when normally disputes between employer and employee begin, namely after termination of the employment agreement, give reason to revision. It should be stressed that the aforementioned possibility of later revision of any remuneration agreement is bindingly provided in The Law and cannot be renounced by neither employee nor employer.

F. Solution of Disputes

43. The Law provides for a unique possibility of solving disputes between employee and employer in case of inventions made by employees.

44. 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 examiners of the Patent Office chosen for the specific case according to the subject matter in question.

45. Whenever an employee and an employer, 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 then makes a proposal, e.g., as in most instances, 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.

46. Also after termination of an employment agreement the parties have still the possibility to go to the Arbitration Committee, but are no longer bound to do so, rather can go to Court directly.

47. The Arbitration Committee plays an important role also in the case of determining whether certain inventions should be considered by the employer as company secret or patentable or not, as already discussed under E.

G. The European Future

48. 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.

49. 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 valuable assets not only by the trade unions, but also by the Government, it is difficult to imagine that those rules completely would be given up. According to the present 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 giving 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, whilst the other countries, as far as they do not have such provisions already now (like Austria), will accept the binding German rule of specific remuneration for inventions, following insofar the suggestions of The Law as discussed above.

