Employee Inventions Law

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IP Brochure

Inventions are a product of the human intellect and as such can only be created by natural persons. The so-called inventor's right, which is attributed to the inventor due to the creation of the invention, consists of a proprietary part, the right to the invention, and a personal part, in particular the right to be named as inventor.

In case a company employee makes his invention during the term of his employment, as a so-called "service inventions", two opposing principles exist: On the one hand the above-mentioned inventor's principle, and on the other hand the general principle of labor law, that the result of the work belongs to the employer.

In Germany, this conflict is balanced by the German Act on Employee Inventions, ArbEG (Gesetz über Arbeitnehmererfindungen), which regulates the rights and obligations of both employees and employers. The ArbEG primarily regulates the proprietary exploitation rights associated with the invention and the intellectual property rights arising from them; the inventor's personal rights (in particular the right of the inventor to be named as the inventor on the patents) remain unaffected. The following is a summary of the conditions for the applicability and the basic provisions of the ArbEG. Of central importance is the employer's right to unilaterally claim a service invention by the employee – in return, the employee has a claim for reasonable compensation. The so-called Remuneration Guidelines play an important role for calculation the remuneration.

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1. Applicability of the ArbEG

The ArbEG is applicable to inventions and technical improvements made by employees employed under German law.**1.1 The employee**The definition of an employee in the ArbEG is the one that is generally applicable in labour law. Accordingly, an employee is a person who carries out the task to which he is contractually obliged within the framework of a work organisation determined by a third party. In this organisation he is subject to the contracting party's right to issue instructions, which can be in respect of the nature or performance of the task, or the time, duration and place it is to be performed. Employees cannot be freelancers, retired persons, or commercial agents within the meaning of Section 84 paragraph 1 of the German Commercial Code (HGB), nor can they be the agent of a legal entity (member of a body), nor personally liable shareholders. Basically, inventions made by non-employees are subject to the respective applicable law, i.e. regulations in respect of inventions must be contractually agreed.**1.2 Territorial scope of application**The ArbEG applies in the Federal Republic of Germany. In cross-border cases the ArbEG applies whenever the respective employment contract is subject to German law under the rules of private international law. If the contracting parties have not opted for a choice-of-law clause, an employee's inventions are subject to the law applicable in the usual place of work. This is important, for example, when an employee is temporarily sent to another country.

2. Inventions according to the ArbEG

The ArbEG defines inventions solely as those which are capable of being patented or registered as utility models. Where this does not apply however, an invention can also be a suggested technical improvement which can give rise to certain rights and obligations on the part of the employer and the employee. Employees' inventions can be either "service inventions" or "free inventions".**2.1 Service inventions**Service inventions are those which have been made during the term of employment and which have been developed either as part of the activities incumbent on the employee in the company or which are based to a significant extent on the company's experience or work. **2.2 Free inventions – Release of service inventions**Employees' inventions which cannot be attributed to company activities are deemed free inventions.A service invention is released when the employer releases it in a declaration in text form. The employee is free to use free inventions and service inventions that have been released. Before the employee can utilize a free invention elsewhere during the term

of his employment, however, he must first of all at least offer his employer a non-exclusive right to use the invention on reasonable conditions if, at the time of the offer, the invention comes within the scope of the employer's current or planned business operations. This privilege expires if the employer does not accept the offer within a period of three months.

3. The employee's obligation to report

Once an invention has been completed the employee must immediately send a report about it in text form to the employer. The report must be designated an invention report and be sent separately. The employer must immediately send confirmation in text form to the employee that the report has been received. Email is regarded as an adequate means of text form.As a matter of principle, the employee must also immediately notify the employer of free inventions in text form. The notification must contain sufficient details about the invention (and also, where necessary, about how it was developed) for the employer to be able to judge whether it really is a free invention. If within three months of receiving the employee's written declaration the employer does not dispute that the invention notified to him is actually a free invention, he loses the right to claim it as a service invention. There is however no obligation to notify employers about free inventions if the invention clearly cannot be utilized in the employer's company's field of business activities.

4. Claiming the service invention

The employer can claim a service invention by means of an explicit declaration to the employee. Furthermore, the employer's claim to the invention is deemed to be declared if he has not expressly released the invention to the employee within a period of 4 months of receiving the proper, text form invention report. In other words: if the employer does not explicitly waive his claim to the invention within 4 months of receiving the report, the invention and all the rights and obligations associated with it belong to the employer. This is to the employer's advantage, because in cases of doubt (in particular as a result of ignorance of the law) it is the company which is entitled to the rights to a service invention and not – as was the case before the introduction of the fiction of the claim in 2009 – the employee.When a claim is made, all the property rights to the service invention pass to the employer. In particular, the employer obtains the right to utilize the invention commercially, to apply for a patent

for it, to license it or to sell it. Despite the change to the law in respect of claims, it still makes sense to explicitly claim a service invention as this puts the invention into a structured management and utilization process.

5. The employer's rights and obligations in respect of claiming an invention

When a claim to a service invention is made and the associated utilization rights have passed to the employer, the employee is entitled to claim reasonable compensation in return. The amount depends on the employer's commercial utilization of the invention, the employee's tasks and position in the company, and the extent to which the company was involved in creating the invention.In addition, the employer is obliged to apply immediately for a German patent or, if more expedient as an exception in individual cases, a German utility model. Furthermore, he has the right to apply for a patent for the invention in any other country. Should he not exercise this right, he must release the invention to the employee for this purpose and allow the employee to acquire intellectual property rights in other countries at the latter's request. The release should take place early enough for the employee to be able to take advantage of the priority periods of international agreements in the field of industrial property law. The release must therefore take place within the priority year. Once the invention is released abroad the employer can reserve a non-exclusive right to use the invention in the foreign countries concerned on payment of reasonable compensation.The employer is additionally obliged to hand over copies of his patent application to the employee and to keep him informed of the progress of the application process. At the employee's request, the employer must allow him to inspect all correspondence with the patent offices. At the employer's request, the employee must in turn support him in acquiring intellectual property rights and provide the necessary declarations.The employer is also free to discontinue the process of applying for a patent for the service invention, or to cease maintaining an intellectual property right after it has been granted. In such instances however, he must notify the inventor and, at the latter's request and cost, transfer the rights and hand over the necessary documents to him. At the same time however, the employer can reserve a non-exclusive right to use the service invention on payment of reasonable compensation.Furthermore, both the employer and the employee have an obligation of secrecy in respect of the reported invention. The employer must keep

secret the invention which the employee has reported to him or notified him of for as long as the employee has justifiable interests in this respect. For example, the employer must keep the invention secret until he has applied for a patent. The employee must keep a service invention secret until it has been released or becomes public knowledge when a patent application is published.

6. Agreements about the employer's and employee's rights and obligations

The provisions of the ArbEG are intended to protect employees; generally, they may not be altered to the employee's detriment. However, after a service invention or a free invention has been reported or notification of it has been served, contractual agreements can be reached with the inventor which are also to the employee's detriment. Hence, an employee's rights to inventions cannot be ceded in advance, for example in a contract of employment. Once notification of a service invention has been served, however, individual contractual regulations can be made to a certain extent, in particular within the limits of equity. Many companies buy out their employees' fundamental rights (as well as corresponding employers' obligations) within the framework of so-called individual contract "incentive" agreements pursuant to the ArbEG by paying the employee a lump-sum (so-called lump-sum payment arrangements). This is usually made in respect of the employee's right to claim compensation, which in individual cases can be very difficult to ascertain (see below), the employer's obligation to apply for a patent for the invention in Germany, the right to abandon the intellectual property rights without informing the inventor, the obligation to notify the inventor of the progress of the process to grant a patent, etc. The amount paid often takes account of the "value of the invention".To help resolve disputes involving employees' inventions, the German Patent and Trade Mark Office has set up an arbitration body where disagreements between employees and employers can be settled free of charge. As a matter of principle, disputes must first go to arbitration proceedings before a corresponding claim can be brought to court.

7. Inventor compensation

When a claim to a service invention is made, the employee is entitled to claim “reasonable compensation” from the employer. The claim for such payment falls due three months after the employer has started to use the invention, and no later than three months after the intellectual property rights to the invention have been granted.The “Guidelines for the Remuneration of Employee’s Inventions in Private Employment” (Remuneration Guidelines) by the German Federal Ministry of Labour of 1959 have an immense practical relevance for determining the amount of compensation the inventor should be paid. The following example illustrates how inventor compensation is calculated.*In her capacity as an employee of the company X & Co., Ms Müller suggests an improvement in an area of the company which is outside her actual area of responsibility. The suggestion increases the number of items of a particular product by 100% which leads to an annual rise in sales of EUR 800,000. Ms Müller has a degree in chemistry but she did not use the technical resources available to her in the company for her invention; she did not create her invention based on ideas she had hitherto had for her own work in the company, nor on any other ideas in common circulation. Were X & Co to purchase the licence for the same invention from an external patent holder, it would have to pay a licence fee of (on average) 3.5 %.*The compensation due to the inventor is based on the standard formula V = E x A, where V is the annual compensation, E is the so-called “invention value”, and A is the so-called employer’s “share factor” in the invention.**7.1 First step: Calculating the value E of the invention**First of all, the invention value E is calculated. Generally, this is assessed using the licence analogy. The invention value is therefore calculated as the additional sales volume which the invention made possible, multiplied by the licence fee. *Taking a licence fee of 3.5 % as in the above example and based on increased sales of EUR 800,000 the invention value E would be EUR 28,000 per year.***7. 2 Second step: Identifying the share factor A in points**Secondly, the so-called share factor A is decided on a points’ basis. Points are awarded according to the circumstances surrounding the task which led to the invention, how the problem was solved, and the employee’s tasks and position in the company. The following illustrates what this means in practice, based on our example:**7.2.1 The task**The employee is assessed as having a proportionately greater share in the creation of the service invention the more he has used his own initiative to solve the problem and the greater his contribution to identifying the company’s deficiencies and needs.If the company sets the employee a problem but also gives him specific instructions as to

the method he needs to employ to solve it, he will only be awarded 1 point for solving the problem. On the other hand, if the invention lies outside or is far removed from his usual area of responsibilities, and he has undertaken to solve the problem completely independently, he gets 6 points. The Remuneration Guidelines contain a range of further definitions of the task which lie between these two points.**7.2.2 The solution**If the inventor creates the solution with ideas which are commonplace in his profession, and/ or by using company work or knowledge and/ or the company has supported the inventor with technical resources – if all these factors are present the inventor will only be awarded 1 point for solving the problem. If none of these factors were present, he gets 6 points. Again, a range of levels between these two points is possible.**7.2.3 The employee's tasks and position in the company**The employee's share factor is reduced the greater the insight his position in the company gives him into the manufacture and development of the company's products, and the higher up his position in the company. The Remuneration Guidelines divide employees into eight categories for this purpose, whereby more points are awarded to employees who are expected to achieve less for the company.Employees who essentially have no special qualification for the activities carried out by the company, e.g. unskilled workers or apprentices, are awarded the maximum number of 8 points. By contrast, the group at the top end of a company comprises the managers of the R&D department and the technical managers of large business enterprises who consequently only get 1 point for their invention.The Remuneration Guidelines stipulate that in each case points be first of all awarded for the three criteria described above and then added together. In purely arithmetical terms, the resulting sum can range from 3 points (1 + 1 + 1) to 20 (6 + 6 + 8). The sum is then used to give a share factor A in the invention as a percentage according to the following table:

In our example, Ms Müller comes out with a score of 17 points for her annual compensation, which corresponds with a very high share factor of 72 %. Typically, share factors of around 20-25 % are much more common. According to this formula, Ms Müller would receive a total annual payment of **EUR 28,000 x 72 % = EUR 20,160**
Calculations such as these are complicated and inherently open to dispute. Consequently, rather than go to all the trouble involved in every individual case, many German employers prefer to make lump-sum payment arrangements of the kind mentioned above. Arrangements such as these can be drawn up in many ways and

adapted to an individual company’s requirements.Our specialist team of attorneys and patent lawyers regularly advise our clients on issues such as these and any other aspects of employee inventions law. A comprehensive support service not only minimizes your exposure to risks, in most cases it adds real value. Should agreement with an employee not prove possible, we provide our clients with fully committed legal representation.

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