

ARTICLE:

**COMPLIANCE WITH THE GERMAN EMPLOYEES'
INVENTION LAW IN THE HANDLING OF
INVENTIONS DEVELOPED BY UNIVERSITIES**

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**1. Ownership of Employees' Inventions in Germany:
Principles and Historical Background**

It is clear that before licensing any intellectual property rights, one must be certain that the respective inventions are actually owned by the party wishing to grant rights resulting there-from. Of specific importance in this respect is that in Germany very peculiar rules exist which are binding and may not be excluded by employment agreements, and which employers must follow in order to get exclusive ownership of inventions.

In many, if not most other countries, world-wide as well as in Europe, employers and employees can determine, under certain provisions in an employment contract, whether inventions made by the employee in the course of his employment become the property of the employer. Usually such provisions are freely agreed upon, and in most instances without even any significant remuneration to the employee.

The legal situation in Germany is totally different. German law, particularly the so-called "Law Relating to Inventions Made by Employees" (hereafter, "The Law"), requires that inventions made by employees belong first of all to them, and can only by a special act, and with special remuneration, become the property of the employer.

To understand this situation, some historical background would be helpful. In 1936, the German Patent Law introduced the principle that the right and title to an invention belongs first of all to the inventor. Until then, in case of inventions made in companies, one had assumed that inventions

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could be created by the legal entities themselves, *e.g.*, in cases where whole departments consisting of many individuals had contributed to the invention. What the law did not say at that time was how the property rights to the invention could go over from the employee to the employer.

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 as much as possible in relation to materials important for World War II, which was pending. The purpose of the *Göring-Speer-Verordnung* was to encourage inventors not only to make inventions, but also to notify the employer of those inventions as soon as possible. This was intended so that the employing company could make use of the inventions, possibly in a way favorable to the interest of the German Government in winning the war. In order to stimulate the interest of the inventors, the principle of a specific remuneration for inventions made by employees was introduced.

In 1957, based on the principles of the *Göring-Speer-Verordnung*, a more detailed and sophisticated Act issued; namely The Law discussed above. The Law 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 act, and specific remuneration for the inventor.

2. Employees' Inventions

The Law covers inventions made by employees. Accordingly, one first has to determine what, in the meaning of The Law, is an invention. Furthermore, one must also determine what is an employee. Finally, one must determine what kinds of inventions made by employees are subject to the provisions of The Law.

2.1 Definition of Invention

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, for the purpose of this paper, being considered as a kind of a patent (for small inventions). The Law does not pertain to other creations of employees, which may be protected by design, copyright etc., and accordingly, creations of the aforementioned kind are not subject to the binding regulations of The Law. As a consequence of this, as far as copyright creations are concerned, for instance, the employee and employer can

agree in advance by contract that the rights, in relation to all such creations made by the employee during the course of employment, will in fact belong to the employer, without any specific remuneration, etc. Such agreements, however, are not available, as previously mentioned in section 1, in relation to technical inventions which are protectable, in a strict sense, by either the patent or utility models.

2.2 Definition of Employee

The Law covers only inventions that are made by employees. Employees are persons employed by an employer in the sense of the German Labor Law and its jurisdiction. In view of the summary character of this paper, it is difficult to positively define what an employee is, in this sense, under German Law. However, negatively, one can say that, for example, representatives of legal entities, like managing directors of companies, or all persons who have an employer-like position, are not employees, so that The Law does not apply to inventions made by such persons. Thus, through the appointment agreement for a managing director of a certain company, for example, there can be an agreement between the company and the managing director that inventions made by the managing director in fact belong to the company from the time of their creation. This situation is totally different from inventions created by employees. Even the remuneration question can be fully anticipated, for example, by agreeing that no specific remuneration should be paid.

Furthermore, if German Law does not govern the employment arrangement, the parties can stipulate in the employment contract that the legal provisions of a foreign country will govern as far as inventions made by the employee are concerned. This may be the case, particularly, in all instances where one party, namely either the employee or the employer, is not of German nationality and residence. By using carefully drafted employment contracts in such instances of foreign-related employment contracts, the consequences of The Law, which foreign companies in particular do not consider as specifically advantageous in Germany, can be circumvented.

Specific aspects of The Law relating to inventions made in public service, and in particular by universities, have to be taken into due consideration. In this context, paragraph 40 of The Law provides that inventions made by "normal" employees in public service, like scientists working in the laboratory of a public (state owned) university, are essentially to be handled in a similar manner as in the case of employees in private practice. Paragraph 42 of The Law extends the aforementioned regulation to public servants and soldiers. Paragraph 43 of The Law provides for inventions

made by professors and assistants to be free inventions, not to be handled in accordance with The Law as it is applicable to inventors in private service. (The details of this provision will be discussed later in this paper.)

2.3 Service Inventions and Free Inventions

Not all inventions made by employees, even employees in private practice, are subject to The Law. Rather, The Law makes a distinction between so-called "service inventions," namely the kinds of inventions which are governed by The Law, and "free inventions."

Service inventions are those which either originate from the regular work that the employee does in a company based on an employment contract, such as when a chemist working in research and development of a pharmaceutical company invents a new pharmaceutical, or which are essentially based on experiences from the company. All other inventions are free inventions, for example in a case when the aforementioned research chemist of the pharmaceutical company invents a new musical instrument. It does not matter, however, whether the aforementioned research chemist makes the invention during working hours in the company or while staying at home during the weekend, for example, as long as the aforementioned conditions are fulfilled, namely, when the invention either originates from the work of the inventor or is essentially based on the experiences of the company.

3. Obligations of Employee after Invention¹ – Private Practice

Whenever a "normal" employee, whether in private practice or in public service, has made an invention, certain duties must be fulfilled in relation to the employer, depending on the character of the invention. In the case of a service invention, the employee has the duty to immediately and completely notify the employer in writing of any such invention. At that time, the invention is still the property of the employee, and the notification to the employer does not change the property rights and title in the invention. The notification must be complete and must provide the employer with knowledge of the invention, including: the state of the art that the invention is based upon, the problem which is solved by the invention, the solution proposed by the invention, the contribution of the internal knowledge from within the company to the creation of the invention, and the contributions of potential co-inventors.

¹ In the discussion that follows, when talking about "inventions" in connection with The Law, usually "service inventions" are meant, if not otherwise stated.

In the case of free inventions, or of inventions which the inventor believes 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 musical instrument mentioned above.

4. Acquisition of Ownership by Employer – Private Practice

The employer has a term of two months after receipt of notification of a service invention or of information of a free invention, in accordance with the requirements mentioned in section 3 above, to object to the notification because of incompleteness of the information given to the employer by the employee in writing. Such an objection may be raised, for instance, when the employer cannot understand, in the case of several co-inventors, what the personal contributions, in percentages, of the various inventors are.

The employer also has a term of three months, in the case of information relating to a free invention, to object to the characterization of the invention as being "free," rather than a service invention. If the employer does not object to the declaration of the inventor that the respective invention is a free invention within that three-month term, the employer will no longer be able to obtain the invention. Rather, the employee can dispose of it freely, *e.g.*, sell it to third parties, etc.

If the employer gives a declaration of incompleteness to the inventor, in the case of a notification of a service invention, the employer, for the time being, does not have to observe any further term limitations. Rather, the employer may wait until the respective employee provides a completed notification of invention. In that case the aforementioned term of two months for objecting to completeness begins again, giving the employer another opportunity to object to the completeness of the invention, should the new, revised notification not be complete.

In the case of a service invention, if the employer fails, at any time, to notify the employee of any incompleteness in the notification of invention within the aforementioned two-month term, then, a separate four-month term begins. This term runs retroactively from the date of receipt of the notification of invention or from the most recent date of completion. During this period it is possible for the employer to obtain certain rights in the invention, or to lose them permanently, as explained in the following.

One of the options available to the employer during the aforementioned binding four-month term is to declare an unrestricted claiming of the invention to the employee. This unilateral act of the employer will have the factual effect of transferring the property rights in the invention to the employer, and from that moment onwards the invention no longer belongs to the employee, but to the employer. Most service inventions are handled in this manner, because the aforementioned unrestricted claim is the only way for the employer to obtain full ownership of an invention. This is to prevent the inventor from being left with any rights that would allow the inventor to independently make use of the invention, *e.g.*, by licensing it to third parties, etc.

Another possible option, often used by employers when they believe that the respective invention is not important enough for the company to declare an unrestricted claim, is for the employer to declare a limited claim to the invention. The effect of this limited claiming is that the property rights to the invention remain with the employee, so that the employee has the right to protect the invention, for example, by filing a patent application at his own cost and in his own name. At the same time, the employer is entitled to make use of the invention by, for example, licensing it to a third party. In any such cases, however, the employer, by its limited claiming of the invention, has a non-exclusive right to use the invention, should the employer decide in the future that such a use for the employer's company would be useful. The advantage of such limited claiming, as far as the employer is concerned, is that none of the costs of patent protection, etc. must be borne by the employer. The negative effect, of course, is that the employer, due to a lack of full ownership of the invention, cannot prevent third parties, like competitors, from using the invention, should the employee decide to make use of the invention in such a sense.

Finally, if the employer does not react within the above mentioned four-month term, the invention becomes free. This has the same effect as if the employer had, within the four-month term, explicitly declared to the employee that the invention should be free. Such released inventions, whether factually free or explicitly declared so by the employer, remain the sole property of the employee. The employee can sell the invention, or license it out, and there are no remaining rights for the employer in relation to such an invention. Obviously, the employer will make use of this possibility only in cases where it is absolutely certain that either the invention is not patentable at all, or the invention is totally useless to the employer. It should be noted in this regard, that the employer cannot avoid making 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's only option is to run the risk of release, as mentioned above.

5. Handling of Inventions by "Normal" Employees in Public Service and Public Servants

Generally, according to paragraph 40 of The Law, inventions made by employees in public service, such as scientists in laboratories of state-owned universities (as most universities in Germany are), are handled in a similar manner as inventions made by employees in private practice, *i.e.*, employed by private companies.

There are important exemptions, however, which are essentially as follows:

First, instead of claiming the service invention and therefore, by unilateral act, transferring ownership of the invention from the employee to the employer, an employer such as a university or a research institute could renounce its ownership rights in a pre-arranged manner, even by an employment contract. The parties could instead agree on some reasonable participation of the employer, such as the university, in the profit made by the employee when exploiting the invention. In other words, by employment agreement the employer can make sure that the employee remains the owner of all inventions made, but has to contribute, for example, 20% of any royalty income to the university.

The aforementioned provision of The Law, in accordance with paragraph 40, is particularly important in cases of cooperation between universities and private sponsors. In such cases, as the audience of readers certainly will know, the sponsor usually wishes to get, to the greatest extent possible, ownership of any inventions resulting from such cooperation. At least this is the situation in Germany. Through the flexibility of The Law, the aforementioned arrangement makes it possible to get to solutions that are acceptable for universities, sponsors, and the employees of universities.

A second important deviation from the regulation of inventions made in private service may also be found in paragraph 40 of The Law. This section provides for the possibility that the employee, who makes an invention and remains owner thereof because of the above-mentioned arrangements, may be prevented from using the invention in a certain manner if such prohibition is in the "public interest." Such an instruction may come from the university, the Ministry of Science, or in any case, the "highest" authority, according to German public service law, ruling the respective job. For

example, an employee working in defense-related matters might be prevented from using such inventions by licensing to companies in certain third-world countries, even in cases where such inventions would not otherwise become the subject of a secrecy order from the Patent Office and the Ministry of Defense.

Just to complete the question of "normal" employees in public service, the aforementioned regulations also essentially relate to inventions made by "normal" public servants and soldiers.

6. Inventions made by Professors and University Assistants

Paragraph 42 provides that inventions of professors, lecturers and scientific assistants are to be free. Accordingly, all such inventions are not subject to the restricting regulations of The Law as far as ownership and evaluation of inventions by employees are concerned, whether in private or public service. The regulation grants a privilege to the aforementioned group of persons to a great extent; it is the basis for most of the collaborations between university institutes and private sponsors, in order to create "independent" inventions in the sense that the sponsor can obtain them.

As a matter of course, professors can only use the aforementioned provisions fully if they make sure that no other "normal" employees of the university are involved in bringing inventions of the type in question into existence. Quite often this is done by making sure that contributions to the invention come only from students, post-graduate scholars, etc. All of these persons do not enter into a regular employment arrangement with the university and the professor, respectively. Rather, it is only a kind of private non-employment, a sponsored semi-tutoring arrangement under the particular professor. If it is not avoidable that the university professor makes use of "normal" employees in public service—for example, employees of the university, including public servants—the above-mentioned flexibility in The Law must be taken into consideration—especially in regard to participation of the universities in the profits realized from such inventions.

It should be duly noted, however, that paragraph 42 of The Law allows for the possibility that, in a case where specific university means were used to bring the particular invention into existence, the university may participate in the profit achieved by the professor, etc. This is true even in cases of inventions made by professors, etc. According to the personal experience of the author, however, in most instances the aforementioned possibility for universities to participate in the profit made by "normal" employees, public servants and professors is practically never used. This situation might

change with the increasing awareness by the universities of the value of inventions. This is true even in Germany, a country in which such considerations traditionally have not played a significant role.

7. Obligations of Employer after Acquisition of Ownership

7.1 Protection of Invention

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

The employer is obliged, well before the end of the priority year according to the Paris Convention, to inform the inventor as to the countries in which the employer wishes to file foreign applications. This gives the inventor the option to file simultaneously, at the inventor's own cost and in the inventor's own name, foreign applications within the priority term. In such cases, the employer is entitled, simultaneously with giving the respective information to the employee, to retain a non-exclusive right to use the invention in such foreign countries where the inventor may file a patent application in his 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 satisfactorily using the invention in the respective foreign country (for example, by licensing) can the employee force the employer to renounce the aforementioned retained right.

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

In cases where the employer does not wish to file a patent application for an invention duly subject to an unrestricted claim, the employer may make, at its sole discretion, the decision to keep the respective invention as a company secret. The employer must duly notify the employee in this case. This 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 this comes the consequence that remuneration (to be discussed later) will have to be paid as if a patent would protect the invention.

If the employer wishes to keep the invention as a company secret, but does not consider it patentable, the employer has the option to ask for an opinion of the Arbitration Committee for employees' inventions at the German Patent Office (discussed under section 8 below) as to whether the respective invention is patentable or not. In such instances, the Arbitration Committee examines the invention in a secret manner, without publication, in relation to patentability. If the Arbitration Committee comes to the conclusion that the invention is not patentable, and the employee does not object to that opinion, the employer is entitled to keep the invention as company secret without the remuneration consequences otherwise resulting from patentable inventions. Therefore, depending on the rules of remuneration for non-patentable proposals in the respective company, the invention remains the property of the employer, possibly with very little or even no remuneration to the employee.

It should be duly noted, at this time, that all of the above obligations that the employer has after acquisition of ownership of an invention, as well as the remuneration provisions to be discussed below, may be modified and even renounced. This can be accomplished by individual agreement between employee and employer once the employer is notified of the certain, individual invention. The binding provisions of The Law are only applicable in an "absolute" manner, so they cannot be pre-modified by agreement, until notification of a certain invention to the employer.

7.2 Remuneration for Invention

The second duty imposed on an employer after acquiring ownership of an invention by unrestricted claiming is that the inventor is entitled to specific remuneration for the invention. This duty is in addition to the duty to protect it, or to handle it as a company secret—if it is considered to be protectable in principle (as discussed in section 5.1). The principle, as

expressed in The Law, is that the inventor is entitled to participate in the specific advantages the employer gets from the invention.

7.2.1 Methods of Determining Remuneration

Principally, The Law provides for three methods for calculating remuneration to the inventor.

One method consists of the so-called license analogy, where the inventor gets a certain percentage, based on the net sales made by the employer, of a reasonable royalty that the employer would ordinarily pay if a license were taken from a third party. This method is by far the one most used in Germany (discussed in more detail under section 7.2.2).

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

Finally, the third possibility is a free estimation of the value of the invention, in which the inventor has the right to participate. Such a method is used, for example, in cases of cross-licensing where there is no real royalty income or no purchase-price income to the employer.

In each case, the first step in determining an appropriate remuneration is always to determine the value of the invention itself, by either license analogy, internal advantages or savings, or free estimation. Then, a personal percentage for the inventor is determined. This percentage is the so-called "share factor." In practice this means that, for example, a research chemist, who is actually paid to make inventions, gets very little remuneration, practically nothing. At the same time a person not being paid to do that—for example an ordinary worker in a chemical factory—making the same invention, gets almost as much remuneration, in the form of a royalty, as an independent third party who provides the invention to the employer.

7.2.2 License Analogy in Practice

Here the aforementioned principles are further discussed in relation to license analogy.

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

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

The share factor is determined by taking into consideration three sub-factors: 1) the contribution of the company/employer in creating the problem to be solved by the invention; 2) the contribution of the company/employer in creating the solution to the problem; and 3) the position and duties of the employee within the company. Without going into detail, according to the rules attached to The Law, the three sub-factors lead usually, in the case of a chief chemist in a research department, to a share factor of, for example, 10%. This means that the employee gets 10% of the reasonable royalty of 4%, or 0.4% of the net turnover of the employer.

The turnover achieved by the employer, before applying the share-factor-reduced royalty rate, is further devalued in cases of high turnovers. The effect of this devaluation is that beyond a turnover of 3,000,000.00 DM a reduction of 10% takes place. Further reductions are imposed with increasing effect, until beyond 100,000,000.00 DM turnover the royalty is reduced by 80%. In other words, for turnovers beyond 100.000.000,00 DM, the inventor in the example above no longer gets a remuneration of 0.4%, but only 0.032% of the employer's turnover. It should also be noted that such turnover-based decreases consider not the annual, but the accumulated turnover achieved by the employer, starting from the initial use of the invention.

It should be stressed again that, after notification of an invention, an individual agreement between employer and employee could provide for a full renunciation of any remuneration by the employee. However, until six months after termination of any employment agreement, it is possible for the employee to object to any remuneration agreement that he concluded earlier on the grounds that the agreement is considerably unjustified. Certainly such circumstances will be assumed by courts in the instance of an employee renouncing an otherwise rather considerable remuneration to be paid to him. Accordingly, it is highly recommended that agreements be made which, under the justification and good-faith viewpoint, do not bear the risk of being revised later—normally when disputes between employer and

employee begin, or more specifically, after termination of the employment agreement. It should also be stressed that the possibility of later revision of any remuneration agreement is absolutely provided for in The Law and cannot be renounced by either the employee or the employer.

8. Resolution of Disputes

The Law provides for a unique possibility for resolving a dispute between an employee and an employer in the case of an invention made by the employee. At the German Patent Office there is a so-called Arbitration Committee, consisting of a member with legal training (judge-like) who serves as chairman, and two members with technical experience. The members with technical experience are examiners from the Patent Office who are chosen for the specific case according to the subject matter in question.

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, typically in relation to a justified amount of remuneration. If the parties do not object to the proposal within one month after notification, it becomes binding. Otherwise, the proposal is null and void, and the parties can go to Court. In addition, even after termination of an employment agreement, the parties still have the option to go to the Arbitration Committee, but are no longer bound to do so. Instead, they can go to Court directly.

The Arbitration Committee also plays an important role in cases involving determinations of whether certain inventions, considered by the employer as company secrets, are patentable or not (as discussed above, section 5).

9. The European Future

The provisions of The Law, as discussed above, are unique to Germany, for the time being. However, most European countries are in the process of harmonizing their social and labor laws. The result is that many European countries are coming to provisions similar to those that now exist in Germany.

It is difficult to foresee what the final outcome of these harmonization efforts will be. However, in view of the fact 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 these rules would

be completely given up. According to the present status of discussion between the various member countries of the European Union, it is expected that some middle ground will be found. This could be achieved by Germany giving up the requirement of an individual acquisition act by the employer, namely unrestricted claiming, in order to get ownership of an invention. In such instances, by employment agreement, a provision could be made that inventions made by the employee automatically belong to the employer. Meanwhile, the countries that don't already have such provisions (like Austria), may accept the binding German rule of specific remuneration for inventions, in accordance with the provisions of The Law.