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Employee Inventions in Germany

Dr. Udo Meyer
BASF Aktiengesellschaft, Germany

On behalf of UNICE (Union of Industrial
and Employers' Confederation of Europe)

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 **BASF**

The Chemical Company

- Employee inventions:
special law in Germany "Act on Employee Inventions"
covering all legal relations between employers and employee
inventors
law (with so-called guidelines) was promulgated in 1957
- Degree of regulation unique compared to other European countries
no harmonization foreseeable in contrast to patent, design and
trademark laws

- Basic idea: inventions to be treated differently from work results (the latter covered by the employment contract)
- **Inventor** (has the right over the invention, Sec.6 Patent law)

duty of disclosure of patentable inventions



right to claim invention
duty to file patent application
duty to compensate
adequately

Employer

- Inventors report inventions in writing
- Employers (in most cases) claim the invention within 4 months (otherwise the invention is released, i.e. inventor continues to own the invention)
- Employers file patent applications unless the invention is treated as trade secret (with the duty to remunerate the inventor)
- Employer must release the invention to the inventor for countries in which he does not wish to acquire a patent
- If the employer does not wish to pursue the patent application or to maintain the patent he must transfer the invention to the inventor on demand
- Law requires considerable formalities between employer and inventor

- Prerequisite for employee compensation:

Patent



data base
(patent department)

Use



production
marketing
research

typical use of patents:
production using an invention
claimed in a patent
licensing
sale of patent

- If the employer does not use the patent the inventor will not receive any compensation (except for extremely low payments for patents older than 7 years)

- Methods for determining the **value of an invention** according to the guidelines:

Analogy of license (most preferred method)

Sizeable company benefit

Estimation

- Analogy of license:
Determine the rate of royalty usual in practice with free inventions for comparable cases (0.1 – 5% as a rule)
- Value of invention:
Employer's turnover/production costs in all patented countries x royalty rate

- Rate of share: considers inventor's and employer's share (technical support, setting the object...)
10 – 20% in most cases
- Share of invention:
if more than one patent is used for the manufacture of a product
allocation is necessary
0.5 – 100%
- Inventor's contribution:
Inventor's individual share compared to that of his co-inventors
1 – 100%

- **Scale factor:**
reduction of royalty rate if turnover exceeds
€1.5 million
100 – 20% (minimum for turnovers exceeding €50 million)
- **Risk factor:**
for patent applications the full amount has not to be paid
missing amount paid after grant
35 – 50% typical factors in industry

- Product with an annual turnover of €3 million
 - royalty rate: 2%
 - scale factor: 93%
 - no risk factor: patent granted
 - one further patent; share of invention 40%
 - inventor is chemist in R&D: rate of share: 11,5%
 - inventor's contribution: 50%
- $€3 \text{ million} \times 2\% \times 93\% \times 40\% \times 11,5\% \times 50\% = €1283$
(about 173.000 Yen) before tax
 - amount for the individual inventor for the year considered
 - compensation will be lower in the following years due to the scale factor

- More than 85% of all inventors receive less than €500 (about 67.500 Yen) per year in compensation
- More than 93% of all inventors receive less than €2500 (about 337.500 Yen) per year in compensation
- Internal costs for compensation have been estimated by BDI (Federation of German Industries) to be in the range of the amount paid to the inventors

- Contract to be concluded on compensation
- Contracts are void if "they are substantially inequitable" (Sec. 23 of Act on Employee Inventions)
- In case of dispute regarding the correct amount or questions of use:

employed inventor

Arbitration counsel → civil court
65% acceptance of suggested settlement
about 100 cases/year

- Dispute often started by inventors having left the employer

- The individual payments are relatively low compared to the average annual income
- The internal costs for calculation and payments are relatively high compared to the amounts paid
- The legal risk for the employer to be involved in litigation concerning low payments is high due to the large number of factors necessary for calculation which can be challenged
- Industry has initiated a reform of the law trying
 - to minimize the formal requirements and
 - to replace the calculation of individual amounts by fixed payments
 - but not to abolish the law in its entirety or to reduce the payments significantly