

Employees' Inventions and Model Agreements for Industry-Research Collaboration

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1. Introduction

Recently, employees' inventions, including inventions made by researchers/professors at universities, are discussed in many countries of the world quite extensively. This applies e.g. to Japan, where several courts apparently have issued interesting decisions with regard to a well-justified, reasonable remuneration that employees of Japanese companies should be entitled to get in case of at least very successful economical use of such inventions by their Japanese employers. Apparently, in this regard mainly two questions are under dispute between the parties involved in the various cases as pending in Japan, namely, first, in which manner the term “reasonable compensation” in Article 35 of the Japanese Patent Law should be interpreted, the other question being the manner in which a commercial use of a patent - covering an invention made, in the simplest case, by a Japanese inventor in Japan during his employment with a Japanese manufacturer and company (employer), respectively - in a foreign country, like U.S.A. or, say, Germany, should be handled in terms of remuneration.

In this regard, it might not be without interest to look into the provisions of the German Law concerning Inventions made by Employees, i.e. the German “Employees' Invention Law”. Not only does the aforementioned law, in the following designated as “The Law”, together with the guidelines for calculating the remuneration, in the following designated as “The Guidelines”, explicitly deal with the above mentioned questions, rather ample jurisdiction (case law) of both the German courts and the Arbitration Board for Employees' Inventions at the German Patent and Trademark Office, established in accordance with Article 47 of The Law is available.

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2. Principles and Historical Background of the present German Employees' Invention Law

For the situation in Germany, as far as employees' inventions are concerned, it is typical that the general provision of Art. 9 of The Law, according to which the employee is entitled in a fair compensation/remuneration for his/her invention, has not been left "open" by the legislator, rather The Law is accompanied by voluminous Guidelines how to calculate such a remuneration. Together with the "pacifying" effect of the compulsory arbitration system established under The Law in Germany, to be discussed later on, a smooth handling of The Law and its provisions has developed in Germany over the decades, a situation which arguably would have been difficult to achieve if "only" courts would have been left alone with the interpretation of an open clause of The Law. This will be explained in more detail below.

2.1. Historical Background

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

While 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 its 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.

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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 favourable 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.

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 act, and specific remuneration for the inventor.

2.2. Employees' Inventions

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.

2.2.1. 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 in this sense and for

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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 factual effect belong to the employer, without any specific remuneration etc.. Such agreements can only not be made, as already mentioned under 1., in relation to technical inventions protectable, in a strict sense, by either patent or utility model.

2.2.2. Definition of Employee

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 a 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 factual effect from the time of their creation; even the remuneration question can be fully anticipated, e.g. by agreeing that no specific remuneration should be paid.

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.

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2.2.3. Service Inventions and Free Inventions

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.

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.

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

2.3. Obligations of Employee after Invention

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

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

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invention, the contribution of the internal knowledge inside the company to the creation of the invention, and also the contribution of possible co-inventors.

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.

2.4. Acquisition of Ownership by Employer

After receipt of a notification of a Service Invention or an information of a free invention in accordance with 3., 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 as service invention.

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 anymore to get hold of 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 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 invention should the new, revised notification not yet being complete.

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As soon as the employer for the first time does not notify the employee, in case of a service invention, within the aforementioned two months 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 months 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.

One of the possibilities the employer has during the aforementioned binding four months term is to declare 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 onwards the invention does no longer belong to the employee, but to the employer. The same effect takes place if the employer within the aforementioned four months term does not react at all, i.e. does not declare (see below!) a release of the invention towards the employee, in which case, by the expiration of the aforementioned four months term, by fiction it is assumed that the invention has been claimed by the employer, so that latest then, even if no positive claiming declaration of the employer towards the employee takes place, the invention is with factual effect transferred into the ownership of the employer.

Usually, most service inventions are handled in the aforementioned manner, i.e. are either explicitly or implicitly claimed by the employer, because the aforementioned claiming 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 filing a patent application in his/her own name and transferring or licensing out the invention to third parties etc..

If the employer releases the invention to the employee within the above mentioned four months term, the invention becomes free. Such a released invention 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.

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It should be noted, in this regard, that the employer cannot avoid to make a choice between claiming and release of the invention 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.

2.5. Obligations of Employer after Acquisition of Ownership

2.5.1. Protection of Invention

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.

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-exclusively using 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.

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

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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.

The aforementioned duty of the employer to offer (a) patent/application to the employed inventor only does not exist anymore if the employee's remuneration has already been fully paid by the employer, i.e., in general, by a lump-sum payment, to be discussed in more detail below.

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 duly 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 lateron - 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 Board for Employees' Inventions at the German Patent and Trademark Office, to be discussed under 2.6. below in more detail, as to whether the respective invention is patentable or not. In such instances, the Arbitration Board examines the invention in a secret manner, i.e. without publication etc., in relation to patentability. If in such an instance the Arbitration Board 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.

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 provisions to be

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discussed in the following, can be modified and even renounced by individual agreement between employee and employer once the certain, 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, to the detriment of the employee, by agreement, until notification of a certain invention to the employer.

2.5.2. Remuneration for Employees' Inventions

According to Article 9 of The Law, the employee is entitled to get a reasonable remuneration as soon as the employer has claimed the invention unrestrictedly. Actually, the German word used in Article 9 (1) of The Law is "angemessene Vergütung", wherein the word "Vergütung" means "remuneration" and "angemessene" can be translated as "reasonable", but also, and even better, possibly could be translated as "justified" into English language.

2.5.2.1. Guidelines for calculating a reasonable remuneration

Furthermore, Article 11 of The Law entitled the Ministry for Labour to issue The Guidelines. They were established after The Law had come into force and are applicable as modified (namely with regard to No. 11 thereof) in 1983.

In accordance with The Guidelines, specifically No. 2 thereof, Article 9 of The Law has to be used as follows: First of all, the commercial use, in the following to be designated as "value of the invention", i. e. "Erfindungswert", has to be determined. Then, and this is explicitly stated in No. 2 (1) of The Guidelines, it has to be taken into due consideration that the invention is not a free invention, rather a service invention, and accordingly a deduction from the value of the invention has to be made which corresponds to the tasks and the position of the employee in the company and to the participation of the company in the coming into existence of the service invention. The aforementioned share of the employee in the total value of the invention shall be expressed as a share factor, namely as a percentage of the value of the invention.

2.5.2.2. Calculation of the value of invention

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In principle, The Guidelines, namely according to No. 3 thereof, describe three different methods in which the value of the invention can be calculated. One of these methods (No. 3 a) of The Guidelines) 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 below in some more detail, making reference to Nos. 6 ff. of The Guidelines.

Another possibility, according to No. 3 b) of The Guidelines, 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. The specific use of this method is subject of No. 12 of The Guidelines.

A third possibility, finally, according to No. 3 c) of The Guidelines, consists of 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. Specific rules for the use of such method are dealt with in No. 13 of The Guidelines.

2.5.2.2.1. License analogy

In practice, the method of license analogy (No. 3a) of The Guidelines) works, in its various aspects, as follows:

2.5.2.2.1.1. Reasonable royalty

The first step in such an instance of calculating the reasonable remuneration is to find out what the reasonable royalty in the respective field of industry would be. A typical example would e.g. be that in machinery industry reasonable royalty rates of 4 %, based on net sales,

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are not uncommon. Principles for determining a reasonable royalty rate are developed in No. 6 of The Guidelines. A large number of examples for royalty rates can be found in the literature.

2.5.2.2.1.2. Degression of turnover

The turnover achieved by the employer, for determining the "true" value of the invention, and before applying the aforementioned reasonable royalty rate, however, still has to be digressively reduced in case of high turnovers, in accordance with No. 11 of The Guidelines. In the presently applicable version of No. 11 of The Guidelines, which has been applicable since 1983, the aforementioned reduction means that in case of a turnover of 0 – 1.5 Mio. EUR no reduction of the royalty rate has to take place, with then stepwise increasing reduction, until for turnovers of more than 50 Mio. EUR the royalty rate has to be reduced by 80%. In other words, for turnovers beyond 50 Mio. EUR, in the above mentioned example, the applicable royalty rate, in order to determine the value of invention, would not longer be 4 % of net turnover, rather only 0.03% of the real turnover of the employer.

In this connection, it is to be noted that the aforementioned turnover based decrease does not only take into consideration the annual, but the accumulated (world-wide) turnover achieved by the employer starting from the beginning of using the invention by the employer, wherein, of course, only such turnovers will have to be taken into consideration which make use of a "monopoly" situation created by the invention for the employer, i. e. where the use of the invention has been under a patent held by the employer, whether domestically or in a foreign country.

For further details hereof, reference is made to standard literature.

2.5.2.2.1.3. Share factor

Having determined the reasonable royalty rate, to be applied to the net turnover, and having used No. 11 of The Guidelines for the digression of turnover in case of high economical success, the share factor has to be determined. Insofar, No. 30 of The Guidelines provides for

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the personal share factor of the inventor to be determined by a) the coming into existence of the problem to be solved by the invention, b) the solution of the invention, and c) the tasks and the position of the inventor (employee) in the company (employer).

2.5.2.2.1.3.1. Problem (task) to be solved by the invention

According to No. 31 of The Guidelines, relating to sub-factor a), the calculation of the share of the inventor in the value of the invention should take into consideration the initiative of the inventor when the problem (task) to be solved by the invention is defined. The relevant viewpoints insofar can be grouped into six different categories:

1. The inventor has been given the problem (task) by the employer, explaining directly the solution principle that should be used (1);
2. the task was given by the employer, but without direct description of the solution principle to be used (2);
3. the employer did not give the task, but the task came into existence because of the knowledge of certain deficiencies and demands which the inventor has got because of his/her employment, but the aforementioned deficiencies and demands were not determined by the inventor himself/herself (3);
4. the employer did not give the task, but the task was found by the inventor because of the knowledge of deficiencies and demands obtained because of the employment, the inventor having found these demands and deficiencies himself/herself (4);
5. the inventor has put the task into existence himself, within the framework of his duties as an employee (5);
6. the task has been put into existence by the inventor outside his duties as an employee (6).

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2.5.2.2.1.3.2. Solution according to the invention

As a next step, after the correct sub-factor ("Wertzahl") (1) – (6) has been found in accordance with No. 31 of The Guidelines, in accordance with No. 32 of The Guidelines the sub-factor for the solution of the problem has to be found. According to No. 32 of The Guidelines, the following three viewpoints have to be considered:

1. The solution is found using considerations which are based on the professional qualification of the inventor;
2. the solution is found based on works or knowledge of the company;
3. the company supports the inventor with technical means.

If all of the aforementioned features 1. – 3. are fulfilled, the invention gets the sub-factor 1, as far as solution of the problem is concerned; if none of the aforementioned features applies, the invention gets the sub-factor 6, as far as the solution of the problem is concerned.

2.5.2.2.1.3.3. Duties and position of the employee

As a third sub-factor, No. 34 of The Guidelines takes into due consideration the duties and position of the employee in the company. Without going into any detail, the highest sub-factor in this consideration, namely (8), is given to employees which essentially do not have any professional pre-qualification for their work in the company, e. g. untrained workers, auxiliary workers, trainees. The lowest sub-factor, namely (1), is given to persons belonging to the 1st group in accordance with No. 34 of The Guidelines, into which the heads of R+D of companies and the technical directors of larger factories belong.

Very typical, particularly in chemical companies, and of great importance is also group 4, with sub-factor (4). Into this group belong engineers and chemists which work in

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development. Engineers and chemists working in research belong to the third group, with sub-factor (3), in accordance with No. 34 of The Guidelines.

2.5.2.2.1.4. Formula for the calculation of the share factor

According to No. 37 of The Guidelines, the aforementioned sub-factors a (creating the task of the invention, No. 31 of The Guidelines), b (solution of the problem, according to No. 32 of The Guidelines), and c (position and duties of the employee in the company, No. 33 of The Guidelines), are added up. No. 37 of The Guidelines gives a table in accordance with which the share factor A can be determined out of the aforementioned sum. Just as an example, if $a + b + c = 6$, the share factor A will be 10.

2.5.2.2.1.5. Formula for calculating the remuneration

As a last step in determining the justified and reasonable, respectively, remuneration, when using licensing analogy, according to No. 39 of The Guidelines the formula $V = E \cdot A$ is used, wherein V means the remuneration to be paid, E means the value of the invention (i. e. obtained by applying the royalty rate, possibly decreased step wise in accordance with No. 11 of The Guidelines, to the net turnover), and A means the share factor.

Also, in accordance with No. 39 of The Guidelines, the value of the invention E is determined according to the formula $E = B \cdot L$, wherein E means the value of the invention, B the reference basis, and L the (possibly stepwise decreased, No. 11 of The Guidelines) royalty rate.

Just as a further example: If the total accumulated turnover, stepwise reduced in accordance with No. 11 of The Guidelines, has been, for a certain period to be considered, 1 Mio. EUR, the royalty rate 4 %, the share factor 10%, the inventor would be entitled in a reasonable

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remuneration of 4.000,00 EUR. A share factor of the aforementioned kind would not be untypical for researchers, in accordance with No. 33 of The Guidelines as discussed above.

If an invention is not used by the employer by manufacturing and thereby achieving an otherwise royalty-bearing turnover itself, rather by licensing the invention, according to No. 14 of The Guidelines the value of the invention, in which the employee-inventor should be entitled to participate in accordance with his/her share factor, is the net royalty income of the employer, to be determined by reducing the gross royalty income by a number of cost of the employer as defined in No. 14 of The Guidelines. No. 15 of The Guidelines recommends in cases where the determination of the aforementioned difference between gross royalty income and net royalty income would be difficult, to use only 20 – 50% of the gross royalty income as net royalty value. According to the practice of the Arbitration Board, regularly 20% of the gross royalty income is used as net royalty income.

2.5.2.3. Remuneration for Use of the Invention in Foreign Countries

According to No. 26 of The Guidelines, it is very clear, whenever The Law is applicable, that, according to (1) of No. 26, first sentence, products which have been manufactured by the employer inside Germany, using the patented invention, are livered into a foreign country, irrespective of whether a parallel patent of the employer in that foreign country exists or not, such sales and turnover, respectively, have to be taken into consideration as if the sales would have been made to a customer inside Germany. In other words, such manufacturing inside Germany and selling into territories outside German is subject of the basis for calculation of the remuneration in accordance with license analogy.

Furthermore, in accordance with No. 26 (1) of the Guidelines, it is explicitly clear that if the invention is used in a foreign country, e.g. by manufacturing in a foreign country, as long as patent protection by a parallel patent exists there, such commercial use of the invention by the employer, i.e., in the most simple example, a German company in Germany, has to be taken into consideration for remuneration as if the respective use would have taken place in

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Germany. As it is discussed in detail in the literature and continuously also decided by the courts, in case of the invention and turnovers achieved, respectively, in a foreign country i.e. by manufacturing and selling there, the reasonable royalty rate to be applied has to be determined in accordance with the market habits in that country. In other words, one cannot use, without any further consideration, the royalty rate that would be reasonably applicable in Germany, rather a possibly different royalty rate, which might be higher or lower, depending on the circumstances, than in Germany.

There is not the slightest doubt under German Law and practice, respectively, as specifically expressed in No. 26 of The Guidelines, strictly followed by German courts and the Arbitration Board for Employees’ Inventions, as exemplified above, that a German company (employer) using an invention made in its German factory by a German inventor, when having parallel patents in e.g. Japan and/or U.S.A., would have to pay remuneration to the German employee in accordance with The Law, even if manufacturing and distribution would take place only in the aforementioned foreign country and countries, respectively.

2.5.2.4. Lump Sum Remuneration

The Guidelines give the possibility to pay a lump sum remuneration instead of, as it usually is done, annual payments based on the commercial turnover of the employer during the respective year before, if license analogy is used. In the calculation of a lump sum payment, the value of the invention is generally calculated based on the well-known Net Present Value formula which also plays an important role, particularly nowadays, i.e. in times where the determination of a monetary value of an invention even for accounting and balancing purposes relatively often has to be determined, is used for finding the appropriate “price tag” for an invention.

The “Pension Formula”, according to which the NPV of an invention can be calculated, is as follows:

$$\text{NPV} = C_0 + \frac{C_1}{1+r} + \frac{C_2}{(1+r)^2} + \dots + \frac{C_{ty}}{(1+r)^{ty}}$$

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wherein C_0 is the royalty cash flow in the starting year, C_1 in the first year thereafter, and so on, until C_{ty} means the royalty stream in the terminal year of (patent) protected sales. Furthermore, r is the discount rate to be applied, i.e. the average bank interest rate for lending money to be applied, e.g. 10 % interest means $r = 0.1$.

The aforementioned NPV of an employees' invention, at the time when the lump sum payment is to be made, has then, of course, to be multiplied by the share factor of the respective employee. Furthermore, it is worth to mention that in the aforementioned formula, different from "normal" valuation purposes, the royalty streams $C_0 \dots C_{ty}$ have to be calculated based on the degressed expected turnovers, calculated over the expected use time of the employees' invention, and not on the "real" turnovers, all as discussed above under 2.5.2.2.1.2..

2.5.3. Solution of disputes

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

For this purpose, at the German Patent and Trademark Office (GPTO) there exists a so-called Arbitration for Employees' Inventions Board, consisting of a legal member (judge-like) as chairman and two members with technical experience. These technical members are examiners of the GPTO 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 Board. The Arbitration Board then makes a proposal, e.g., as in most instances, in relation to a justified remuneration. If the parties do not object to that

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proposal within one month after notification, the proposal becomes binding. Otherwise, the proposal is null and void, and the parties can go to Court.

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

The Arbitration Board plays an important role also in the case of determining whether certain inventions to be considered by the employer as company secret are patentable or not, as already discussed under 2.5.1..

2.5.4. Model “Contracts” between Employees’ and Employers

Different of most many other countries, there is only very limited room in Germany for employers to modify the situation as created by The Law and the Guidelines by contract with the employees. This is due to the fact, as already discussed above, that the binding provisions of The Law cannot be changed by contract between employer and employee to the detriment of the employee, so that practically, before notification and unrestricted claiming of an employees’ invention, no pre-arrangements concerning remuneration can be made with any binding character.

Certain provisions, however, are often used in German industry and, according to the experience of the author of this paper, have been proven as very “smoothing”, for both employers and employees, in practice.

The first measure to be taken is that it should be considered to include into employment contracts under The Law a clause approximately like the following one:

“Any creations/innovations of the employee made as an outflow of the professional conduct of his/her employment will belong, from the moment of their creation, with factual effect to the employer, to the extent as legally possible. No additional remuneration for the aforementioned transfer/assignment of

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creations/ innovations from the employer to the employee will become due, rather the respective compensation is already contained in the salary as agreed on and paid by the employer to the employee.”

By providing such a clause, it is made sure that innovations not under the binding provisions of the Employees' Invention Law, particularly e.g. aesthetic creations, trademarks etc., belong to the employer right from the time of their creation. Only where legal provisions prevent so, like in case of the Employees' Invention Law, the respective creations/innovations, namely technical inventions, are not automatically transferred to the employer.

Furthermore, the employer can get rid of the obligations to offer the unrestrictedly claimed invention to the employee for filing in foreign countries, where the employer does not wish to file, and to offer patents and patent applications the employer wishes to give up to the employee for maintaining them in their own name, by the following proceeding:

After having unrestrictedly claimed an invention, the employer will write a letter, and this is often done in German industry, to the employee which approximately could read as follows:

“We hereby confirm that for your invention....., notified to us on, which hereby we unrestrictedly claim, you will receive a fair remuneration in accordance with the German Law concerning Inventions made by Employees, to be calculated in detail if and as soon as commercial use of the aforementioned invention will be started by us.

Already now, however, we offer the following agreement to you: If you renounce your rights to file patent applications in your own name in countries where we will decide not to file patent applications (Art. 14 of The Law) and your right to be given the chance of continuing the maintenance of patent applications and patents, respectively, in - and outside of Germany which we would like to give up (Art. 16 of

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The Law), we are prepared to pay to you within a month after receipt of your respective approval an amount of € 800,00 (this is only an example, but typically sometimes used in German industry).

Please confirm your consent with this proposal, by countersigning the enclosed copy of this agreement, whereupon a respective contract between you and us will have been made.

Encl.:

Copy of this letter, to be countersigned and returned”

In other words, the employer can “buy” the renouncing of the aforementioned rights in accordance with Art. 14 and 16 of The Law from the employee, thereby avoiding very sophisticated and not much appreciated procedures which otherwise have to be followed and which are considered by at least many German companies as very time and cost consuming.

3. University Inventions – The New Law (since 2002)

On February 6, 2002, a new version of Art. 42 of The Law has come into force in Germany, according to which, first of all, the former distinction between inventions made at universities by “normal employees”, like scientific personnel of a non-professor nature etc., and those of professors/assistants/lecturers has been given up.

Since then, all inventions made by employees at universities, as far as working in research and technology, are covered by the Law, including those made by professors, assistants and lecturers, in the following just designated as “professors”, in other words, the so-called former “Professors’ Privilege”, has been deleted. The “Professors’ Privilege” had the consequence that inventions by “Professors” were defined as “free” inventions and could freely be evaluated by the professors, particularly by transferring or licensing such inventions to industry cooperation partners of the professors, without the university, as the employer of the professor, getting involved.

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Also the new Law, however, does not cover inventions made by “non-employees” at universities, like students, scholars etc., so that in these cases special regulations will have to be found on a contractual basis between professors, universities, sponsors, etc..

All inventions made by university employees, including professors, will now have to be notified to the university, but only, if the inventor intends and is in agreement with, respectively, publication of her/his invention. If the inventor does not wish to publish, like e. g. in cases where he/she considers a publication as detrimental for public security, health, morality considerations etc., there is no duty to notify the invention to the university.

Two months after the notification of the invention to the university the inventor is entitled to publish the respective invention.

Within the normal “claiming” term, i. e. up to four months after the notification of the invention has been received by the university, the university can unrestrictedly claim the invention and therefore acquire ownership thereof, like in private practice.

Factually, however, the aforementioned four-months term which otherwise in private industry is available for a decision whether to claim an invention and patent it or not for universities is restricted to two months, because of the regulation that the inventor “regularly” may publish two months after his notifying of the invention to the university. That means, in practice, that universities that wish to patent inventions made by employees, like professors, will only have two months time for this decision process, including formulation of a patent application and depositing it at a patent office, e. g. the German or the European Patent Office!

If the university has claimed the invention and thereby has acquired property thereof, and if the university later on uses the invention e. g. by selling it or licensing it out, the inventor is entitled in 30% of the gross-income, like royalty income, of the university.

The new law applies to all inventions, as already said, made by university employees after February 6, 2002. If carriers of the former Professors' Privilege, however, because of existing contracts concluded with private cooperation partners, like industry companies, before July

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18, 2001, had been obliged to transfer their inventions, as it formerly was usually the practice in Germany, to the cooperation partner, the Professors' Privilege for such inventions had been extended to be applicable until February 6, 2003. Inventions made from February 7, 2002, till February 7, 2003, in other words, are still subject to the Professors' Privilege, if the aforementioned conditions are fulfilled. Even if agreements concluded before July 18, 2001, provided for differently, however, inventions made after February 7, 2003, by professors are be subject to the new law, i.e. the universities in these cases, too, have the possibility to acquire ownership of such inventions by claiming, with the remuneration consequences as discussed above.

3.1. Model Agreements for Industry-University Interactions in Germany

3.1.1. Legal Background

With regard to the now no longer that new amendment of Section Article 42 of the German Law concerning Employees' Inventions, effective for both "old" and "new" contracts concerning research interactions between industry and universities, since February 7, 2003, after a transition period of one year had ended on February 6, 2003, it is desirable to find model solutions that will be regarded both by the universities and by industry as a positive basis on which to transpose the new legal standards into a form of practical co-operation which all concerned will consider tolerable and positive. Particularly, such agreements should make contract solutions between industry and universities possible in the negotiation and formulation of which not necessarily on both sides sophisticated legal considerations would have to be made and professional legal advice would have to be taken in each and every individual case.

In the attempt to find such solutions or model agreements, one has to take care of the various aspects and problems as given by Article 42 of the aforementioned law, in the following sometimes called "The Law": First of all, since the end of the professor's privilege, researching employees of universities have no longer the right to give their inventions directly to industry cooperation partners, with whom in the past often cooperation agreement had been concluded directly between professors and industry. In accordance with such arrangements,

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the professor would do a certain research work in cooperation with or for the industry partner, and the industry partner would directly give respective funds and remuneration to such a professor, with the results of such a cooperation, like patentable inventions, being directly transferred from the professor/researcher to industry. Now, however, under the new Section 42 of The Law, researchers have to notify the university of such inventions. The university can then claim the invention, and grant it in some manner to the industry cooperation partner. In other words, a direct transfer of patentable inventions from professors and researchers, respectively, to industry is no longer possible.

Furthermore, however, the professor/researcher has the right not to publish, and in such case no duty exists to notify the invention to the university. In other words, universities cannot guarantee to industry cooperation partners that all inventions coming out of a certain type of industry/university interaction will come into the hands of industry. A respective renouncing of that right, according to the more or less general viewpoint of scholars in Germany, can only take place by a contract between the professor/researcher and the industry cooperation partner.

Also, the researcher/professor, i.e. inventor, cannot be “forced” by university to give further consultancy services and particularly non-protectable innovations to an industry partner, since Article 42 only covers patentable inventions. Because of the freedom of research and teaching, the professor/researcher cannot be “instructed”, in many cases at least, by the university to give such services and know-how to the industry partner. Only by an agreement between the professor/researcher and the industry partner such obligations can be undertaken by the professor/researcher.

Also, the typical rights of inventors under German Law, including professors/researchers at universities, namely to file patent applications in such foreign countries in which the employer, in this case the university and, indirectly, the industry cooperation partner of the university, do not wish to file, and to take over patents and patent applications which the employer does not wish to prosecute, in advance cannot be renounced by the professor/researcher towards university, but could validly be renounced, with some probability, in separate agreement between researcher/professor and industry.

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All this makes it advisable to conclude agreements, concerning industry-university research interactions, not only between university and industry, but also between researcher/professor and industry, i.e. a “trilateral agreement” appears as advisable.

In this connection, particular emphasis must also be given to non-employees working at universities, like students, in order to make sure that such participants in research projects also will have, under conditions to be defined, to transfer their inventions directly or indirectly to an industry partner. Such agreements, of course, must also contain the advisable confidentiality clauses because of trade secrets etc..

Against all of this background, a variety of model agreements have been proposed, details of which can be found in comparative Guidelines, written by Markus Peter and Philipp Runge, with an introductory section written by Prof. Dr. Jan Busche, details to be found under <http://www.gewrs.de>.

In the following, first two of these “original” model agreements will be dealt with in more detail, namely the so-called “Berlin Contract”, in its “edition 2003”, as well as in a revised modernized “edition 2007”, and the “Munich Contract”, as the arguably most often used ones, whereas other agreements, like the Marburg Contract, the Max-Planck-Contract, and the NRW-Contract, should only be mentioned in a summarizing manner here, with details to be found in the above mentioned “Guidelines”, i.e. <http://www.gewrs.de>.

Additionally, a “BMW_i Agreement” has been discussed in the meantime, widely used in Germany, which can be downloaded from [“http://www.Bmwi.de/BMWi/Navigation/Service/publikationen”](http://www.Bmwi.de/BMWi/Navigation/Service/publikationen). This agreement has been initiated by the German Ministry for Economy (“BMW_i”), with the author of this paper as the moderator.

3.1.2. Contract Components “Berlin Contract”

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Details of the Berlin Contract, as well as of the Working Group which has brought the aforementioned contract components into life, upon the initiative of the IPAL Gesellschaft für Patentverwertung Berlin mbH, the central technology transfer institution for the majority of the Berlin universities, can be found under <http://www.ipal.de>. Further details can also be found in several articles (co-)authored by the author of this paper, that have discussed subject matter in *Les Nouvelles*. A very comprehensive and detailed overview of the situation in Germany can also be found in an article by Joachim Weyand/Heiko Haase, *GRUR* 1/2007, pp. 28 – 39.

3.1.2.1. Structure and Organisation

A preface dealing with the genesis and the proposed practical application of the Berlin Contract is followed by a brief introduction, which is intended to explain how the Contract components are to be handled. This is then followed by differentiation indicia for the Contract components in the Berlin Contract, which, it is hoped, will facilitate assigning a specific joint research project between a university and industry to one of the categories of a contract for work and services, research commission or co-operation on research. These differentiation indicia should not be understood here as alternatives, nor should they apply cumulatively, but, as the very name suggests, they are merely intended to provide the practitioner with pointers to help him make the appropriate assignment.

After the above-mentioned list of “differentiation indicia” come Contract components for research commissions between universities and industry, followed by appropriate Contract components for co-operation on research and development, which is referred to in the following as “research co-operation”.

3.1.2.2. Pointers helping to differentiate between contracts for work and services, research commissions, research co-operatio

3.1.2.2.1. Contracts for work and services

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If an industrial partner commissions a university to carry out certain research work, with an unambiguous, known objective and laying down a defined way of performing that work, the university will generally demand that the entire costs are assumed. The university, in the person of the research worker - here and in the following usually understood to mean the “project director” responsible -, is not required to interpret data or results in any way; neither the university nor the industrial partner has any interest whatsoever in publication. The result of a contract for work and services of this kind is an obligation owed by the university to the industrial partner. In this case, according to the Berlin Contract - and one is tempted to say that this ought to be self-evident! - all the results of the research, including any inventions that might be made by the university, i.e. by the research worker or by any other member of the university, belong to the industrial partner without any additional remuneration, and it is the latter which decides at its own discretion whether to file applications for any industrial property rights, to engage in exploitation actions, etc. It goes without saying that any applications for industrial property rights are filed by the industrial partner exclusively in its own name, without any right whatsoever on the part of the university to participate.

3.1.2.2.2. Research commissions

In the context of research commissions, the industrial partner places a targeted commission with the university to carry out certain research work, the result of which is nevertheless open, but the way of performing that work and the purpose of the study are defined. In this case too, the university will expect the entire costs to be assumed. The data or results have to be interpreted by the research worker. The industrial partner, having placed the commission, will as a rule be interested in receiving the results at short notice or at least on schedule. The university, or the research worker, for their part have an interest in seeing the results published. In this case, no successful result is owed by the university.

The parties involved in drawing up the Berlin Contract are unanimous in their opinion that, when research commissions are organised in this way, the university has a fundamental right to remuneration for any invention. The rights in the inventions concerned, including the right

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to file the first application and to carry out subsequent applications in other countries, also need to be settled in detail.

3.1.2.2.3. Research co-operation

In the case of research co-operation, the industrial partner places a research commission with the university, the objectives and results being open; the implementation is not defined in detail, and the intended practical application is neither known in detail nor definitively laid down. Both partners, i.e. the university and the industrial partner, contribute to carrying out the research project on which they are co-operating by providing personnel and/or assuming a share of the costs. The industrial partner, having placed the commission, has a medium to long-term interest in the outcome, both partners have a pronounced - and possibly a joint - interest in publishing the results. In this case, the university has no obligation vis-à-vis the industrial partner regarding the success of the research co-operation agreement.

The parties involved in drawing up the Berlin Contract are unanimous in their opinion that, in the case of research co-operation, the industrial partner has a separate obligation to remunerate the university for any invention, the details of which need to be settled depending on the situation, as do the filing rights with regard to patents, etc.

3.1.2.3. Features common to research commissions and research co-operation

A common feature of the contractual arrangements both in the case of research commissions and with regard to research co-operation is that, for the reasons which have in the meantime already been discussed in detail in the literature, a "trilateral" contract between the university, the industrial partner and the research worker is necessary.

Briefly, this necessity is based on the fact that, because of the peremptory provisions of the law on employees' inventions, it is only possible for the contractual agreement between the university and the industrial partner to regulate the situation concerning rights, and obligations to acquire the rights etc., in inventions which can be covered by patents or utility models. Any additional know-how and advisory services which the industrial partner wishes

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to receive “in person” from a specific research worker who is particularly important to him as a co-operation partner (e.g. a professor) can only be reliably obtained by the industrial partner on the basis of an appropriate contractual agreement with the research worker himself, since any “indirect route” via the university might in this case affect the research worker’s personal rights with regard to research and teaching, which are guaranteed by the constitution.

A direct agreement between the research worker and the industrial partner is also needed if the research worker is to waive his negative publication rights. The same applies to any advance waiver of the research worker’s right to take over any applications for industrial property rights or the industrial property rights themselves and to file applications in other countries.

For the reasons explained above, the members of the working party consider it appropriate, both in the case of research commissions and with regard to research co-operation, to conclude a “tripartite agreement” between the university, the industrial partner and the research worker. “Research worker” here is understood to mean the project director responsible who has been appointed by the university and the industrial partner. If - and this is likely to apply in most cases - other members of the university, whether students or university staff (employees), are involved in carrying out the work on the research project concerned, it needs to be ensured in advance, by means of an appropriate declaration of association, that the obligations of the project director also apply, *mutatis mutandis*, to that group of individuals.

3.1.2.4. Contract components for research commissions

According to the model contract, research results arising from a research commission belong exclusively to the industrial partner, irrespective of the extent to which the research worker or other “associated” members of the university is/are involved in the production of the corresponding research results, especially inventions.

Regarding the filing of any applications for industrial property rights, referred to in the following as “patent applications” for short, it is envisaged that the first application is filed either by the university or alternatively by the industrial partner, though of course in a manner

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to be settled in advance, but always as joint applications on behalf of the university and the industrial partner. This arrangement is intended to satisfy the universities' interests in appearing in the relevant "ranking" lists with a corresponding number of first applications. The industrial members of the working party accept the fact that "ranking" positions of this kind are becoming more and more important in assessing the performance and the general reputation of universities for the sake of international comparisons.

It is the industrial partner alone which decides on whether to file foreign applications in the case of research results based on research commissions, and any foreign applications are also filed solely by the industrial partner in its own name.

The arrangement regarding remuneration in the case of research commissions has the following structure according to the Berlin Contract:

After the first application has been filed, the industrial partner pays the university a first remuneration amounting to € 2,500.00. This is then followed by remuneration payments according to the following alternatives:

- a) € 2,500.00 at the beginning of exploitation, this remuneration rising to € 10,000.00 if exploitation begins more than 7 years after the first application; the industrial partner may, however, redeem the obligation to pay the increased lump sum by paying a further remuneration of € 2,500.00 before the expiry of the above-mentioned 7-year period.
- b) When certain turnover thresholds are reached, further lump-sum payments are made, though it is necessary to lay down the details on this in the contract.
- c) After exploitation has begun, an appropriate remuneration is paid, depending on the degree of exploitation, which is subject to later negotiation.

3.1.2.5. Research co-operation

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The research results arising from research co-operation are in principle broken down into results achieved by the industrial partner, joint results and university results.

Results achieved by the industrial partner are research results attributable solely to the industrial partner's staff. Joint results mean research results in which the university's, or the university staff's, share of the invention is no more than 50 %. University results are research results, in which the university's share of the invention is more than 50 %.

3.1.2.5.1. Industrial partner's results

Research results which fall into the category of "industrial partner's results" belong exclusively to the industrial partner. The latter has the sole right to file applications for industrial property rights, exclusively in its own name where appropriate; the industrial partner has no obligations vis-à-vis the university whatsoever to pay any remuneration.

3.1.2.5.2. Joint results

In the case of joint results where the university's share of the invention is no more than 25 %, the industrial partner has the right to file the first application exclusively in its own name.

If the university's share of the invention is more than 25 %, the arrangement corresponds to the one for research results based on research commissions, i.e. the first application is filed as a joint application either by the industrial partner or alternatively by the university, in the names of the university and the industrial partner.

On the whole, in the case of joint results, foreign applications are filed in accordance with the arrangements regarding research commissions (see 2.4.), i.e. by the industrial partner and exclusively in its own name.

The remuneration for an invention which the industrial partner has to pay the university is settled as follows in the case of joint results: if the university's share of the invention is less than 50 %, the remuneration for the invention is paid in the same way as with research

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commissions. If the university's share of the invention is 50 %, the industrial partner pays the university remuneration for the invention as in the case of the university results, which will be discussed below (see 2.5.3), but deducting 10 % from the remuneration agreed for university results of that kind.

3.1.2.5.3. University results

University results, i.e. research results emanating from research co-operation, in which the university's share of the invention is more than 50 %, belong exclusively to the university. The industrial partner does, however, have an option on taking out an exclusive licence on reasonable terms. The corresponding remuneration for the invention may comprise one or more lump-sum payments or a reasonable licence fee. The members of the working party regarded the sample calculations annexed to the Berlin Contract as being appropriate for the standard situation.

In the case of university results, the university has the right to file the first application in its own, exclusive name. After the option is exercised - and only in this case does remuneration for the invention have to be paid to the university by the industrial partner, of course! - the corresponding application rights revert to the industrial partner in a manner to be agreed.

3.1.2.6. Present Practice under the "Berlin Contract"

The Berlin Contract in its version 2003 has been widely used. Not always, of course, even in case of research on commission, individual compensations per invention are paid by the industry interaction partner to university, rather sometimes lump sum payments are found. These can rather easily be determined by the parties of such a cooperation project, using a forecast projection of the number of inventions to be expected, and then attributing to such inventions individual payments as discussed above. If proceeding in such a manner, in other words, a certain percentage of the total payment of the industry partner to the university for conducting a certain type of research on commission, like 10 %, is dedicated to the compensation for future inventions, and based on that component professors/researchers in this case will get their remuneration due by law, namely 30 % of the gross income of universities out of such evaluation of inventions.

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It should be warned against cooperation projects in which no remuneration for inventions at all is specifically designated, because in such a case is to be expected that the courts in Germany sooner or later will decide that based on fictive invention compensation percentages and amounts, respectively, contained in total project funds paid by industry to universities, remuneration would have, with a lot of legal uncertainty resulting therefrom. A pure renouncing of any remuneration for inventions given by universities to industries in such projects according to a view as shared by the author of this paper would be unlawful, in view of the clear provision of Article 42 of The Law giving 30 % of the gross income of the university to the professor - which has to be understood as an indemnification for the loss of the professors' privilege, anyway.

3.1.2.7. The modernisation of the "Berlin Contract" in its revised "edition 2007"

The revised "edition 2007" of the "Berlin Contract" can be downloaded from the website of Ipal GmbH, namely [http://www/http://www.ipal.de](http://www.ipal.de). On that website, both the German and English language versions of the "edition 2007" of the "Berlin Contract" can be found, as well as the names and contact details of members of the above mentioned working group.

The essential basis for the "edition 2007" of the "Berlin Contract" has been the acknowledgement of the above mentioned working group that the "edition 2003" of the "Berlin Contract" has essentially satisfied the expectations of practice. Some streamlining has taken place, however, in the "edition 2007". In this context, in particular attention should be given to a new regulation concerning industrial partner's results as well as joint results obtained in research cooperations: The "edition 2003" of the "Berlin Contract", as discussed in *Les Nouvelles* 2003, pp. 177/178, had provided for a rather complicated form in which a remuneration for joint results should be given by the industry partner(s) to the university in case of inventions in which both the industry partner and the university had a share in the coming into existence of the invention of 50%. According to the "edition 2007", however, it is provided that results in which both parties, i. e. industry and university, have a share of 50% each, are considered to be, similar to results in which industry has a share of more than 50%, with a specific kind of lump sum remuneration, however. This simplifies the

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remuneration joint results with 50:50 share dramatically. Only university results, i. e. such results in which the share of university is more than 50%, differ, as a matter of principle, from the aforementioned simplified form of remuneration and are subject to specific proposals for license agreements.

3.1.3. Munich Contract

Different from the Berlin Contract, the Munich Contract is not a trilateral agreement, rather is “only” concluded between the university and the industry cooperation partner.

Accordingly, clearly a taken care of the renouncing of certain rights of professors /researchers, as discussed above, cannot be achieved by the Munich Contract. This, according to the above mentioned “Guidelines”, is the greatest risk in the use of the Munich Contract, so that in addition thereto, should the Munich Contract be used, it is highly advisable that still a separate agreement between professor/researcher and industry is concluded in order to avoid the otherwise existing risks of industry, as discussed above in the introduction under 1..

Furthermore, the Munich Contract does not differentiate between service contract work, research on commission, and research cooperation, as the Berlin Contract does. Rather, according to the Munich Contract “everything” is considered as contract research, though the rights of the parties arising out of a cooperation are differentiated in manner as if they all would result from Research Cooperation.

Patentable results are patented by university, according to the Munich Contract, in general, and the industry partner will get license rights of various natures, depending on its contribution and interest, all individually to be negotiated.

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3.1.4. Hamburg Contract

The Hamburg Contract provides for a pre-renouncing of the right to claim/acquire service inventions from the inventor, i.e. professor/researcher, and gives the respective claiming/acquisition right to the industry partner.

As “elegant” as this solution might look from the viewpoint of industry, as widely discussed in Germany is the question whether such an arrangement would be in conformity with German law. On one side one might see in this provision an unlawful deterioration of the right of a professor/researcher to have his invention claimed and commercialized by the university, and on the other side the renouncing of the acquisition right by the university may be considered as a “nullification” of the intention of the German legislator to give universities the possibility to commercialize inventions made by professors/researchers, i.e. employees of the university. The explicit purpose of the change of Art. 42 of The Law, effective since 2002, has been to give such a possibility to the universities; elimination thereof by contract between university and industry might be considered as an abuse of contractual rights. Courts will have to decide whether, for the aforementioned reasons, the “Hamburg Contract” will survive in the legal reality.

3.1.5. BMWi Contract

By coincidence, during the same period of time during which the revised version 2007 of the “Berlin Contract” has been developed, a working group initiated by the German Chancelry, arranged at the German Federal Ministry of Economy (BMWi), has developed an alternative proposal for agreements on research cooperation between industry and university, which in some points deviates from the principles of the “Berlin Contract”, in particular in such a manner that also the interests of non-university research institutions are reflected.

Specifically, a difference between the “BMWi Contract” and the “Berlin Contract”, in both of its editions (2003 and 2007), is that according to the “BMWi Contract” it can be provided that, in case of research on commission as well as with regard to the results of research cooperation in which the industry’s share is at least 50%, no individual remunerations are paid per invention made during the cooperation between industry and university, rather that

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from the beginning of a certain research commission/cooperation project a certain amount of money, like a percentage of the total funds by which industry finances the commission/cooperation, is set aside as an advance lump sum payment for all of the inventions expected out of the project. Out of this lump sum, then, later on the remunerations to the individual university inventors, following the 30%-rule of Article 42 of the German Law concerning Inventions made by Employees, are paid.

The aforementioned "BMW i Contract" can be downloaded from:

<http://www.Bmwi.de/BMWi/Navigation/Service/publikationen>.

The "BMW i Contract" is downloadable from the aforementioned website of the German Ministry of Economy (BMW i) both in German and English language, including guidelines how to use it.

4. Summary

The rather smooth manner in which The Law over the past decades and even presently is used in German industry may be seen from the following facts: Presently, per year, according to statistics of the GPTO, about 90.000 employees' inventions are made in Germany. Only about 200 - 300 cases per year, relating to conflicts between employees and employers with regard to employees' inventions, are presented to the Arbitration Board for Employees' Inventions at the GPTO. Less than 20 cases per year are brought to German courts.

This shows that by far the vast majority of all questions relating to employees' inventions, particularly with regard to remuneration, can be smoothly handled in Germany between employers and employees, without contacting any conflict solution authority. By far the most of the conflict cases can be finally solved by the Arbitration Board. Only a very small minority and percentage, respectively, of the conflicts will have to be brought to the courts and solved by them.

Nevertheless, in spite of the rather smooth way in which The Law and its provisions, including the Guidelines, are handled in Germany, there is a great wish of industrial circles to

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have the provisions of The Law simplified - not with the aim to diminish the average remuneration to be paid to employees, rather to simplify the procedures and, thereby, save employers and employees a lot of cost, and particularly, efforts. The latter particularly in terms of time, which better can be spent for more creative work than for solving questions caused by remuneration problems etc..

Encl.:

18 Transparencies