AIPPI event report

Employee compensation in the UK and Germany: a microcosm of pragmatism and efficiency

National stereotypes were well illustrated in the respective UK and German approaches to employee compensation for inventions, reviewed by speakers Klaus Haft of Reimann Osterrieth Köhler Haft and Michael Edenborough of Searle Court at AIPPI UK's event at Linklaters on 4 November.

Klaus Haft described the system that applies to employees in Germany, leaving an impression of a low-cost, heavily-used but somewhat prescriptive rule-bound approach. The contrast was evident in Michael Edenborough's introduction to the UK system: flexible, but full of pitfalls for inventors, and expensive – factors that explain why it took some 30 years for the first and (so far) only court judgment to make an award of compensation to any UK employee inventor.

Klaus Haft outlined the main obligations of the German employee invention act (GEIA): on the employee's side, an obligation to inform the employer of an invention; on the employer's side, the right to claim the invention, the obligation to file for protection and the obligation to provide adequate compensation. Historically this law set a bear trap for employers, because of the short and strict 4-month time limit in which the employer had to claim the invention. The new law in force from October 1 2009 removes this trap: the invention is deemed to have been claimed by the employer after 4 months unless the employer states to the contrary.

Compensation under the GEIA is calculated by multiplying the "economic value" of an invention by a "share factor". Economic value is arrived at by multiplying turnover by a licence rate. None of these is an easy figure to determine: turnover for complex products raises the question of what is the appropriate royalty base; case law and practice have established some guidelines for licence rate norms but needs to take many factors into account such as the nature of the product, royalty stacking, and volume-dependent rate discounting.

The "share factor" is arrived at by giving marks out of 6 or 8 for three factors:

a) the extent to which the object for the research was determined by the inventor or for him by the employer (1 for wholly employer-determined, 6 for wholly employee-determined);

b) who provided the resources for the research (1 for wholly employer resourced, 6 for wholly employee resourced); and

c) the position of the employee in the company (1 for board director, 8 for junior non-research staff).

A look-up table determines a share factor from the total of the three scores: for instance, a score of 3 corresponds to a 2% share factor, 6 corresponds to 10%, and 11 corresponds to 25%. In practice, 25 % is about the maximum; the share factor is generally around 7-10% for a manager and 15% for a lower-grade worker.

This system can be difficult to apply in practice. It is usually applied at the very early stages in an invention's life cycle, when economic value is difficult to determine. In practice, most compensation is settled through negotiation. When disputes do occur, most are settled under the (free) German PTO arbitration procedure mandated by GEIA; there are around 60-70 disputes a year, about 0.1% of German-originating patents. Disputes can be referred on to court from the arbitral award but this is rare.

Mr Haft commented that there is some evidence that the German system is valued by both sides; a recent survey suggests that 80% of industrialists in Germany appreciate the system.

Michael Edenborough contrasted the 60-70 cases a year in Germany with the single case – *Kelly v GE* – awarding compensation in the UK. He noted, however, that there have been several *unsuccessful* claims in the UK, and that there are many more cases settled in negotiation usually under strict terms of confidentiality.

The starting point for a UK claim is to determine the actual devisor of the invention, not merely a contributor (see the *Yeda* case in the House of Lords) and to bear in mind that compensation claims only arise where the invention belongs to the employer (*LIFFE v Pinkava*).

The recent UK case law illustrates a judicial trend to avoid redefining statutory use of everyday terms. The judge in *Kelly* had used common sense in applying the statutory requirements of "outstanding benefit", causation and the requirement that compensation should be awarded only where it was "just" to do so. However, the requirement for "outstanding benefit" remains probably the biggest hurdle for employee claims.

The award in Kelly amounted to 0.1% of the turnover. The judgment does not lend itself easily to establishing principles for the calculation of the appropriate sum of money and the judge discounted both sides' expert evidence on the point. Nonetheless, there is anecdotal evidence to suggest that 0.1% might be the starting point for discussions in negotiations in future.

Mr Edenborough doubted the point sometimes made, that *Kelly* could open the floodgates for further claims. He pointed out that the case had been an 8 day court action and that there are many hurdles to overcome on the way to a successful claim. He also observed that corporate group structures can be used to reduce the potential for such claims. There may shortly be a court judgment looking at this point.

In a lively question session after the talks, the audience focussed attention on the contrast between the claim in Kelly, brought towards the end of the patent's life when its value was evident, and the German system under which the question is examined at the start of the patent's life. Similarities between the systems were also noted: for instance, in both countries the systems look at compensation from the worldwide patent portfolio. Other questions included whether the UK system is in practice confined to the pharmaceutical industry: anecdotal evidence suggests that claims have been made and settled in other sectors as well. Questions on whether the system serves a public policy purpose met with contrasting answers: for Germany, referring to the apparent 80% support for the system from German industry, but for the UK

noting that the system had been imposed despite the reasoned objections to any such scheme in the Banks report which preceded the 1977 Act. The final question, whether this was an area ripe for harmonisation, was left for the audience to debate in the drinks reception that followed.

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