

## Getting a fair share

**E**mployee compensation for inventions hit the headlines this year. In January, two decisions in Japan sent shock waves through industry, with the inventor of the blue LED being awarded a staggering Y20bn (over £100m). Furthermore, the employee compensation provisions of the UK Patents Act will be amended shortly (probably with effect from January 2005) to make compensation easier to obtain here. It is timely, therefore, to consider the very different regimes that exist in the UK, France, Germany and Japan, and the extent to which UK employers may be adversely affected by the changes in the law here.

### When does employee compensation arise?

Many employees would not normally be expected to invent anything. Others, however, work in R&D functions where, by definition, they may be expected to make or contribute to innovations that may be patentable. You could say they are paid to invent. However, just because employees are paid to invent, that is not the end of their reward if they make a valuable invention which is patented by their employer. Rather, the questions in such cases are whether it is appropriate in the particular case for compensation to be paid, and if so, how much?

### The UK position

While one or two cases will have been settled before a hearing, it is notable that not a single award has been made under the employee compensation provisions of the Patents Act 1977. The main hurdle that has proven insurmountable is the requirement to prove that 'the patent is... of outstanding benefit to the employer'. There are two distinct aspects of this. The first is that it is the patent, not the use of the underlying invention, which must

**Will the new legislation bring the UK closer to France, Germany or Japan? Alan Johnson of Bristows, Thomas Bouvet of Véron & Associés, Henrik Timmann of Rospatt Osten Pross, and Ikuo Suzuki of Bristows report**

be of benefit. This is particularly difficult to prove given the guidance provided by Aldous J in *Memco-Med's Patent* [1992], in particular that one cannot simply infer from sales of products protected by a patent, which are of vital importance to the employer, that those sales demonstrate the benefit of the patent. This logic cannot be faulted, since all manner of factors usually contribute toward the success of a product, and the negative right given by a patent to keep competitors at bay, may or may not be one of these.

The second aspect is the outstanding benefit requirement. 'Outstanding' is a very high threshold indeed. It is one to be measured in the context of the employer's business, which in many cases may itself be enormous. Only if those hurdles are overcome will any compensation be payable.

### How much?

Little guidance can be given on the amount of such compensation, given the lack of case law. The statute talks of the employee receiving a 'fair share... of the benefit which the employer has derived'. Perhaps this can be regarded as a proportion of a notional royalty, which the employer would have had to pay had it been licensing-in the patent. That is a share of the saving the employer has gained from the patent. There are four factors to

consider when assessing the 'fair share' (see box).

At least the last two factors will often tend to diminish, probably very significantly, the value of the 'fair share' to which the employee will be entitled. In many corporate environments the employer devotes massive sums to R&D, which allow products incorporating inventions to be brought to market.

Consequently, it is difficult to envisage an award of even as much as 1% of the turnover in a product. Nonetheless, 1% of the turnover of a successful drug, for example, would be a very major award indeed.

### Parisian style

In France, the Patent Act of 1978 was the first act to rule on employee compensation.

in the Collective Bargaining Agreements, companies' agreements, or individual employment contracts.

Several collective agreements dating back to the 1950s specify that the employee who performed an invention under mission must receive additional remuneration in two circumstances. First, if the patent is exploited within ten years from filing (notably in the chemical industry), and second, if the invention is of exceptional interest for the employer (notably in the pharmaceutical industry).

The main difficulty for employers is that the Patent Act and the Collective Agreements are silent on the method for calculating the additional remuneration. Only the Collective Agreement for the Chemical Industry gives an indication.

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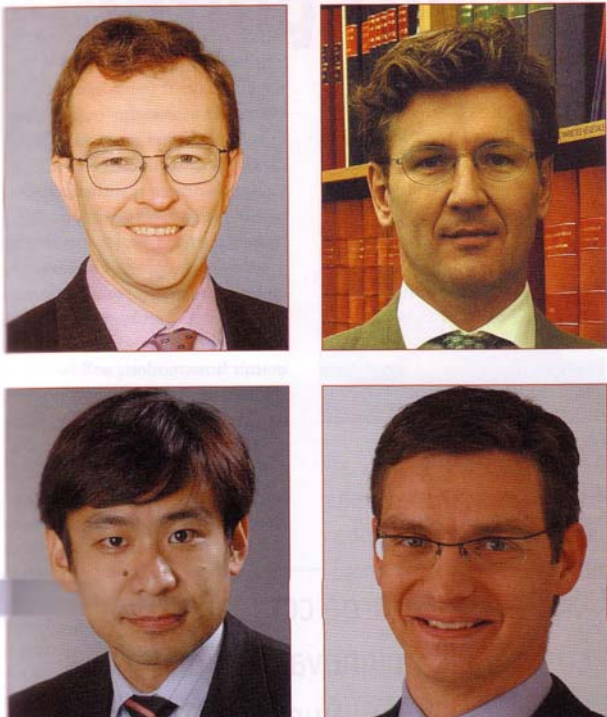
According to Article L 611-7 of the French Intellectual Property Code, the employee who is the author of an 'invention under mission' (an employer invention in English terminology) must be awarded additional remuneration under the conditions determined

However, in very general terms the amount of the additional remuneration must be a function of the 'value of the invention', which must be assessed by taking into consideration the general framework of research, the difficulties of practical

### 'Fair share' factors

- **The employee's remuneration.**
- **The effort made by the employee in making the invention.**
- **The efforts of others including those not qualifying as joint inventors.**
- **The contribution made by the employer.**

# Employee compensation for inventions



Managing nicely: clockwise from top left: Alan Johnson of Bristows, Thomas Bouvet of Véron & Associés, Henrik Timmann of Rosspatt Osten Pross, and Ikuo Suzuki of Bristows.

implementation, the employee's contribution and the commercial interest of the invention. Even case law is uncertain. On the same day, two different senates of the Tribunal de Grande Instance of Paris awarded additional remuneration:

- by reference to the salary – ten months salary, ie €20,000; and
- without reference to the salary – sums can be in the region of €600,000.

Two decisions issued on the basis of the Collective Agreement of the Chemical Industry reached the threshold of €600,000. In one of them (*Roussel Uclaf v Raynaud*), the French Supreme Court said: 'it results from no legal provision that the remuneration due to the author of an invention under mission shall be determined according to his salary.'

This interpretation by the courts is assisted by a regulation regarding the public sector,

which awards to civil servants an additional remuneration amounting to 50% of the revenues recorded each year by the employer, after deduction of all the direct costs.

Nonetheless, the Joint Conciliation Board on Employee's Inventions (which has jurisdiction to issue proposals that are enforceable if not challenged before the courts), before which the majority of disputes settle, constantly sets the additional remuneration by reference to salary.

The latest decisions of the Court of Appeal of Paris may also lead to more reasonable remuneration, as it expressly departed from *Roussel Uclaf v Raynaud* and admitted that the success of the patented product is not only a function of the invention, but of all the other assets of the company. Nonetheless, employers are advised to draft clear methods for calculating the additional remuneration and to attach them to the individual employment

agreements or include them in a company agreement.

## German sophistication

Germany has a rather sophisticated system of employee compensation, which has been in place for nearly half a century. The Law Relating to Inventions of Employees of 1957 includes provisions for employees' technical inventions and proposals for technical improvements. With respect to other (non-technical) inventions and labours, one usually has to construe the contract of employment in order to determine the owner of the rights and possible compensation claims. One exemption refers to computer programs, which, by law, usually belong to the employer without compensation.

Technical inventions are most relevant for (extra-salary) compensation because they are – owing to reasons shown below – not an intrinsic part of the

contract of employment. Any IP rights relating to technical inventions of employees have to be formally claimed by the employer, who may issue an unlimited or a limited claim. In any of these cases, the employer has to pay compensation to the employee additional to the salary. If they raise no claims, all IP rights accrue to the employee.

It is illegal for the employee to waive their right to compensation or accept a certain amount of compensation before the technical invention has been made. Any such agreement is void. Therefore it is not possible to bar or reduce employee compensation in a contract of employment.

The amount of compensation depends on the employer's economic advantages. The employer has to render account of the scope of use. They have to specify all products that make use of the invention, and they have to disclose their turnover

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and their profits made with these products. The claim for accounting is a strong weapon in the hands of the employee because the employer has to give full insight into their cost and profit structure. Often, the accounting has to cover many years of use. A conflict between employer and employee usually first arises after the contract of employment has ended and unfinished business is dealt with.

The compensation claim of the employee equals a reasonable license fee multiplied by a factor between 0.02 and 0.9. The lower the position of the employee, and the less the invention relates to their usual work, the more the factor increases. Even if the employer and the employee have mutually agreed upon certain compensation after the invention has been made, the employee may claim additional compensation later on if it proves that their compensation is highly inequitable.

Large companies and companies in innovative businesses have usually built up a very formal system for claiming inventions and compensating their employees. They routinely have an officer in charge of this task. New inventions have to be immediately reported in writing. The management quickly decides whether rights shall be claimed or not. If a claim is issued, the company tries to quickly

negotiate an agreement on compensation with the employee, with lump sums paid each year. If an employee is specifically being hired as an inventor, their regular salary is put on a low level, so that there is room for additional compensation. Any attempts to circumvent the law by assigning corresponding patents to a daughter or sister company have failed.

## Tokyo story

Under the Patent Act of 1999, when, in accordance with an employment contract, an employee's invention has passed to their employer or they have given the employer an exclusive right to such invention, the employee shall have the right to 'reasonable remuneration'.

How much is 'reasonable' is decided by reference to the profits the employer will make from the invention and the contribution of the employee to the making it. In *Olympus v Tanaka* in 2003, although the result was a small award of around £10,000, the Japanese Supreme Court issued a landmark ruling. It held that the courts have jurisdiction to make a judicial determination of reasonable remuneration, so that even if the amount has been set by company regulations, the employee can request additional compensation.

This was followed in *Yonezawa v Hitachi* in January 2004 when the judge in the Tokyo High Court held that overseas patents should be taken into account when determining how much compensation should be paid. The inventor was awarded £800,000. This case is now under appeal to the Supreme Court. Also in January 2004, the Tokyo District Court made the sensational award of £100m to a former employee in *Nakamura v Nichia*. The invention related to a blue LED used in display panels in many electrical goods. Mr Nakamura received just £100 from his employers, despite Nichia having made some £200m in profit per year from the product. Two factors were

considered by the Court to assess Mr. Nakamura's compensation. First, in calculating patent-related profits, it took into account projected future sales. Second, it assessed the inventor's contribution at 50%. This case is also under appeal, with Nichia arguing that the ruling overvalued the patent and failed to assess correctly the contribution of the company including other researchers.

## Reaction time

The extraordinary success of Mr Nakamura may be a virtual one-off, however. The Japanese Patent Office has proposed a draft revision to the law, which has recently been approved by

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the Japanese Parliament. Under the revised law, the courts will be required to honour contractually agreed amounts of compensation, if a company's internal procedures for determining that figure are appropriate – effectively reversing the *Olympus* decision.

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a relatively large award.

But companies probably need not fear this legislative change. If there are occasional awards, the companies themselves will already have achieved even larger benefits. Compensation payments will simply be another cost of doing business, and at least this particular cost will have already reaped an 'outstanding' dividend. Most importantly, the common sense of the English courts can doubtless be relied upon to apply the fair share concept sensibly, and keep the size of awards within reasonable bounds, even in the most deserving of cases.

*Alan Johnson is a partner specialising in intellectual property at Bristows, Thomas Bouvet is a partner specialising in patent litigation at Véron & Associés, Henrik Timmann is a partner specialising in IP litigation at Rospatt Osten Pross, and Ikuo Suzuki is a trainee at Bristows.*

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