



Standing Committee on Patents Study on Inventor Remuneration

National/Regional Group: Hungary

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Questions

I. Current law and practice

- 1) Please describe your Group's current law defining ownership of an invention made by an inventor employee and identify the statute, rule or other authority that establishes this law.

[Act XXXIII of 1995 on the Patent Protection of Inventions \(hereinafter referred to as: "Patent Act"\) regulates inventions resulting from an employment relationship in Hungary.](#)

- 2) Does your Group's current law relating to ownership of an invention made by an inventor employee distinguish between types of employees, for instance between academic staff in universities and in for-profit organizations, or whether they are employed "to invent" (e.g., do research)?

[The Patent Act differentiates between service inventions and employees' inventions.](#)

[Service inventions are inventions of persons on whom it is incumbent to develop solutions in the domain of the invention pursuant to their employment relationship. The patent claim belongs from the outset to the employer, as the legal successor of the inventor.](#)

[Employee inventions are inventions of persons who develop an invention without an incumbent duty to do so arising from the employment relationship. The patent claim belongs from the outset to the inventor; the employer, however, is entitled ex lege to utilize the invention. The employer's right of utilization is not exclusive and they may not grant a licence to exploit the invention.](#)

[The Patent Act does not otherwise distinguish between types of employees relating to ownership of an invention, nor does any legislative act in force.](#)

The provisions of the Patent Act regarding the service and employees' invention must apply *mutatis mutandis* if the invention has been created by a person in government service, public service, State service or civil service relationship, or in a service legal relationship, or by a member of a cooperative employed within the framework of a quasi-employment relationship. The Act CCIV of 2011 on the National Higher Education specifically states that provisions for intellectual property developed in the framework of employment will be applicable for intellectual properties developed by academic staff. Universities usually issue internal policies regarding the management of IP rights.

- 3) If your Group's current law prescribes that employers own inventions made by inventor employees, does your law impose an obligation on employers to offer to employees the right to file a patent application, or entitlement to a patent application already filed, in the event the employer does not pursue patent protection?

According to Article 11 of the Patent Act, the inventor is required to report the service invention or the employee invention to the employer immediately following its creation. The employer has 90 days following receipt of such a notification to declare their intention to claim the service invention, or to state their intention concerning the exploitation of the employee invention. If there is no declaration in the prescribed time period, the inventor may freely dispose of their rights over the service invention, or the right to a patent for an employee invention will not be subject to the employer's right of exploitation. The same applies if the employer consents to such an outcome.

In the event that the employer chooses to claim the service invention, they are obliged to file a patent application within a reasonable time following receipt of notification regarding the existence of the invention. The Patent Act imposes an additional duty on the employer to act with a level of care generally expected in acquiring a patent. Moreover, if the employer omits or commits an act that would result in the rejection of the patent application, the employer must offer a free assignment of the patent claim to the inventor (although this will not apply where the inventor has already received a fair remuneration).

If the employer considers the invention to be utilized as a trade secret (know-how), they will not file a patent application or will withdraw it if it has already been submitted and has not been publicized. Under these circumstances, the employer must acknowledge that, in the absence of the preconditions for its qualification as a trade secret, the service invention would otherwise be eligible for patent protection. The employee must be notified of this decision and, in the case of a dispute, the burden of proof is on the employer to demonstrate that the invention was ineligible for patent protection.

- 4) Does your Group's current law provide in any statute or other regulation that an inventor employee is entitled to receive remuneration beyond their salary for an invention made by the inventor owner but owned by the employer? If yes, please briefly describe the entitlement.

Under the Patent Act, an inventor employee is entitled to receive remuneration beyond their salary. The fundamental principle of the remuneration for the service invention is that the employee has achieved a significant result by creating the invention, thanks to which the employer gets into a monopolistic position, so the employee must receive a share of the earnings arising from the exploitation of the patent.

The remuneration of the inventor is usually governed by a contract concluded with the employer. In lack of a contract, the employee inventor may claim remuneration pursuant to the law if the preconditions (existing patent protection or trade secret qualification and utilization) are satisfied. There are two possibilities for the remuneration of inventors: (i) payment through a licence analogy or (ii) a lump sum amount: the parties may conclude a contract of remuneration in which the remuneration of a fixed amount is stipulated with respect to the inventions of the inventor to be created or exploited in the future (risk sharing remuneration).

The inventor's right to remuneration arises upon the utilization of the invention; the concept of utilization is broadly interpreted, and covers the use of the patent (including the omission of its use to maintain market position), and the licensing or transferring of the economic rights pertaining to the patent (see question 7 below). The Patent Act includes a number of provisions in connection with the statutory claim for remuneration that is due to inventors.

According to Article 14 of the Patent Act, remuneration must be paid by the employer or, in the case of more than one employer and in the absence of an agreement to the contrary, by the employer exploiting the invention.

- 5) Under your Group's current law, is there any other basis, e.g. common law principles, upon which an inventor employee may claim a right to remuneration beyond their salary for an invention made by the inventor employee but owned by the employer?

The rights and obligations of the inventor and the employer in connection with the remuneration must be settled in an invention remuneration contract which falls beyond the applicable provisions of the Patent Act but under the scope of the Hungarian Civil Code. The remuneration contract may be part of the employment agreement, although such remuneration part must still not fall under the rules of labour law. Without concluding such a contract, the inventor can enforce their claim for remuneration under Article 13 of the Patent Act before the court.

If your answer to question 4) or 5) is 'yes', please answer remaining questions 6) to 8). If no, please go to question 9)

- 6) To what extent do the following factors determine whether an inventor employee is entitled to remuneration?

In the event that the employer utilizes the service invention, if not otherwise agreed in a contract, the remuneration provided to the employee should be proportionate to the fee that would be paid by the employer as a licensee fee pursuant to a patent licensing agreement, in view of the licensing practice in the given technological field and in accordance with the subject matter of the invention. In the licensing practice, in the case of exclusive license, the royalty rates based on the net turnover varies widely depending on the field of industry (in general between 0.5% and 5% but, in certain industries, it can be higher as well).

If the service invention becomes the subject-matter of a license or an assignment, the royalty paid must be proportional to the proceeds of a license or assignment, or to the transfer or economic benefit/advantage resulting from a free license or free assignment.

Remuneration will be deemed proportional where due regard is given to the employer's contribution to the creation of the invention as well as to the obligations of the inventor in the employment relationship. Accordingly, the remuneration must be proportionate, on the one hand:

- (i) to the extent the creation reflects the employer's research, plans and expenses arising from the research;
- (ii) based on the employment contract, to the extent that it was the employer's obligation to participate in the development of the creation of the invention; and
- (iii) to the extent that the invention reflects the initiative steps and the significant activity of the employee.

Further guidance can be found in the practice of the Body of Experts on Industrial Property attached to the Hungarian Intellectual Property Office (abbreviation in Hungarian: ISZT).

In case there is no evolved licensing practice in a certain field of technology, the remuneration can be determined as follows: (i) for the period established for the actual case (approx. 3-5 years), (ii) based on the net profit realized through the utilization, and (iii) applying in general a royalty rate of 10%. However, several additional factors for raising and/or reducing the rate should be taken into account and, if the calculation method cannot be based on the net profit but rather on the net sales revenue, in general, a 1 % royalty rate should be applicable.¹

The Patent Act allows for possible departures from the statutory remuneration provisions. In fact, the Patent Act expressly allows for lump sum (risk sharing) remuneration agreements.

In the case of an employee invention, the amount of the remuneration for the right to exploit an employee invention has to be equal to that which would be payable by the employer for a license, on the basis of a patent license agreement, taking into account the licensing conditions in the technical field of the subject matter of the invention (Section 14(3) of the Patent Act).

a) Nature of employment duties;

Yes, see the above under Section 6 of this Report.

b) Extent to which the invention is relevant to the business of the employer;

Yes, the net profit realized through the utilization is relevant; for further details see the above under Section 6 of this Report.

c) Use of employer time/facilities/resources in generating the invention; and

Yes.

d) Terms of the employment agreement or collective agreement.

Yes.

¹ The above calculation method is set forth in the Expert Opinion of ISZT No. 7/2008 and only applies to cases opined upon by the ISZT.

- 7) When does any right to remuneration arise? What stage(s) during the process for invention creation through to patenting, commercialization or licensing trigger any right to remuneration?

In the case of the utilization of the service invention, the inventor will be entitled to remuneration:

- (a) if the invention is protected by a patent or an SPC, from the beginning of its utilization up until the expiration of the definitive patent protection or the supplementary protection;
- (b) if the definitive patent protection or if - in the event that the subject matter of the invention is granted supplementary protection - the supplementary protection lapses due to surrender, or due to a failure to pay the maintenance fee by the employer, from the beginning of the utilization up until the date on which the patent or the supplementary protection would have lapsed because of expiration;
- (c) if the invention is kept secret, from the beginning of the utilization up until the disclosure of the invention, or up to 20 years from the date on which the employer is notified of the invention, whichever expires later.

Therefore, the obligation to pay remuneration for an invention has two statutory conditions: (i) the invention is protected by a patent (or the employer acknowledges eligibility for patent protection and qualifies the invention as a trade secret); and (ii) the exploitation begins.

As long as the above-mentioned two conditions are not fulfilled, the inventor has no claim to remuneration. The invention remuneration contract to be concluded with the employer specifies the remuneration due to the inventor in the case of the fulfilment of the above-mentioned two conditions. In theory, therefore, the conclusion of the invention remuneration contract must be preceded by the employer's decision, the commencement of exploitation and the granting of patent protection. At this point the right for remuneration arises (apart from the utilization as trade secret), and the offer for the employee to conclude the remuneration contract can be made (e.g. based on the rules of a Policy on Intellectual Property, in case such internal policy exists at the employer).

- 8) Is the amount of remuneration codified or variable? If variable, how is it determined? For example, what circumstances affect the amount of remuneration? If the amount of remuneration is based on revenue related to the patent (e.g., licensing revenue), how is that amount determined? What impact, if any, does the number of co-inventors have on the amount of remuneration to which any one of the inventors is entitled?

The amount of remuneration is variable and must be determined on the basis of the factors presented under Section 6 of this Report.

The co-inventors are entitled to remuneration regarding their proportion of the invention.

- 9) Does contract law (e.g., company employee contracts requiring assignability of inventions to the company) affect any remuneration payable by an employer to an inventor employee?

The provisions of Act V of 2013 on the Civil Code (hereinafter referred to as: "Civil Code") will be applicable to the invention remuneration contract as described under Section 5 of this Report.

In addition, companies often address remuneration issues by the way of internal intellectual property policies (i.e. by-laws). The contractual parts of such invention regulations are in fact regarded as general contractual terms to which all rules laid down by the Hungarian Civil Code are applicable, including those on unfairness. Such intellectual property policies usually contain both procedural rules on the presentation of the patent (not contractual elements), and the factors to be taken into consideration for determining the amount of the remuneration, or even fixed (lump sum) amounts for remuneration. Nevertheless, in the absence of fixed amounts, the employer usually should make an offer to the inventor on the basis of the intellectual property policy, which is subject to the inventor's acceptance.

- 10) Does your Group's current law provide for any entitlement to additional remuneration after an employee inventor has already accepted remuneration for the invention? For example, this could arise where the patent value has increased after any initial remuneration entitlement has been paid, and the inventor employee seeks additional compensation for the increased value arising from the issuance of a patent or later commercialisation.

The remuneration contract defines the employer's payment obligations, which are subject to the general contract law rules, including the provision on the judicial amendment of long term contracts under the principle of *clausula rebus sic stantibus*.

If the remuneration is based on the annual revenues (this is the case if there is no remuneration contract or the contract stipulates so), the increase of the patent value and the success of the utilization will proportionally increase the inventor's remuneration as well.

On the other hand, it is possible to set a fixed amount as remuneration. Companies often address remuneration issues by the payment of a single or a monthly fixed amount to the employee as remuneration for any potential service inventions (risk sharing remuneration). The employees can benefit from this payment even if no patentable solution is invented. Although feasible under the express terms of the Patent Act, this option could be fragile. A remuneration agreement qualifies as a civil law contract, despite the fact that it is concluded in the context of an employment relationship, and this is reinforced by the Patent Act itself. The employer will face the risk that in case of agreeing on a general lump sum (risk sharing), the inventor can more easily challenge such inventor remuneration agreement before the court on the grounds of a substantial change in the circumstances. However, there is no published case law on whether the inventor has a right to challenge the agreement based on the legal cause of significant/remarkable disparity between the services rendered and the consideration paid for services.

- 11) If remuneration is based on the contribution each inventor made to the invention, how is that contribution determined and how is the remuneration then calculated?

The contribution is determined pursuant to the proportion of inventorship. In cases of doubt, the proportions of the co-inventors are equal.

- 12) Does any right to remuneration under your Group's current law apply to inventors located outside your jurisdiction if the employer is located in your jurisdiction?

This situation involves a conflict of laws issue, therefore the applicable law must first be determined. As the claim for invention remuneration and the remuneration contract fall under civil law, the contract will be governed by the law chosen by the parties. Under Regulation (EC) No 593/2008 of the European Parliament and of the Council of 17 June 2008 on the law applicable to contractual obligations (Rome I), we are of the opinion that, in the absence of choice, the applicable law will be the law of the employer's jurisdiction, as the invention is utilized at the employer's seat or the employer benefits from the revenues arising out of the utilization of the patent. Therefore, the contract is manifestly more closely connected with the country of the employer than any other (Article 4(4)).

As such, we are of the opinion that, if the employer is established in Hungary, the provisions of Hungarian law regarding remuneration will apply, even if the inventors are located (have a residence) outside Hungary. It is noted that there is no published case law on this topic, so our opinion is rather an educated guess.

- 13) Does any right to remuneration under your Group's current law apply to inventors located in your jurisdiction if the employer is located in another jurisdiction?

Based on the opinion expressed in Section 12 of this Report, we are of the opinion that, in the case of the above situation, Hungarian law will not be applicable.

- 14) If an employee inventor in your jurisdiction is a co-inventor with one or more inventors outside your jurisdiction, does the number of co-inventors or whether they are entitled to remuneration impact the inventor employee's entitlement to remuneration? Does it matter if the employer is in your jurisdiction or outside your jurisdiction?

We are of the opinion that, if the employer is located in Hungary, then Hungarian law will be applicable to all inventors under Rome I and the fact that some of the inventors are not located in Hungary will not matter. The co-inventors are entitled to remuneration pursuant to the proportion of their inventorship and irrespective of their domicile.

II. Policy considerations and proposals for improvements of the current law

- 15) If your Group's current law provides inventor employees with a right to remuneration for their inventions:

- a) is the law sufficiently clear as to the circumstances under which the right to remuneration arises?

The current law and case law provides clear factors as described above, and they are flexible enough to cover the large variety of different situations. The inventor and employer have the opportunity to conclude an invention remuneration contract and to freely determine the remuneration. In case of the lack of an agreement, the Patent Act provides sufficient guidance for determining the amount. The employer also has a lot of room for providing the appropriate incentives to the employees to encourage them to invent.

- b) does the law provide sufficient guidance as to how the remuneration is to be determined?

The factors set out by the Hungarian law are sufficient enough to make the provisions applicable to all specific issues of inventorship.

- c) are there aspects of your law that could be improved to address remuneration of inventor employees?

The Hungarian Group is of the opinion that currently no specific issue can be identified which should be improved by means of legislation.

- d) are there any proposed reforms of your law with respect to such remuneration?

We are not aware of any proposed reform.

- 16) If your Group's current law does not presently provide inventor employees with a right to remuneration for their inventions:

- a) Should it do so?

N/A

- b) Are there any proposals to introduce such rights? If yes, please describe such proposals.

N/A

III. Proposals for harmonization

- 17) Is harmonization in this area desirable?

If yes, please respond to the following questions without regard to your Group's current law.

Even if no, please address the following questions to the extent your Group considers your Group's current law could be improved.

It is clear that the acquisition of rights by the employer is rooted in the employment relationship. Nevertheless, the harmonization, if any, must be based on IP laws. The labour law should not be used as a basis of the harmonization.

The question of potential need for harmonization should be expanded with an investigation of the economic environments as well, taking into account the different practices of the countries and the very different payment levels of employees. As these factors are highly country-specific from the aspects of economy, labor law and general salary-policies, any harmonization in this area seems to be more complicated than in other areas of IP.

In general, we are of the view that harmonization in this area is rather infeasible, and desirability of harmonization cannot be answered definitely.

With the service invention, the inventor creates a monopoly in favor of the employer. In the lack of the employee's invention, the employer only could obtain an advantageous market position on the basis of a creative invention if the employer acquires rights to such creation at a fair market price (i.e., by paying the purchase price for the transfer of the patent or the license fee). For this reason, a fair remuneration to the inventor is justified.

As a justification for eventual harmonization, we refer to the international cooperation between undertakings in R&D. It would create an unfair situation if the different members of the research group, who are employed by different undertakings, would be treated differently and would not get remuneration for an invention. Nevertheless, the undertakings are free to define the calculation method of the fair and proportionate remuneration, and the salary of the researchers can be very different as well.

The harmonization – if any – should create an appropriate balance between the interests of the employer and of the inventor, and the remuneration must be determined in light of all relevant factors, e.g. general salary policies and circumstances of the creation, namely the contributions by the employer and the employee inventor.

- 18) Please propose a standard for remuneration for employee inventors that your Group considers would be an appropriate international standard, addressing both the circumstances that give rise to remuneration and to the basis for determining it.

The remuneration must be proportionate, on the one hand, to both the investments and risks of the employer and, on the other hand, to the benefits of the employer arising from the utilization of the patent and the economic value of the investment. The employer has several options by which to provide appropriate incentives to the employees. In light of the demand on the labour market, the employer must take into consideration that, if it does not provide appropriate incentives, a talented employee may leave the company and move to a competitor.

- 19) Please provide a standard that your Group considers would be an appropriate international standard for handling issues where employee inventors are located in different countries and the countries have differing laws relating to the remuneration of inventor employees.

Remuneration should be determined on the basis of the law of the seat of the employer.

The reason for the proposal:

- the different treatment based on the inventor's domicile should be avoided;
- the patent is utilized by the employer (including revenues from transfer or licensing), therefore this law is most closely connected to the utilization - which is the basis of the inventor's remuneration.

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