



Standing Committee on Patents Study on Inventor Remuneration

National Group: Israel

Title: Study in Inventor Remuneration

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Note: *the reply below reflects the author's opinion only and should not be deemed to reflect the view of the Israeli group.*

Date: September 10th, 2017

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.*

Employee inventions are governed by chapter eight of the Patents Law, 5727-1967 ("**The Patents Law**"). Section 132 of the Patents Law, which defines the term "service invention" and relates to the ownership of such inventions, provides as follows (official translation from the Hebrew):

"(a) An invention by an employee, arrived at in consequence of his service and during the period of his service (hereinafter referred to as a "service invention") shall, in the absence of an agreement to the contrary between him and his employer, become the property of the employer, unless the employer renounces the invention within six months from the day on which the notification under section 131 is delivered to him.

(b) If the employee, in his notification under section 131, states that in the absence of a contrary reply from the employer within six months from the date of the said notification, the invention will become the property of the employee, and the employer does not make a reply as aforesaid, the invention shall not become the property of the employer."

Thus, the Patents Law distinguishes, for the purpose of determining ownership, between employee inventions which qualify as "service inventions" and those that do not. A "service invention" is an invention to which the employee arrives (i) in consequence of his employment; and (ii) during the period of his employment. In an old decision rendered by the Israeli Commissioner of Patents, it was held that even a weak causal connection between the invention and the service will suffice in order for an invention to qualify as a service invention.

The default rule under Israeli law (which the employer and employee may opt out of by way of agreement) is that the full ownership of a "service invention" inherently vests in the employer, once the invention is arrived at by the employee. Ownership of a "service invention" shall vest in the employee if the employer relinquishes the invention within six months from the employee's notice to the employer on the invention.¹ In the specific circumstances set out in section 132(b), the employer shall be deemed to have relinquished the invention.

If the employee's invention does not qualify as a "service invention", the ownership of the invention will vest in the employee. Where a dispute arises as to whether an invention is a "service invention", such dispute can be brought before the Registrar of Patents at the expiration of three months from the employer's notice to the employer on the invention.²

- 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)?***

Current Israeli law relating to ownership of employee inventions does not expressly distinguish between types of employees. The key question for determining ownership is whether the employee's invention is a "service invention" as discussed above. While there is no case law on this point, distinctions between types of employees, and specifically between those who are "hired to invent" and those that are not, could arguably be made with respect to remuneration for service inventions, as shall be discussed in the answer to question 6 below.

Notwithstanding the above, it should be noted that several sectors – for example, universities, the civil service, and the governmental health system - have their own specific arrangements with regard to IP created by employees. These sectors define differently, inter alia, the term "service invention" (often, a broader definition of the term is adopted, such that more inventions are deemed the employer's property). Thus, such arrangements may, under certain circumstances, lead to an allocation of ownership in employee inventions which is different from that prescribed by the Patents Law.

- 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?***

Pursuant to Section 132 of the Patents Law there are three scenarios in which the ownership of a service invention may vest in the employee (in which case, the employee would be free to file a patent application on the invention): (a) if an agreement exists between the employee and the

¹ Section 131 of the Patents Law provides that: "Where an employee has arrived at any invention in consequence of his service or during the period of his service, he shall notify his employer thereof as soon as possible; an employee shall also notify his employer as aforesaid of any patent application filed by him."

² Section 133 of the Patents Law provides that: "Where a dispute arises as to whether a particular invention notified under section 131 is a service invention, the employee or the employer may, at the expiration of three months from the date of the notification, apply to the Registrar of Patents for a decision."

employer to that effect; (b) if the employer relinquishes the invention within six months after the date on which the employee notified him of the invention; (c) if the employee states, in his notice informing the employer of the invention, that in the absence of a contrary reply from the employer within six months from such notice, and the employer did not make such contrary reply.

It should be also be noted that section 131, which places upon the employee the duty to inform the employer of an invention, expressly provides that the employee "shall also notify his employer as aforesaid of any patent application filed by him". It follows that if the invention qualifies as a "service invention", the employer shall be deemed entitled to such patent application; however, in the three scenarios described above, the employee may either remain the owner of such patent application or be entitled to have the application assigned back to him by the employer.

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.

Section 134 of the Patents Law provides that "*In the absence of an agreement determining whether, to what extent and on what conditions the employee is entitled to remuneration for a service invention, the matter shall be decided by the compensation and royalty committee established under Chapter Six*". It follows from the language of section 134 that an inventor employee is not automatically *entitled* to receive remuneration for a service invention. Rather, in the absence of an agreement between the employee and the employer on this matter, a decision whether, to what extent and on what conditions the employee is entitled to remuneration can be sought from the Compensation and Royalty Committee ("**the Committee**").³ Conversely, it was held by the Committee, in several decisions, that if such an agreement does exist (which may either provide for some degree of remuneration, or provide that the employee is not entitled to any remuneration in excess of his salary for service inventions), the mere existence of such an agreement shall deprive the Committee of jurisdiction over an employee's claim for remuneration.⁴ The Committee shall not intervene in the content of the agreement, and shall not consider whether it is reasonable or adequate.

Importantly, the Committee held that the right conferred under section 134 of the Patents Law is NOT unwaivable. Thus, an employee may waive that right. The Committee further held that an employee's waiver of the right to seek compensation for service inventions need not necessarily be explicit. An employee may waive such right by way of a written agreement, verbally or even by conduct.

Section 135 of the Patents Law sets out a non-exhaustive list of considerations which the Committee should take into account in giving a decision under section 134 as to whether, to what extent and on what conditions the employee is entitled to remuneration. For more details see answer to question 6 below.

³ The Committee is a statutory tribunal established under the Patents Law, which is chaired by a former Justice of the Supreme Court. Other members are the Registrar of Patents and a member of the academia, who is appointed *ad-hoc* based on the technical or scientific field of the invention at issue. The Committee has exclusive jurisdiction in matters falling under its jurisdiction. The Patents Law provides that proceedings before the Committee are held *in camera*, and all information relating thereto is confidential unless the Committee decides otherwise. The Committee sometimes publishes its decisions, in whole or in part, when it regards them to be of particular importance to the public.

⁴ It was recently held by the Committee that a collective agreement or arrangement entered into between the employer and the labor union, which regulates the issue of remuneration for service inventions, shall also constitute "an agreement" for the purposes of section 134, and deprive the Committee jurisdiction.

- 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?*

There is no case law on this point. However, we believe that, in the event that no agreement exists between the employee inventor and the employer on the issue of remuneration for service inventions, there is no legal basis upon which the former may claim remuneration other than section 134 of the Patents Law.

It may be argued in view of the Supreme Court's decision in In L.C.A 6025//05 *Merck and Co. Inc v. Teva Pharmaceutical Industries Ltd.* (Nevo, 19.5.2011) that the doctrine of unjust enrichment shall not apply in a matter that is regulated by the provisions of the Patents Law.⁵ Thus, the doctrine of unjust enrichment arguably should not form a basis upon which an employee inventor may claim remuneration in circumstances which fall under section 134 of the Patents Law.

If an agreement exists between the employee and the employer which provides that the employee is entitled to remuneration for service inventions, and sets forth the extent and conditions upon which such remuneration shall be awarded, the employee's right to remuneration shall stem from the agreement. Accordingly, the employee may – in the event that the agreement is breached by the employer – have a cause of action for breach of contract.

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?*
- a) *Nature of employment duties;*
 - b) *Extent to which the invention is relevant to the business of the employer;*
 - c) *Use of employer time/facilities/resources in generating the invention; and*
 - d) *Terms of the employment agreement or collective agreement.*

Section 135 of the Patents Law sets out a non-exhaustive list of general considerations which the Committee should take into account in giving a decision under section 134. These factors include: (1) the capacity in which the employee was employed; (2) the nature of the connection between the invention and the employee's work; (3) the initiative displayed by the employee in making the invention; (4) the possibilities of exploitation of the invention and its actual exploitation; and (5) expenses which according to the circumstances were reasonably incurred by the employee in order to secure protection of the invention in Israel.

Thus far, as far as we are aware, the Committee has not rendered any decision on the merits, in which remuneration has been awarded to an employee inventor. Accordingly, it is not entirely clear how the Committee shall interpret and implement the considerations set out in section 135 of the Patents Law. However, the following comments can be made with respect to the above listed considerations:

⁵ In L.C.A 6025//05 *Merck and Co. Inc v. Teva Pharmaceutical Industries Ltd.* (Nevo, 19.5.2011) the Israeli Supreme Court ruled out the possibility of obtaining injunctive relief against a competitor for "infringing" a pending patent application, in reliance on the doctrine of unjust enrichment.

- The capacity in which the employee was employed – We believe that an employee who was "hired to invent" should not be entitled to additional remuneration for service inventions, in excess of his/her salary;
- the nature of the connection between the invention and the employee's work – the stronger the connection is, the less compensation the employee should receive (if at all), and vice versa;
- The initiative displayed by the employee in making the invention – it seems that, if greater initiative is expressed by the employee, the compensation should be higher. However, we believe that if the invention was arrived at by the employee upon being tasked with an express mission, he/she should not be awarded additional compensation;
- The possibilities of exploitation of the invention and its actual exploitation - e.g., commercialization of the invention. The term "exploitation possibilities" is vague and, in our opinion, calls for speculation with regard to such possibilities; and
- Expenses which according to the circumstances were reasonably incurred by the employee in order to secure protection of the invention in Israel – from our experience, most – if not all – of such expenses are incurred by the employer and not by the employee.

In the absence of case law, it is also unclear what additional considerations shall be taken into account by the Committee. However, such additional considerations may, for example, include the extent to which the employee used the employer's facilities and/or resources to arrive at the invention; the contribution of the employer to the making of the invention and to its commercial implementation; and expenses incurred by the employer to secure protection of the invention.

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

As mentioned above, it follows from the language of section 134 of the Patents Law that an employee is not automatically entitled to remuneration for service inventions, but rather is granted a right to seek a decision from the Committee as to whether, to what extent and on what conditions he is entitled to remuneration.

The right to seek remuneration under section 134 arises with respect to "a service invention". For a "service invention" to exist, three elements must be met: (a) an invention; (b) arrived at by an employee; (c) in consequence of his employment and during the period of his employment. It is therefore clear that there must be "an invention" for the right to seek compensation to arise. Some case law suggests that a service invention need not necessarily be patentable, but it must nonetheless be an invention. Thus, a mere idea cannot be considered a service invention. While the Patents Law does not expressly define the term "invention", it is generally considered that any product or process for preparing a product, in any technological field, may be considered an invention.

In a decision rendered by the Committee in the matter of *Actelis Networks. v. Ishai Ilani* (February 4, 2010), it was held that an employee may approach the Committee prior to any commercial exploitation of the invention by the employer. The Committee based this position on the fact that under section 135 of the Patents Law, the Committee shall take into account, in giving its decision under section 134, "the possibilities of exploitation of the invention and its actual exploitation" (emphasis added). It must be emphasized, however, that the employee's right to seek a decision from the Committee prior to the commercial exploitation of the invention by the employer does not entail that he shall be entitled to remuneration prior to such exploitation (if at all). In such a case, if commercialization of the

invention begins after the Committee's decision under section 134, the employee may be able to seek reconsideration of the decision by the Committee under section 136 of the Patents Law, on the ground that the circumstances underlying the Committee's decision have changed (see answer to question 10 below).

Hence, once a service invention is made by an employee, he may - in the absence of an agreement with the employer on the issue of remuneration for such an invention – approach the Committee to seek a decision as to whether, to what extent and on what conditions he is entitled to remuneration.

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 not codified or set by law. As explained above, employers and employees are free to agree upon whether, and to what extent, the employee is entitled to remuneration for service inventions. Such agreement may either provide for some degree of remuneration, or provide that the employee is not entitled to any remuneration for service inventions in excess of his salary.⁶ The mere existence of such an agreement shall deprive the Committee jurisdiction over an employee's claim for remuneration.⁷ The Committee shall not intervene in the content of the agreement, and shall not consider whether it is reasonable or adequate.

In the absence of an agreement, the Committee shall decide whether, and to what extent, the employee is entitled to remuneration. As explained above (see answer to question 6), the Patents Law only provides a list of general and non-exhaustive considerations that the Committee shall take into account in giving its decision under section 134. Thus, the amount shall be determined by the Committee on a case-to-case basis. However, thus far, the Committee has not rendered any decision on the merits, in which remuneration has been awarded to an employee inventor. Accordingly, it is not entirely clear how the Committee shall interpret and implement the considerations set out in section 135 of the Patents Law.

As explained above, one of the considerations listed in section 135 is "the possibilities of exploitation of the invention and its actual exploitation". In the absence of case law, it is unclear whether, and to what extent, the Committee shall award remuneration in correlation to the employer's revenue related to the invention/patent. Yet another question may arise as to whether the Committee may award remuneration based on revenue related to foreign patents.

It is expected that, where a service invention was arrived at by a number of co-inventors, the Committee will split the total amount of remuneration among them, based on their relative contribution to the invention.

⁶ *Iscar Ltd. v. Barazani* (4.5.2014); upheld by the High Court of Justice in H CJ 4353/14 *Barazani v. Iscar Ltd.* (8.7.2015).

⁷ It was recently held by the Committee that a collective agreement or arrangement entered into between the employer and the labor union, which regulates the issue of remuneration for service inventions, shall also constitute "an agreement" for the purposes of section 134, and deprive the Committee jurisdiction.

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?

As explained above, employers and employees are free to agree upon whether, and to what extent, the employee is entitled to remuneration for service inventions. The mere existence of such an agreement shall deprive the Committee jurisdiction over an employee's claim for remuneration.

In its decision in the *Iscar* case (footnote 6 below), the Committee held that an employee's waiver of his right to seek remuneration for service inventions under section 134 of the Patents Law need not necessarily be explicit. An employee may waive such right by way of written agreement, verbally or even by conduct.

With regard to the question as to when an explicit waiver would be required, the Committee drew a distinction between two categories of documents:

- (1) The first category includes documents that merely deal with the transfer of proprietary rights, from the employee to the employer. Examples of such documents are employment and confidentiality agreements, in which the employee merely acknowledges the employer's full and exclusive rights in service inventions; as well as deeds of assignment signed by the employee, necessary for applying for patent protection in the United States and other countries. The Committee held that documents falling within this first category shall not be considered as a waiver of the employee's right to seek remuneration, unless the documents explicitly state so.
- (2) The second category of documents includes documents that contain a general waiver by the employee of any demands or claims whatsoever against his or her employer. Such documents are usually signed by employees in the context of severance of employment relations. The Committee held that documents falling within this second category, shall be deemed a waiver by the employee of his or her right to seek remuneration, even if they do not explicitly refer to that right.

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 commercialization.

Once the Committee has rendered its decision as to whether, to what extent and on what conditions the employee inventor is entitled to remuneration, the Committee may reconsider its decision only under the limited circumstances set out in section 136 of the Patents Law. According to section 136, the Committee "shall be competent to reconsider a decision under section 134 if, in its opinion, the circumstances which existed at the time of the decision have changed and it has been requested to reconsider it; however, the committee may order the applicant to pay costs if, in its opinion, there was no occasion for making the request". We are not aware of any case law interpreting or implementing this provision. However, it is plausible that, where the circumstances underlying the Committee's decision under section 134 have changed so as to significantly effect (*i.e.* increase or decrease) the value of the invention, the employee or the employer may request the Committee to reconsider its decision under section 136.

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?*

There is no prescribed law, nor case law, on how remuneration for multi-inventor service inventions is to be determined by the Committee. However, as explained above, it is expected that, where a service invention was arrived at by a number of co-inventors, the Committee will split the total amount of remuneration among them, based on their relative contribution to the invention.

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 question has not yet been addressed under Israeli law. Without adopting any specific view, it seems that one could, for example, conjecture the following alternatives for determining which law applies: the law of habitual residence/domicile of the inventor; the law of the principal place of business/place of incorporation of the employer; or the law of the country where the invention was conceived (the latter alternative probably being more complicated and perhaps even impossible to apply in circumstances where the invention is the outcome of multi-jurisdictional efforts by several co-inventors).

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?*

Similarly, this question has yet to be addressed under Israeli law. Please refer to our answer to question 12 above.

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?*

Similarly, this question has yet to be addressed under Israeli law. Please refer to our answer to question 12 above. However, as explained above, it is expected that in deciding the amount of remuneration to a given employee-inventor, the Committee shall take into account, *inter alia*, the total number co-inventors and the contribution of each co-inventor to the invention relative to that of the others.

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?*

In our view, current law is not sufficiently clear as to the circumstances under which an employee is entitled shall be entitled to remuneration for a service invention. This lack of clarity is exacerbated by the scarcity of case law on this matter. In particular, while a distinction between employees who are "hired to invent" and those who are not can, and in our opinion should be drawn based on current law, it is not sufficiently clear in that regard. Current law is also not sufficiently clear as to whether remuneration can be sought for any service invention, or whether patentability, or the registration of a patent, are prerequisites for seeking remuneration.

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

As explained above, section 135 of the Patents Law sets out a non-exhaustive list of general considerations which the Committee should take into account in giving a decision under section 134 as to whether, to what extent and on what conditions the employee is entitled to remuneration. Thus far, the Committee has not rendered any decision on the merits, in which remuneration has been awarded to an employee inventor. Accordingly, it is not entirely clear how the Committee shall interpret and implement the considerations set out in section 135 of the Patents Law.

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

In addition to the points where the law lacks clarity as mentioned in the answer to question 15(a) and 15(b) above, we are of the view that the distinction made by the Committee between two categories of documents for the purpose of determining whether an explicit waiver of the right to seek remuneration is required (see answer to question 9 above), creates uncertainty. In particular, many agreements which had been entered into between employees and employers prior to the Committee's distinction, generally stated, for example, that the employee "shall have no rights whatsoever in any invention made by him during the course of his employment". While the purpose of such agreements was to cover all rights related to service inventions - including any right to seek remuneration - the Committee's distinction limits the effect of such documents only to proprietary rights, thus potentially exposing employers to claims for remuneration that had, in fact, been waived. We are therefore of the view that the law should make it clear that a waiver of the right to seek remuneration need not be explicit.

Yet another issue where current law lacks clarity is the period of limitations applicable to claims for remuneration under section 134 of the Patents Law. While we believe that the date of accrual of a claim under section 134 is the date on which the employee arrives at a service invention, this is not clearly stated in current law.

In addition, the list of considerations listed in section 135 of the Patents Law should, in our view, explicitly include the employer's contribution (whether financial or non-financial) to the making, commercialization and protection of the invention, and the expenses incurred by the employer for those purposes. The list of consideration should further reflect the allocation of risk between the employer and employee: it is the employer - not the employee - who typically bears upon himself all of the risks involved in the development and commercialization of the invention, whereas the employee is entitled to his or her salary irrespective of any failure of the development and commercialization endeavors. In view of this uneven allocation of risks, we believe that the question of remuneration should not be linked to the actual profits that the employer derives from the invention.

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

There are currently no proposed reforms to Israeli law with respect to remuneration for service inventions. A bill that was introduced in 2010 by the Ministry of Justice included a proposed reform to the provisions of the Patents Law relating to service inventions, including with respect to the employee-inventor's right to remuneration. However, the bill was eventually withdrawn.

It is noteworthy, however, that in its decision in the Iscar case (see footnote 6 above), the High Court of Justice expressed the view that it would be appropriate to regulate the award of remuneration to employees for service inventions, either by way of employers adopting voluntarily arrangements to that effect, or by way of amending current law.

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?

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.

We believe that great caution must be exercised in considering any harmonization of the law in this area. Whether, to what extent and on what conditions employee-inventors should be entitled to remuneration for service inventions are questions of public policy which are heavily tied to the social and economical eco-system of each particular jurisdiction. Pertinent considerations in this regard include the specific characteristics of prominent industries in the jurisdiction and the extent to which local economy relies on investments in research and development.

However, in view of globalization and the increasing prevalence research and development endeavors which involve the collaboration of employees located in different countries, harmonization should be more favorably considered with respect to the standard for determining which law applies in such circumstances on the matter of remuneration for service inventions. Such harmonization will increase certainty for both employers and employees alike.

1) 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.

In principle, we support the Israeli model as the basis for a standard, subject to the modifications and clarifications proposed above.

2) 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.

A key element in selecting an appropriate standard for determining applicable law is that such standard must be clear and simple to apply. Without adopting any specific view, such standard can be based, for example, on the law of habitual residence/domicile of the inventor, or on the law of the principal place of business/place of incorporation of the employer.